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Real estate investors propped up Phoenix-area housing in 2009

by J. Craig Anderson - Mar. 21, 2010 12:00 AM
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For the Phoenix area housing economy, 2009 might be remembered as Year of the Investor.

Of the 79,000 home sales that closed in Maricopa County in 2009, a majority were connected to real estate investor activity. All sales were somehow influenced by investor presence.

Thousands of individuals and institutions with dollars, deutschemarks, dinars or yen to spend began buying up homes in the Phoenix area after learning of an unprecedented spike in lender-initiated foreclosures that was clearing families out of starter-home subdivisions as quickly as deferred-payment plans and zero-down financing had ushered them in a few years earlier.

In 2009, investors had both hands on just about every housing-market mechanism.

They competed with first-time buyers for heavily discounted "real estate-owned," the lenders' term for recently foreclosed-on properties. They enticed renters out of nearby multifamily projects by providing detached-home living at apartment prices, to the chagrin of apartment owners.

Investors often dictated terms of the foreclosure process itself, because in many cases they had purchased bank notes entitling them to the remaining proceeds from the multiple thousands of subprime, adjustable-rate, interest-only and no-documentation-required loans that banks had approved and then sold off to the securities market.

Many critics have said they think investors are largely responsible for the irrational run-up in home prices, irresponsible lending practices and the slicing, dicing and selling of mortgage loans that once were held continuously by banks and guarantors such as Fannie Mae and Freddie Mac.

Still, real-estate experts working inside and outside the investment community agreed that investor interest in the Valley real-estate market has helped to prevent communities in 2009 from being overtaken by boarded-up, crime-friendly vacant homes.

"We'd be in a disaster area without the independent investor in today's real-estate market," said Alan Langston, who runs an information-exchange service for investors in Arizona.

One Canadian broker and propertymanagement executive working in the Valley said a group of fellow Canadian investors plans to invest millions of dollars in longer-term projects in the Phoenix area.

Dave Dziedzic, owner and designated broker of RealCore Realty International in Phoenix, said he was launching a program called Housing Angels that would create partnerships between investors and homeowner-occupants.

It could help those destined for foreclosure to keep their homes by short-selling them to investors, leasing back the homes for a few years and then buying them back at a much lower price, Dziedzic said.

The program is still untried in Arizona and could run into resistance from the banks, he said.

Dziedzic and others working with investors said they have taken on a vital role in stabilizing the housing market, by fixing up blighted properties that traditional lenders don't want to deal with and first-time homebuyers don't have the cash to pay for in advance.

One of Dziedzic's employees, Jeff Dicks of Avondale, said he is counting on the new angel-investor program to help him keep his home.

"I said, 'Dave, I need an angel,' " said Dicks, who like many Valley residents has taken a significant pay cut during the past year.

Beth Jo Zeitzer, owner and designated broker of ROI Properties in Phoenix, said investor participation in the Valley housing market peaked sometime during the summer of 2009 and has eased off a bit since then, although she said thousands of investment buyers and brokers continue to buy properties deemed to have profit potential.

Investors and bank foreclosures helped boost Maricopa County home sales up to 78,899 in 2009, up from 58,454 the previous year, according to *The Arizona Republic's* analysis of 2009 Valley home-values data from the Information Market, based in Phoenix.

Much of the investor feeding frenzy that lenders stirred up in early 2009 with circus-tent auctions and batch listings of foreclosed homes has subsided, said Zeitzer, who specializes in distressed properties.

There has been a rapid rise in short-sale transactions in which homeowners in default on their mortgage avoid foreclosure by getting the lender's permission to sell the home for less than their loan's outstanding balance.

The short-sale process, which can be time-consuming and often requires the consent of multiple moneylenders, has become widespread despite initial reluctance by lenders, homeowners, buyers and sellers to

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embrace it.

Langston, executive director of the Arizona Real Estate Investors Association, based in Tempe, said a number of recent developments have slowed the rate of lender foreclosure in recent months, which has reduced the number of listings that might appeal to an investor.

One factor is the rise in short sales, which have replaced about 25 percent of the f oreclosures banks were initiating a year ago, he said. Langston said many investors don't want to get involved in short sales because of their reputation for being lengthy and unreliable, but that widespread adoption of the short-sale process is making them almost unavoidable.

Another recent change is the decision by some lenders to use "drop bids" to sell more properties in default to third-party investors before they become bank-owned, he said.

Before the first half of 2009, it was rare for private parties to buy homes at a trustee's deed sale, a cash-only auction for pre-foreclosed properties that takes place daily at the Maricopa County courthouse.

Drop bids changed all that, Langston said. They are a last-minute decision by the lender to slash a property's auction price. Langston said drop bidding has helped lenders avoid taking possession of even more homes while providing new opportunities for buyers.

Still, he warned that it was far too easy to buy a lemon at a trustee's deed sale if the buyer has not done meticulous homework in advance.

In the coming year, both Langston and Dziedzic said Valley residents can expect to see more investors filling in a gap that reluctant banks have created: offering mortgage loans to otherwise conscientious borrowers who lost their homes to foreclosure.

There are borrowers - who paid bills on time before the housing market collapsed - who many investors consider a low risk, even though banks don't seem to agree.

"Everyone of us knows somebody in that situation," Dziedzic said.