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POST SPECIAL REPORT REAL ESTATE

WALL STREET BUYS UP MAIN STREET

Corporate titans grab keys to American Dream

Hedge funds, other corporate goliaths bullish on rentals buy discounted homes here.

By Kimberly Miller

Palm Beach Post Staff Writer

Palm Beach County real estate investor Chip Bryan added 35 homes to his expanding cache in the first 60 days of the year. Backed by a private equity fund, he's in buy, hold and rent mode. And he's in a hurry.

Bryan's competition is America's financial masterminds, corporate behemoths who have set their sights on Florida as Wall Street buys up Main Street.

Another twist in the nation's evolving housing market has hedge funds and multibillion-dollar companies becoming the landlords of the future, snapping up discounted single-family homes to rent out as they've done in the past with commercial properties and multifamily apartments.

INTERACTIVE SALES MAP

Find out what's been bought in your neighborhood: palmbeachpost.com/investor-homes

It's been just a year since a spontaneous comment by billionaire Warren Buffett ignited the corporate world's home-buying spree. But already the New York-based Blackstone Group has 20,000 homes nationwide, including 4,000 in Florida.

Canada's Tricon Capital, working with Lake Success Rentals, claims a bounty of 1,500 homes in South Florida and North Carolina. Colony Capital, based in Santa Monica, Calif., just announced its intention to buy 1,000 South Florida homes with a \$2 billion nationwide investment.

One of the more aggressive buyers

Buying continued on **A10**

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Rental boom may last

Buying

continued from A1

in South Florida is the Connecticut-based Starwood Property Trust. Despite having "no news to share" when contacted by The Palm Beach Post for this story, the company has picked up more than 80 Palm Beach County homes at foreclosure auction since it began buying in late November.

"This business used to be a subculture of deal makers and opportunists, mostly Realtors and contractors," said Bryan, managing partner of Boca Raton-based ReBOUND Residential. "Then Wall Street arrived."

Don't be late on rent

The rapid-fire acquisitions are driven by a murky shelf life. Climbing home prices eat into profit, meaning a tipping point will arrive when the buy-hold-rent business model no longer makes sense. And unlike the mom and pop landlords of lore who may let a rent check slip in late now and then, corporations are all about the bottom line.

During a Starwood Property earnings conference call in February, one executive likened buying homes to trawling for tuna. You catch a lot of fish, keep the tuna, and throw everything else back in the ocean.

"It's an interesting little business," he said about the now-muddled American Dream. "We'll see if it becomes a big business for us."

In late February 2012, Berkshire Hathaway Chairman Buffett sat in a director's chair on CNBC's "Squawk Box" and said if he had a way of managing them, he would buy "a couple hundred thousand single-family homes."

\$37 million locally

By April, the Blackstone Group was in the single-family landlord business, investing \$3.8 billion nationwide. Blackstone created the new housing firm Invitation Homes to market and manage the rentals, buying heavily on Florida's west coast with at least 700 homes in Hillsborough County, according to property appraiser records. Its South Florida purchases include about 150 homes in Palm Beach County, which cost a combined \$37 million, according to the property appraiser's office. Blackstone has another 500 homes in Broward and Miami-Dade counties.

Invitation Home executives said there is no target for the number of properties the company wants to buy, which are purchased at foreclosure

EXAMPLE PROPERTY: WEST PALM BEACH



Chip Bryan (right) of reBOUND Residential, Jeff Klely (center) of Klely Real Estate, and Dave DeVecchio speak inside a house in the 6000 block of Camp Lee Road. Bryan's company purchased the house through a short sale. Klely is doing contracting work inside the house to ready it for rental.

PHOTOS BY JENNIFER PODIS / THE PALM BEACH POST

EXAMPLE PROPERTY: GREENACRES



The townhouse on Turnberry Circle was a foreclosure bought at auction by reBOUND Residential. It has since been cleaned up, which included new kitchen appliances, and is available for rent. Hedge funds and private equity firms are the new homebuyers of today, picking up distressed properties throughout South Florida to rent out and sell once the market returns. ReBOUND homes, based in Boca Raton, is a local investment firm competing with giants like Blackstone and Starwood Capital.

auctions and through traditional sales. The company, based in Dallas, has about 900 employees nationwide.

"This is a growing market where people, more and more, are becoming renters either by choice or because of economic circumstances," said Marcus Ridgway, chief operating officer for Invitation Homes.

