

# Fed Reserve White Paper: REO to Rental - One Year Later: Time to Act with Twist

Limited Supply: Increase in Home Prices

Strong Elastic Demand: Institutions +

Professional Property Management

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# SF Market Rebound to Sellers' Market

- SF price increase strongest in six years – supply constrained
- Funds \$10-20B raised to convert SF to Rentals; increased by debt & IPO proceeds; plus 2<sup>nd</sup> tier regional investors
- Investors in “new asset-class” able to convert 1M REOs to rentals = \$100B if supply released in REOs & NPLs. Rental demand driven by 5M homeowners displaced in past 5 years.
- Investor transactions +75% Nov '12 from prior year in 25 metros. Elastic demand from landlord economics.
- Ramp up REO listings at stable pricing to meet demand: 150,000 REOs/month (2008 pace) v 50,000/month today
- Draw down part of Shadow 2.3M houses: CoreLogic

# SF Rental Case Study: Atlanta

- ATL community bank mecca: concentration of FHA loans
- Capital Groups acquire packages, at Trustee Sales, Short Sales, MLS; 18% price drop (2011) to 10% increase (2012)
- Typical to have 20-40 offers per MLS listing
- REOs trade at no discount; (2013) price increase 1% mth
- Days-on-market to lease SF less than 30 days
- Professional property management – licensed, insured, 24 hour repair #, Tenant portal for online rent payment
- Current limited REO supply frustrates investors
- Demand could be met by NPL sales & REO listings

# Deed Restrictions Align with Business Model

- Proposal: List REOs for sale with Deed Restriction: lease for 5 years unless sale to Tenant. Report current lease to Asset Mgt firm handles listing.
  - Aligns with Investor criteria of SF Homes for rent:
    - REOs trade at 40-50% of replacement cost
    - Market trade at 30-50% of peak price
    - Rental period of 5-8 years
    - Rents Cash flow + Home Price Appreciation
- Emphasis on occupancy for continuity of utilities, asset preservation.

# Sellers Stipulate: Property Manager Qualified

- Similar to NPL Auctions: Bidders need qualified Servicer
- Proposal: REOs lease & managed by Qualified PMs:
  - \$5M General Liability + Professional Liability insurance
  - BackOffice system to generate Owner & Tenant portals for online info on property, rent payment ie. Propertyware, appfolio
  - 24 hour emergency call # for repairs
  - Licensed Real Estate Broker; licensed PM where required; complaint process
  - Largest firm – RPM – has 75,000 properties under mgt; other national, qualified PMs in place