

Investors dominate home flipping, auctions

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House flipping, a quick-buck scheme pursued by amateurs and professionals alike during the real estate boom, now is dominated by investors willing to pay all cash, who troll auctions for foreclosures that banks are gradually trying to siphon off their books.

This trend, which took hold more than a year ago, gained more ground last week when the Federal Housing Administration reversed a rule and decided to allow government-backed mortgages for homes sold and resold within 90 days.

Some real estate experts say the FHA change is another step by the government to help prevent lenders from sending a wave of foreclosures onto the market as many analysts have long predicted.

California foreclosure data show that the number of houses purchased by investors at public auctions statewide climbed from 833 in December of 2008 to 2,648 in December of 2009, an increase of 218 percent.

The figures, from research firm ForeclosureRadar.com in Discovery Bay, also indicate that at December Bay Area auctions, about 20 percent of the sales went to investors rather than back to foreclosing lenders. In December 2008, that number was 3.2 percent.

The data define any property not reclaimed by the bank at an auction to be an investor purchase because auction foreclosure sales require buyers to pay all cash, something most typical home buyers cannot afford, according to Sean O'Toole, CEO of ForeclosureRadar.com.

A significant percentage of flippers from the boom times used mortgages to buy and flip homes that were rapidly appreciating, O'Toole said.

Investors dominate

O'Toole said investors are dominating auctions for several reasons, including the dearth of homes available to them on the listed market and even fewer that can be resold for a reasonable profit.

The inventory shortage is due to owners who are not willing to sell homes at relatively low 2009 prices and to government programs encouraging lenders to extend delinquent loans, keeping some defaulting owners in their homes, according to O'Toole.

At the same time, many banks are believed to be sitting on a large cache of foreclosed homes not yet on the market, known in the real estate industry as "shadow inventory."

According to the California Association of Realtors, the Bay Area had 8.2 months worth of single-family home inventory listed for sale in January 2009. By November it had 3.7 months of inventory.

A Chronicle story in April reported that there were approximately 600,000 properties nationwide that banks had repossessed but not placed on the market.

The Chronicle analysis showed that in the 26 months through February 2009, there were approximately 20,000 bank home and condo repossessions in the nine-county Bay Area that were unaccounted for.

Meanwhile, buyers have been lured to the housing market by low interest rates, FHA-backed mortgages requiring only a 3.5 percent down payment, and an \$8,000 first-time homebuyer's tax credit that has been extended to the end of April.

"There is constrained supply and boosted demand," O'Toole said. "Any listed property has a lot of buyers and it's not priced well to make a profit, which has pushed a lot of investors down to the courthouse steps."

Old rule targeted fraud

Previously, the FHA refused to provide mortgage insurance for homes resold within 90 days to prevent fraud. A common scam was for investors to purchase a house, make minor repairs and sell it to a straw buyer who never planned to pay off their loan.

That kind of ploy artificially ramped up housing prices, left the FHA with inflated insurance claims, and made for vacant and blighted housing.

The FHA rule reversal is scheduled to last for one year starting Feb. 1 and includes some limited safeguards. The change is not intended to fuel an investor-driven market, according to Vicki Bott, U.S. Department of Housing and Urban Development deputy assistant secretary. Instead, it is recognition that investors already are playing a key role in bringing foreclosures back to sale.

Nearly 80 percent of FHA-backed buyers are first-time purchasers. They are only required to produce a 3.5 percent down payment but must live in the home they buy. They were losing out to buyers not limited by the 90-day rule because investors did not want to wait more than 90 days to unload their properties.

"The FHA buyer was really left out of the opportunity to purchase, and they are owner-occupants, so they are very good for neighborhood stabilization," Bott said.

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<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2010/01/20/BUR51BKBUO.DTL>

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