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## Fannie Mae Partners Seek Bulk Buys in Cities Headed for Recovery

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By John Gittelsohn and James Nash

Feb. 2 (Bloomberg) -- Fannie Mae's plan to convert foreclosed homes into rentals through sales to investors hinges on offering concentrated packages of properties in areas such as Florida, Arizona and Southern California where a real estate recovery may happen soonest, according to prospective investors.

The mortgage agency, controlled by the U.S. government, is inviting investors to apply to become joint-venture partners in the first bulk sale of some of its 122,616 foreclosed homes. It disclosed few details of a plan that is part of a series of programs unveiled yesterday by President Barack Obama and aimed at lessening the impact of defaults on the housing market.

The portfolios of foreclosed properties will be geographically focused and consist of vacant or occupied homes, according to Fannie Mae's website. Investors said they're concerned that the first properties to be made available will come from the hardest hit areas of the U.S., which have limited appeal to investors because the prospect for population or employment growth restrain the outlook for a housing recovery.

"The question is how good those markets are going to be for rentals," said Rick Sharga, senior vice president of Carrington Mortgage Holdings Inc., a Santa Ana, California-based property-investment company that announced a \$450 million partnership with Oaktree Capital Management LP to buy and manage foreclosed homes as rentals. "The devil's in the details and there's nothing available now."

Sales "significantly larger" than previous bulk sales will be offered to qualified investors who agree to be an equity partner with Fannie Mae, said the Washington-based agency, which has been under U.S. government conservancy since 2008. Details of the sales structure, such as potential financing or the division of revenue, weren't disclosed in yesterday's announcement.

### Private-Equity Funds

Private-equity funds began focusing on bulk sales of foreclosures in September, when the Obama administration first invited ideas to convert to rentals some of the 210,000 repossessed homes in government agencies' inventories. Carrington, which expects to raise about \$1 billion for home acquisitions this year, already manages about 3,000 of 10,000 foreclosures with rental tenants that Fannie Mae owns, Sharga said.

GTIS Partners, a New York-based investment company, and GI Partners, a private-equity fund in Menlo Park, California, each announced plans in January to spend \$1 billion on bulk-buying foreclosed homes as rentals. Financial firms such as Barclays Plc, Deutsche Bank AG and Wells Fargo & Co. submitted responses to the administration's September request.

### California, Florida

GTIS wants to invest in Arizona, California and Florida cities with a high concentration of foreclosures and a strong likelihood of price appreciation, said Thomas Shapiro, founder of the New York-based fund, which has about \$2 billion under management. Financing from Fannie Mae will make the portfolios even more attractive, he said in an e-mail.

"Given the mixed-quality portfolios that the agencies currently hold, an important feature will be for the government to provide the joint ventures access to reasonable but conservative leverage," he said. "Investors will be able to offer higher upfront prices for the homes if attractive financing is available, which in turn will act as a stabilizer for the market as a whole."

Demand for rentals has risen as more homeowners lose their properties to foreclosure, prices fall and lenders tighten standards to qualify for a mortgage. Obama announced a package of proposals yesterday, including making it easier to refinance at current low interest rates, even for borrowers whose homes are now worth less than their mortgage debt.

### 'Repair the Damage'

"This housing crisis struck right at the heart of what it means to be middle class in America: our homes," Obama said in a speech in the Washington suburb of Falls Church, Virginia. "We need to do everything in our power to repair the damage."

Steve Azevedo, 36, a water-utilities worker for the city of Sacramento, California, bought his home in Elk Grove in 2002. A rash of foreclosures in the neighborhood has helped drive down property values, he said, and he owes \$80,000 more on his mortgage than his house is worth. He said he favors any proposal to fill vacant homes, as long as renters are screened.

"If it was a bank or a corporation that screened the tenants, I'd rather see it occupied than just vacant," he said in an interview yesterday at his home.

A typical home in the neighborhood that sold for \$450,000 in the mid-2000s now is worth \$200,000, Azevedo said. At least eight or nine homes on his street have gone through foreclosure in the past few years, he said.

### Contributed to Crisis

Erin Lam, an administrative assistant on long-term disability who also lives in an Elk Grove, said she's concerned about investors buying homes in bulk. It would be unfair if banks that contributed to the foreclosure crisis through aggressive-lending practices profit from renting out homes, she said.

"They're the ones reaping all of the benefits," Lam said.

Fannie Mae had 122,616 real estate owned homes, or REOs, as of Sept. 30. A minority of the properties will be offered in bulk to investors, while most will go to buyers who will live in them, said Andrew Wilson, a spokesman for agency.

"Our REO strategy revolves around selling properties to owner occupants," he said in an e-mail yesterday. "That helps to stabilize neighborhoods and provides a better return to Fannie Mae and taxpayers."

The U.S. homeownership rate fell to 66 percent at the end of last year from 66.3 percent in the third quarter, as low as it was in 1998, the Census Bureau said in a Jan. 31 report. It peaked at 69.2 percent in June 2004. The average FICO score in December was 698 compared with 660 in 2009 for a borrower with a new mortgage insured by the Federal Housing Administration.

Helping Drive Rents

"The share of Americans who are willing and able to own their own home is still falling," Paul Diggie, an economist with Capital Economics in London, said in a Jan. 31 note. "The flip side is more households in the rented sector and fewer properties lacking tenants. This is helping to drive rents, and therefore landlords' returns, higher."

Home prices in November were 33 percent below the July 2006 peak, according to the S&P/Case-Shiller index of values in 20 cities, released Jan. 31.

About 7.5 million homes with a current market value of \$1 trillion will be liquidated through foreclosures or other distressed sales by 2016, according to an Oct. 27 report by Oliver Chang, a Morgan Stanley analyst based in San Francisco. That will add to the estimated 20 million single-family homes already operated as rentals, according to Chang's report.

Rented single-family homes have yielded annual returns averaging 6.1 percent since 1990, he said.

'Maximize Value'

The Fannie Mae program "is an important step toward increasing private investment in foreclosed properties to maximize value and stabilize communities," Edward J. DeMarco, acting director of the Federal Housing Finance Agency, which oversees Fannie Mae, said in a statement yesterday.

Freddie Mac, which had 59,596 REOs as of Sept. 30, hasn't yet announced a program for partnering with investors. The agency, also overseen by the U.S. government, "will evaluate our participation with the FHFA after the results of the pilot are assessed," Brad German, a spokesman for McLean, Virginia-based Freddie Mac, said in an e-mail yesterday.

California had the largest number of Fannie Mae REOs, with 6,987, followed by Michigan, Florida, Georgia and Illinois, as of Dec. 28, according to the FHFA.

It will be difficult for private-equity funds to generate high returns renting foreclosures because of the complexity and cost of managing single-family houses, said Judi Levinson, who owns 52 rental homes in Henderson County, North Carolina, that were acquired at distressed prices since 2009.

"I don't know how they'll make a profit if they have to create a whole organization to manage these homes," she said in a telephone interview from Miami Beach, Florida, where she and her husband, Steve, also own hotel and condominium properties. "It requires a lot of personal attention."

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