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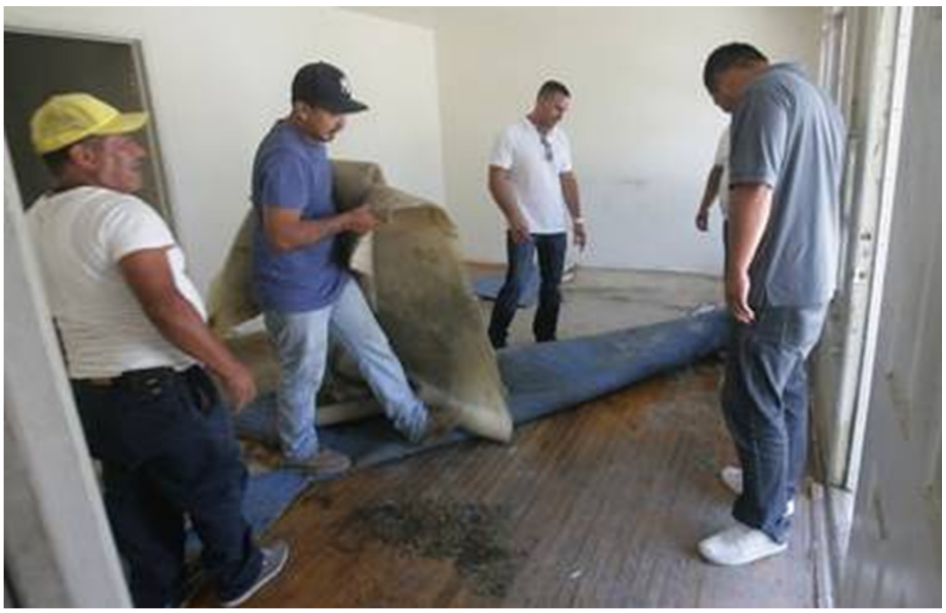
Housing Battle, Round 2

Real Estate: Bulk-Buying of Foreclosed Homes a Threat to Jobs, Local Markets



Jimmy Previti, middle, with Frontier Enterprises, stands in a bank-owned home he acquired to fix up and re-sell. From left to right are workers Francisco Perez, of Chino, Edwin Garcia, of Fontana, Previti, and construction manager John Chon.

BY DEBRA GRUSZECKI
STAFF WRITER
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Matthew Rhodes slapped sawdust from his hands and stepped around a ladder propped toward the spot that held a working electric garage door opener in the good times.

Once a gem of Sagamore Hill, the home Rhodes was working in bore the classic signs of foreclosure.

Rose bushes were dying. Garbage was stuffed in a washer and dryer. Walls were water-soaked, crumbling from below.

“It was disgusting,” Rhodes said, as he led an impromptu tour of the Corona home that moonlighting workers from a local framing company were redoing for an owner-occupied sale.

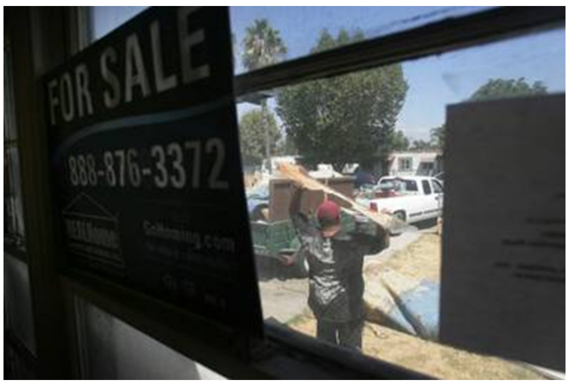
For Rhodes, the work was pivotal.

“I’m here to learn a trade,” he said, saying job opportunities have been slim to none since his tour of duty in Iraq as a tank gunner ended last September.

“We’re all chipping in money or sweat equity to try to make a go of it” flipping houses, he said. “It’s been hard with the economy. Any little bit of extra cash helps.”

The scenario has been playing out across the Inland Empire, and now may be threatened by the initiative of the Federal Housing Finance Agency to bulk-sell nearly 500 Fannie Mae-owned foreclosed homes in the Los Angeles and Inland areas to yet-undisclosed institutional investors.

Real estate officials fear the pilot program will spur long-term rental scenarios, bring property values down, hurt the transactional economy and take out home-grown investment companies.



Jose Garcia, from Riverside, removes debris from a bank-owned home acquired by Frontier Enterprises

“It could be a market game-changer,” said Aaron Norris, vice president of The Norris Group, a real estate investment company in Riverside that lends money to home-grown investors who buy distressed property to fix up and re-sell to consumers.

“Local investors who live in the market can’t compete against a hedge fund,” Norris said, because bulk-buyers get the properties at a lower rate. Its fix-up costs are less, and so is the incentive to hold it or rent it at a competitive rate.

This could have the unintended consequence of devaluing, rather than stabilizing, a neighborhood. It’s also coming at a time inventory is thin, and Inland home prices are beginning to stabilize.

A growing number of real estate professionals and lawmakers agree.

“This proposal is moving forward at a rapid pace, and it must be stopped to preserve home values in our county and across the state,” Riverside County Supervisor John Tavaglione said in a statement.

Next Tuesday, the Riverside County Board of Supervisors will consider a resolution to support passage of a federal bill, H.R. 5823, by U.S. Rep. Gary Miller, R-Diamond Bar, to stop Fannie Mae’s plans to bundle foreclosed properties in California for sale to institutional investors.

The Federal Housing Finance Agency did not return a call Friday seeking comment. Earlier in the week, it was accused by the California Association of Realtors of being “secretive” about the bulk-buy plan, and of withholding the names of bidders.

The agency, in response, said an announcement will soon be made.