It's difficult to get an exact measure of the large firms' stockpile of homes in Florida because they often buy under multiple spin-off corporations with different names. Blackstone, for example, has bought under THR Florida, LLC. Starwood Property Trust uses Srp Sub, LLC. California-based Waypoint Homes, which is buying

in Broward County with an intention of moving north into Palm Beach, is using the name Adalwin, which regional director Andrew Ginsburg said is a German name that means "noble friend."

'Sweet spot' price

Tricon Capital Group announced its partnership with Lake Success in July 2012 as part of an aggressive push to buy more distressed real estate. The basic business plan, said Lake Success co-founder Barry Bergman, is to buy homes at a "sweet spot" of between \$75,000 and \$150,000, spend an average of \$15,000 on repairs, and rent them out until housing prices increase enough that it makes sense to sell. Lake Success has spent about \$19.6 mil-

lion in Palm Beach County for 140 homes.

"If the market changes and home prices go crazy, then maybe we'll sell them in five to 10 years," said Bergman, whose firm buys at auction and through bulk sales of distressed homes. "But we think there is a long term paradigm shift in the affordability of people to own homes. There is a definite portion of this population who will be renters for a while and want to rent in nice communities."

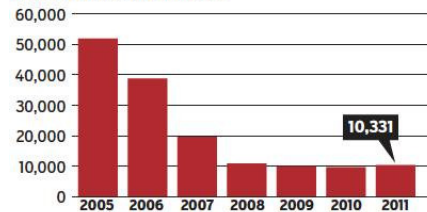
Bryan, of ReBOUND Residential, said his company puts between \$10,000 and \$25,000 into remodeling a home before renting it out.

The cleanup job at a home on Camp Lee Road in suburban West Palm

County home loans decline

The number of mortgage originations in Palm Beach County dropped 80 percent from 2005 to 2011 as the housing crash pushed banks to tighten lending standards and homeowners struggled to make monthly payments on boom-time loans.

Number of mortgage originations



Source: Home Mortgage Disclosure Act data STEVE LOPEZ/STAFF

Beach wasn't even finished before potential renters started calling. On a cul-de-sac, the house has three bedrooms, two bathrooms, a big backyard and wood flooring. The company paid \$80,100 for the home in February through a short sale. The previous owner bought in 2006 for \$250,000.

"Our game plan is to buy and rent for the long term, but we're trying to be flexible because we don't know how long this window will be open," Bryan said.

The general idea is the rent-and-hold model will work for another 18 months to two years until sale prices increase to an extent that it's no longer profitable, said Jim Banford, chief executive of Real Estate Asset Disposition Corp., which has its main office in West Palm Beach.

Could be a gamble

Banford's company, which bundles properties to sell in bulk, is working with three funds to buy discounted homes.

But it's all a gamble in a market known to be unpredictable. While more than 109,000 Palm Beach County homes have been foreclosed on since 2008 — creating renters out of thousands of former homeowners — the seven-year ban on getting another mortgage has been reduced to three or less for some borrowers.

That kind of market shift is better for traditional flippers, who have been frustrated by the influx of corporate buyers.

Don Cameron, a real estate investor who owns a South Florida franchise of We Buy Ugly Houses, is concerned the Wall Street buyers are paying too much for homes, artificially driving up prices. He said the regulars at Palm

Beach County's online foreclosure auctions have backed off bidding because the companies are paying "maximum dollars."

"In the last seven, eight, 10 months, the market has been changing and changing rapidly," said Cameron, whose firm bought about 100 homes in the past year to renovate and sell.

In 2010, just 8.8 percent of homes bought at Palm Beach County's foreclosure auction were purchased by third-party buyers who are typically investors. That increased to 28 percent during the first quarter of this year, according to the Palm Beach County Clerk and Comptroller's office.

Instead of curtailing his buying, Bryan, a former flipper, changed his business model. He said he saw the industry morphing in mid-2011 and began buying with the intent to rent in 2012.

He believes local companies have an edge over Wall Street because they know the area better. Before buying a home he'll spend an average of 50 hours doing research.

"Sometimes you get a door in your face," he said. ReBOUND Residential has about 100 homes in Palm Beach and Broward counties, up from just 25 a year ago.

The Camp Lee Road home got a fresh coat of a "rice grain"-colored paint, new countertops and updated fixtures. It was leased for Rebound's full asking price — \$1,395 per month — 45 days after the company closed on it. The typical turnaround time is about 75 days.

"We consider ourselves to be midsized players, and are content in that position," Bryan said. "To us, it is quality over quantity every time."

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