

# Pace of house flipping picks up

When Luis Jimenez bought a two-bedroom house in Richmond from a bank last year for \$46,000, he joined the ranks of Bay Area real estate investors, who in 2009, purchased homes in moderate-priced ZIP codes, siphoning off housing inventory and resuscitating neighborhoods hit by foreclosures - but also pushing out some first-time home buyers.

Jimenez, a handyman and construction worker, spent about \$14,000 renovating the house and now is in contract to sell it for \$110,000 after eight prospective buyers made offers.

Bay Area bidding wars were big news in 2005-06 at the height of the housing bubble. They were driven by buyers who feared they would lose out on the American dream if they didn't act fast, and by investors, who imagined no ceiling to rapidly rising prices.

Multiple offers made a comeback in 2009 and early 2010, but this time around they occurred mostly in below median-priced areas, and were propelled significantly by investors buying bank-owned properties.

A Chronicle analysis of sales data from MDA DataQuick, a San Diego real estate research firm, shows that house flipping activity - where a home is bought and quickly resold - increased from 2008 to 2009 in several Bay Area ZIP codes.

For instance, the Pittsburg ZIP code 94565 had 52 flip sales in 2009. In 2008, it had 13.

DataQuick defines a flip as a recently purchased home that had previously sold within 21 to 180 days prior. The firm's data do not capture homes bought at auctions.

But other figures show that investor buying at public foreclosure auctions also has boomed.

According to research firm ForeclosureRadar.com in Discovery Bay, the number of houses in the nine-county Bay Area purchased by investors at public auctions jumped from 122 in January 2009 to 637 in January 2010. February 2010 saw similar increases.

## Types of investors

Investors are not monolithic. Some are individuals, similar to Jimenez, who pooled his funds with family members in hopes of getting a leg up. Others are investor groups and real estate investment firms that buy scores of homes in succession or all at once.

The characteristic the investors have in common is that they tend to pay cash, placing them a step ahead of buyers using mortgage loans, which often involve more paperwork and are less certain to come to fruition.

"We've seen a notable increase in investors over the past year," said John Robin, a Realtor with Keller Williams in the East Bay, who represents Jimenez and primarily works with investors. "At the beginning of 2009, there was a big spike in foreclosures and the places that had the biggest inflation in the boom had the biggest cuts."

Robin works with buyers who flip property and others who rent the houses they buy. He says his clients likely have elbowed out some first-time home buyers, but notes that they also have restored the health of neighborhood blocks that had become partly vacant, and forlorn.

While Jimenez's house in Richmond was up for sale, he and Robin decided to board up the windows to discourage squatters and break-ins.

"When foreclosures took hold of neighborhoods there were problems with squatters or they became like ghost towns," Robin said. "When homes are rented out, the tenants use the schools and supermarkets. ... It's better to have people in the homes than to have them empty."

Robin and others believe that the tide may ebb for investors in 2010. As more investors have descended on the market, fewer bank-owned properties have appeared on listings, suggesting that banks are either moving through their stockpile of foreclosures or dribbling them out more slowly as they try to modify loans of borrowers who have defaulted.

The Treasury Department also will soon start a program encouraging more transactions known as short sales, which are not popular with investors.

In a short sale, the lender allows a homeowner to sell a house for less than, or short of, what is owed on a mortgage. Owners seek short sales to lessen the credit damage that comes with a foreclosure.

Banks historically have resisted short sales because they require extra administrative work to analyze details, such as the owner's finances and property values, and they typically represent a loss of money.

Investors generally don't like short sales because of the lengthy process involved and the uncertain outcomes.

In 2009, banks added staff to handle the transactions. Wells Fargo, for instance, has hired 8,000 workers since the start of 2009 to manage short sales.

The Treasury program pays \$1,500 to homeowners who move out, \$1,000 to the servicing bank and another \$1,000 to any second lien holders if a short sale is completed.

East Bay Realtor Kerri Naslund specializes in helping buyers with short sales. She is skeptical that banks will become more efficient with the transactions. Naslund, who focuses on Oakland, and also represents investors, said she has seen many instances in which an investor edged out a first-time home buyer.

"Investors stalk every property I see," said Naslund. "They fix places up for pennies on the dollar and then sell them to first-timers who have become frustrated by losing out on all the sales."

## **FHA help for investors**

But although increased short sales may cool off investors, a different government policy may facilitate house flipping. As part of a recent change, the Federal Housing Administration reversed a rule and decided to allow government-insured mortgages for homes sold and resold within three months.

Previously, the FHA refused to provide mortgage insurance for homes resold within 90 days in order to prevent fraud. A common scam was for investors to purchase a house, make minor repairs and then sell it to a straw buyer who never planned to pay off the 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 has said that it made the rule change - scheduled to last for one year - not to fuel an investor-driven market, but instead, in recognition of the fact that investors already are playing a key role in bringing foreclosures back to sale.

Jimenez plans to look for another home to buy in the coming weeks. For him, the equation is straightforward.

"It didn't cost that much to fix up the last house. I can do the work myself, and I made it better for the buyer and for myself."

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