“We don’t think the government or the banks need to do bulk sales,” Norris said. “We’d be better served if inventory continued to work its way through well-established bank-owned and short-sale channels. That would allow local contractors, Realtors, appraisers, investors, mortgage professionals and surrounding service sectors stay employed.”

Mike Novak-Smith, a leading Inland-area agent for the sale of distressed property, said he’s already seeing competition stiffen to “pooled-sale” bidders armed with cash who are buying 30 to 40 properties at a time. The courthouse steps, hedge fund buyers, are getting 10 to 15 a day.

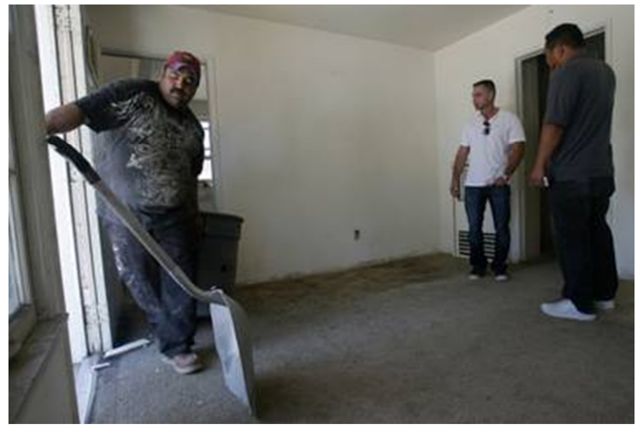
“Last year, I closed 200 houses,” he said. “This year, I’ll probably do 125; I’ve already cut 50 percent of my staff.”

Ted Doecker, broker/owner of REMAX Results of Moreno Valley, where Novak-Smith keeps an office, said sales numbers have fallen, and he pins it on inventory being sopped up by the added pool of Wall Street buyers.

"Hedge funds are coming in to buy at a discounted price," Doecker said, pricing local investors out of the market and potentially turning the homes into "buy-and-hold" commodities or long-term rentals.

"When you do bulk buys, you cut out real estate agents, title companies, escrow companies and a whole range of others who would otherwise be employed," Novak-Smith said. Small fix-it companies can be squeezed out because many bulk-purchasers have their own renovation teams.

Steve Manos, president of Inland Valleys Association of Realtors, said the Inland area wants to be opted out of the federal bulk-buy pilot program, fearing many more troubled mortgage overseers will head this way.



Jimmy Previti, middle, with Frontier Enterprises, stands in a bank owned home he acquired to fix up and re-sell Friday. With him is Jose Garcia, of Riverside, left, as he removed debris from the home and construction manager John Chon, right.

CitiMortgage weeks ago sold $158 million in mortgages to Carrington Capital Management and Carrington Mortgage Services to set up a "Home Rental Program" to test a pilot deed-for-lease program with 500 homes that are underwater in six states, including hard-hit areas of California.

Bank of America announced a similar pilot program for 2,500 borrowers in California, Arizona, Nevada and New York.

"Local investors won't be able to compete if the bulk-buy floodgates open," Norris said.

"We'll be dealing with a contrived market, not the typical free market of real estate" Novak-Smith added. "You've got government controlling the ebb and flow of foreclosures in the real estate market; that's making it tough in the real estate business to make a living.

"It makes it tough for many people to buy a home."

Inland Empire economist John Husing said there's already been a dramatic shift in the homebuyer demographic.

When the recession was declared in 2007, Husing said 13 percent of all San Bernardino County home sales went to investors. In June, the investment pool was 31.5 percent. The Riverside County percentages rose from 21 percent up to 38 percent over that same period of time, Husing said.

"A hedge fund controlling thousands of properties can change the market on a dime," Norris said, and cause an immediate fluctuation in price. "What happens if a decision is made to liquidate all the properties at one time?"

Bulk-sale investment has been tried before in the Inland Empire, and performed miserably, Husing said, recalling an era in the 1990s when the U.S. Housing and Urban Development agency dealt with wide-scale foreclosure in the last recession with bulk sales to investors.

Years later, Husing studied the impact when single-family rentals were injected en masse into those neighborhoods. Three things happened: Calls for police service rose, property values dropped, or lagged behind other neighborhoods, and classroom turnover accelerated.

“We said, ‘Stop. Let us buy houses at something below market, so we have some margin to fix them up, and sell them to owner-occupants,’” Husing said. “But it was already too late. The cities of Moreno Valley and San Bernardino got clobbered.”

San Bernardino wound up with the lowest-priced housing among all the areas, he said. “I believe the bankruptcy situation they’re dealing with today is not totally unrelated to this.”

Roughly 69 percent of all homes in San Bernardino are currently underwater, Husing said.

As Jim Previti, owner of Frontier Enterprises, stood in one San Bernardino home Friday that was lost to foreclosure, he said local investors are hoping to hold their ground to conduct business in a free marketplace.

“We’re the ones who toughed it out,” he said.

Previti, the son of a builder who built 20,000 homes in California over 30 years, in 2002 founded Frontier homes and landed on the Top 100 Builders list within two years. In 2004, Frontier Homes was posting revenues of more than $300 million from the delivery of 800 homes.

Yet, Previti began to see signs the market was coming unglued and took precautionary steps: “We had 4,000 lots on the books, and 400 houses under construction,” and set pricing to liquidate inventory against what the market would bear. “It was like catching a falling knife every day,” he said. “We managed to get through tough times with a modicum of grace.”

It was the decision to invest in vacant and bank-owned properties that did it, he said.

Since 2009, Frontier Enterprises with its staff of 50 has turned 1,500 properties into homes owners occupy and brought in about $500 million in sales. “We don’t ever rent.”

The reason is simple, he said.

“It was a Wall Street scheme that did all the sub-prime lending that got us into this mess.”