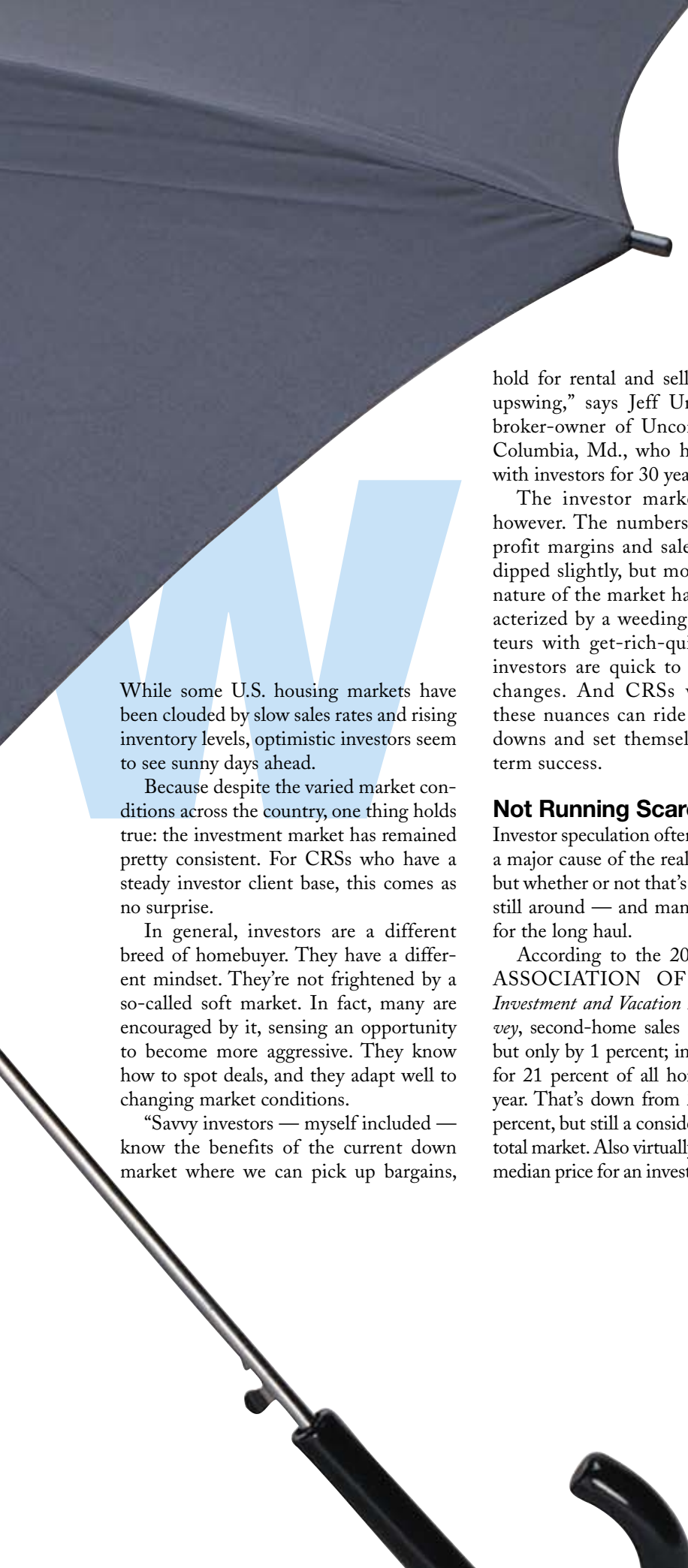




SHELTER from the **STORM?**

*THERE HAVE BEEN
PLENTY OF CHANGES
TO THE INVESTOR
MARKET, BUT IT'S STILL
GOING STRONG.*

BY ANDREA GABRICK



While some U.S. housing markets have been clouded by slow sales rates and rising inventory levels, optimistic investors seem to see sunny days ahead.

Because despite the varied market conditions across the country, one thing holds true: the investment market has remained pretty consistent. For CRSs who have a steady investor client base, this comes as no surprise.

In general, investors are a different breed of homebuyer. They have a different mindset. They're not frightened by a so-called soft market. In fact, many are encouraged by it, sensing an opportunity to become more aggressive. They know how to spot deals, and they adapt well to changing market conditions.

"Savvy investors — myself included — know the benefits of the current down market where we can pick up bargains,

hold for rental and sell during the next upswing," says Jeff Underwood, CRS, broker-owner of Uncommon Realty in Columbia, Md., who has been working with investors for 30 years.

The investor market has changed, however. The numbers — of investors, profit margins and sales prices — have dipped slightly, but more than that, the nature of the market has changed, characterized by a weeding out of the amateurs with get-rich-quick plans. Smart investors are quick to respond to such changes. And CRSs who understand these nuances can ride out the ups and downs and set themselves up for long-term success.

Not Running Scared

Investor speculation often has been cited as a major cause of the real estate downturn, but whether or not that's true, investors are still around — and many plan to be in it for the long haul.

According to the 2008 NATIONAL ASSOCIATION OF REALTORS® *Investment and Vacation Home Buyers Survey*, second-home sales declined in 2007, but only by 1 percent; investors accounted for 21 percent of all home purchases last year. That's down from 2005's high of 28 percent, but still a considerable share of the total market. Also virtually unchanged is the median price for an investment property: In

2007 it was \$150,000, the same as 2006. And 57 percent of investment buyers said they would be purchasing another home in the next two years.

