

Investor-Buying Of Foreclosed Homes Is Lifting Boats...And The Economy

By James Breitenstein

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During the middle of the Great Recession when foreclosures swamped individual real estate markets from Florida to Arizona to the Inland Empire of California, it seemed it would take years to work our way out of the mess.

But in January, headlines show a quickening pace, with the housing market driving this recovery. How did this turn around so fast? A major obstacle—the inventory of foreclosures—is fast clearing away.

From the downturn's earliest dark days, individual and boutique investors recognized value in foreclosures and began buying up these financially busted properties. Not to let a good opportunity pass, about two years ago major financial firms ploughed into the foreclosure market. In November, Santa Monica-based **Colony Capital** paid \$176 million for close to 1,000 foreclosed properties in California, Nevada and Arizona. And the **Blackstone Group** has spent \$2.5 billion to acquire 16,000 homes.

By clearing out foreclosures, big and small investors are allowing markets to heal quicker, filling weed-infested, declining neighborhoods with residents, and stabilizing ghost-town subdivisions caught in the recession.

Investors buying up thousands of foreclosed homes and renting them presumes that there's demand for rental housing – and not only is there demand, but observers say there's a likely shift

underway in which an increasing segment of mortgage-weary families don't want to buy a single-family home but prefer renting.

And there's another source of demand: rental housing. Multi-family apartments experienced a dramatic drop in construction, sending some renters to single-family alternatives.

For the multifamily rental market to remain in equilibrium between demand and supply, about 350,000 new rental units need to be constructed annually. During the Great Recession, new multifamily construction dropped to 100,000 from 170,000 units annually. The market has been trying to catch up, with 230,000 new units built in 2012, but demand still outstrips supply, which means the cost to rent an apartment has been climbing.

Investors who have acquired busted single-family properties have mostly converted these to rental units. With so many conversions going on, the rent for a single-family residence has come under pressure, which of course is a great help to consumers. The markets for single-family and multifamily rentals tend not to overlap very much but it's conceivable that the declining single-family rents could impact the multifamily sector, moderating the rapidly increasing rise of rents.

Green shoots of new construction are popping up all over the country...thanks in no small part to single-family-rental investors.

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