

## Distressed Properties Draw Cash Players

REAL ESTATE: Investors See Maple Street Beating Wall Street

By [Mike Allen](#)

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Organized investor groups targeting distressed properties are more active this year and continue to have a big impact on the housing market, say several buying groups and housing experts.

“At many of the auctions we’re going to there are maybe 10 players that are like us,” said Chris Williams, chief executive of Blue Sky Capital, a San Diego based firm of 40 investors who are buying houses, refurbishing them, and then flipping — or re-selling — them.

A good number of Williams’ competitors are relatively new, yet, many don’t know what they’re doing, he said. “Many of them are buying things that can put them out of business,” Williams said, who has been flipping houses for nearly 14 years.

He started Blue Sky Capital in 2010, raising some \$4 million to buy, refurbish and sell 10 properties.

“We’re now looking to raise another round of about \$5 million, and seeking new investors,” he said.

Ronnie Morgan heads up another house investment group active in San Diego called Alegria Real Estate Funds, which recently purchased its 100th property.

### Forefront of Housing Recovery

Morgan said Alegria (Spanish for “joy”) spent about \$41 million since its founding in 2010, making it one of the largest distressed homebuyers in the county.

The group primarily buys homes in master planned communities, mainly in the South Bay, an area particularly hard hit by foreclosures since the housing bubble burst starting in 2006.

“We’re at the forefront of the housing recovery,” Morgan said. “We go into a neighborhood and acquire a property that needs a little TLC, fix it up, price it to market, and put a family in it — a family that needs a home, wants a home, can afford it, and can take care of it,” he said.

Like Blue Sky Capital, Morgan’s firm prefers to invest in newer homes because they don’t need as much fixing and are more attractive to buyers. Also, the less spent on refurbishing means more profit for investors, Morgan said.

Both groups say annual returns to investors are above 20 percent.

Some real estate agents say the cash buying activity is greater than ever as more investors shun the stock market and turn to real estate to obtain higher returns at a reduced risk.

### **Property Valued**

“People see it as an opportunity to buy a tangible asset rather than investing in the stock market where some people feel overwhelmed and helpless,” said Rick Ungar, a broker at Casa Bella Realty Services in Encinitas. “There’s not that much risk left in the market so it probably will go up before it goes down,” Ungar said.

So far this year, 30 percent to 40 percent of the offers he’s made have been all-cash, Ungar said. Banks selling foreclosed houses or doing short sales where the lenders accept a lower price than what is owed on the mortgage prefer dealing with cash buyers, he said.

“You never know if a loan is going to close until it closes,” Ungar said. “There may be all sorts of issues that come up — low appraisals, the bank’s underwriting criteria may change, or someone just might walk away,” he said.

Michael Lea, director of The Corky McMillin Center for Real Estate at San Diego State University, said cash buyers in the still volatile real estate market are integral to its recovery. “Without them, things could have gotten a lot worse,” Lea said.

Lea thinks there’s been a shift among investor groups from merely buying and flipping properties to refurbishing and then renting them out. The inventory of available for-sale properties has declined this year, driving up prices and cutting into the profit margins for cash buyers, he said.

At the same time, notice of defaults (delinquencies) are declining, as are foreclosures, and banks seem to be doing more loan modifications with borrowers, Lea said.

### **Shift to Buy and Hold**

Alegria recently shifted to a more buy and hold strategy for its third fund of \$10 million, renting more of the units while the market makes a recovery, Morgan said.

The firm originally bought much of its inventory on the courthouse steps, but it also buys at auctions and does short sales with the consent of lenders. Most of the purchases range from \$200,000 to \$600,000, Morgan said.

Blue Sky sets a higher price range with the sweet spot between \$500,000 to \$700,000, and are more active in North County, Williams said. With the better houses come higher profit margins, he said.

Those margins are increasingly getting squeezed because of an influx of more cash buyers, some of whom are paying far more than the property's market value, Williams said.

The two local investor groups have decidedly different takes on where the local market is heading.

Morgan said the increased competition on the houses is a clear signal things are turning around. Record low interest rates combined with greater affordability is expanding the pool of buyers for the homes, causing a gradual rise in prices, he said.

"We're nursing the market back to equilibrium," Morgan said. "We're on the front lines of causing the housing market to recover."

Williams thinks things are going to get worse. "The market is artificial because the banks are holding back inventory, and buyer demand has stayed relatively flat," he said.

There's plenty of would-be sellers but they can't do it because so many are "underwater," and many would-be buyers still can't qualify for a mortgage, he said.

Williams cited a RealtyTrac statistic that showed 36 percent of all houses in the county owe more on their mortgages than their homes' market value. "The recent price increases are unsustainable, and they don't reflect a true economic situation," Williams said. "I'd be surprised if (the housing slump) is over inside five years."