"I think that for a brief period of time, some of the investors I work with [were concerned], and even I was concerned, because I didn't know where things were headed," says Nancy Horton, CRS, broker-owner of Guardian Realty in Shelbyville, Ind. "But I feel far more comfortable now. There's starting to be a lot more confidence," she says.

The adjusting market is helping weed out the not-so-serious investors, says Horton, who's been in real estate for eight years and has been working with investors for four. "There were a lot of wannabe investors, but they weren't really ready for the risk. They hear this pie-in-the-sky idea that you can buy an investment property and flip it and make thousands of dollars. But I'm not getting as many of those people coming to me anymore. I'm getting more serious investors."

Brad Posnanski, CRS, a broker-associate with Bradley Realty in Wauwatosa, Wis., has been working with investors since he started in real estate eight years ago. He sees investors fall into one of two categories. "The one category is continuing on the same path that they've been on — being aggressive and proactive, finding those lenders who are still going to finance the deals for them."

On the flip side, Posnanski continues, “In the past 18 months I’ve had maybe three investors from my core group who have pulled back completely. They’ve either been liquidating stuff or are just in a holding pattern.”

Underwood, who estimates that in the past few years his investor business has increased to more than 50 percent, says his clients aren’t scared off by what they see and hear in the media. “They’ll e-mail me a newspaper article that’s negative about something in real estate, and I’ll e-mail them back the same day with an article from a different newspaper, or maybe even the same one, that’s positive,” he says.

The More Things Change

That’s not to say there haven’t been changes in the investor market. The differences might be subtle, but the context is indeed very different.

THEY’RE PICKIER. Housing inventory is up. In April new-home inventory was 10.6 months; existing-home inventory was 11.2 months nationally. And with so many more options, investors are taking their time. “I think investors are able to be — and need to be — far more picky,” Horton says. “When I first started, investors would buy pretty much anything that came on the market, if the price was right. Now they can be more selective, not just about the price, but in looking at the amount of labor that goes into the property.”

Underwood agrees, pointing out that his investor clients are becoming a little more aggressive on their offers — because they can be — so it takes a little bit longer to find a seller willing to work with them. “In a normal market or an up market, I might work with an investor for two or three weeks on a property,” he says, “but now it might take two or three months.”



QUALITY COUNTS. “The market is down here, but not as sharply as nationwide,” Posnanski says of the metropolitan Milwaukee area where he works. “What matters the most now — whereas before we could set the price and concentrate on improvements — is the quality of the work, not the quantity. Now it’s focusing on the core fundamentals — making sure it’s structurally sound and pricing it properly. These investors have holding costs, and you want to minimize them.”

MORE REOs. Eight years ago, Posnanski says, REOs were relatively new. “It was kind of an unknown variable at the time in the market — not a lot of people were bidding for those properties, there was more price negotiation and a lot more ability for an investor to pick up a good deal on a property. Now, there’s a flux of them on the market and so much competition.

“Interestingly enough,” he continues, “there are a number of REO properties that we have shown and sold that are being taken back from investors because they couldn’t complete the project or the scope of work was just too much for them.”

Horton estimates that 50 percent of her business is investor-related when she includes the REO work she does for banks. “Working with banks on REOs helps me with investors because I know what’s coming on the market, and I can give my investors a heads-up,” she says. “But it is labor-intensive. I haven’t yet figured out if it’s worth my time.”

RENT-TO-OWN. “Two or three years ago, you used to be able to pick up a single-family home, buy it, do the improvements and repairs, put it back on the market, and because the market was so hot, you’d still be able to make good money,” Posnanski says. “Now I have a number of investors who are buying properties at a good deal and holding them with a rent-to-own option.”

Horton has experienced the same. When selling short-sale properties, she thinks about how distressed sellers will likely become new renters. “So I have been arranging for two of the investors I work with to buy an investment property that fits those new renters’ needs,”

she says. “I first preview the property with the potential lessee. The investor then already has a renter lined up for that property as soon as the deal closes. We arrange a three- to five-year lease-to-own option. This gives lessees some time to straighten their credit out and then purchase the home from investors. This works well for both the investor and the new lessee.”

FINANCING. Turbulence in the credit and financing industry is making the real estate business more difficult, but investors who have cash reserves aren’t feeling the pinch as much.

That said, there has been a trickle-down effect. Acknowledging that many of her clients use cash or home equity loans, Horton says it is definitely more difficult for some investors. “We had an investor who was preapproved and made an offer last month but, when it came down to it, couldn’t get the loan. And then we tried negotiating for him to buy on contract from another investor who was selling, but when we put the numbers together it didn’t make sense anymore.”

Posnanski says that some of his investor clients have had trouble because the banks they’d been doing business with stopped offering certain types of programs or packages. For example, he says, “there are a lot fewer lenders doing renovation loans.”

The More They Stay the Same

Regardless of the nature of market changes, it seems there are certain truths about serious investors: They are committed to the long term — wise investors know buying and holding is the way to build true wealth — and they are always looking for a good deal and know how to spot one.

“Investors always have cash reserves so they can take advantage of all markets,” Underwood says. “Whether it’s an up market or a down market, investors are always looking for a property that’s in a good location that they can rent for at or near break-even cash flow. If it’s a slight negative, that’s OK; they can carry the negative. Eventually the rent goes up slightly every year and after two or three years, they’re at break-even. And then a few years later, they’re at a positive.” 🏠

Andrea Gabrick is the publishing manager for *The Residential Specialist*.