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Opportunity: Be a Landlord

While only a few can participate in the mega-deals, there are opportunities available for everyone.

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By [Walid L. Petiri](#) | Posted: 04-18-12 | 09:50 AM | [Email Article](#)

While housing prices are still well off 2008 levels and likely won't recover for some time, you can make good returns investing in real estate. How? Buy a foreclosed house and become a landlord.

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Purchase these single-family homes on the cheap, on your own or as part of a private partnership investment (it may require you to put up \$100,000). Not to be left out, some publicly traded real estate investment trusts are also eyeing foreclosure plays, a way for you to be a housing landlord indirectly.

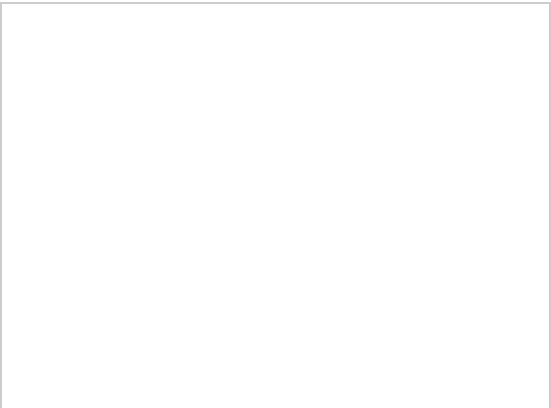
By participating, you become part of the effort to turn around the housing market. Since people still need a place to live, converting yesterday's foreclosure into today's rental property may just be the trick to finally stabilizing the market place.

Annual rental income typically ranges from 8% to 15% of your investment. That's a lot better than certificates of deposit are paying, and better than almost all corporate dividend yields.

A Morgan Stanley report notes that by 2016, some 7.5 million homes with a present market value of \$1 trillion will be liquidated via foreclosures and short sales. This could expand

the total of rental homes in America from the current 20 million to 27.5 million. Morgan Stanley says single-family rental homes operated have yielded annual returns averaging 8.1% since 1990.

Being a landlord is challenging, of course. If your tenants' furnace goes out in the middle of the night, you need to do something about it. As part of a partnership, though, you have the clout to hire professional managers.



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RIMM	10.35	0	★★★★	
GE	19.04	0	★★★★	
CSCO	16.39	0	★★★★★	
NOK	2.74	0	★★★★★	
S	2.58	0	★★★★	
JPM	32.96	0	★★★★	

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Adding Foreign Funds to a U.S. Lineup Is No Easy Task

In the Aug. 9 edition of *Fortune* magazine, Warren Buffett said, "The lower things go, the more I buy." While he was referring to stocks, growing numbers of investors say the same thing about residential housing.

Institutional investors, the big money players in the market, are starting to jump in. Private equity firm GI Partners, located in Menlo Park, Calif., has a \$1.9 billion fund that seeks to become the landlord of foreclosed homes.

To Joseph Dear, chief investment officer of the \$237.3 billion California Public Employees Retirement System, acquiring homes after foreclosure or via a short sale (where owners sell at a price that's less than their mortgage balance) is a promising opportunity.

"If this is done at the right scale and they (money managers) develop efficiencies in processing for the sales — the short sales or the bank-owned sales — and can bring these back to market after they've been rehabbed, this should be a pretty good play," Dear told a CalPERS investment committee meeting, according to *Pensions and Investments* magazine. What's more, he said, "The real returns on rental units, both apartment and houses, are pretty good on a risk-adjusted basis." The housing mess is far from over. Just look at the recent [data](#) from the Office of the Comptroller on loan modifications: 19.4% of home mortgages modified by lenders during 2010's fourth quarter were 90 days delinquent a year later.

According to [RealtyTrac](#), Fannie Mae and Freddie Mac have about 180,000 foreclosures and the Federal Housing Administration has 32,000. Banks own at least another 600,000 single-family homes. At the end of 2011 home ownership had fallen to 66%, its lowest level since 1998.

A lot of the foreclosure-play action is on institutional level. The Federal Housing Finance Agency (Fannie and Freddie's parent), which finances about 75% of the single-family homes in the U.S., is auctioning off nearly 2,500 foreclosed residential properties this month in eight metro areas. They will be offered to institutional investors in bulk (for example, 99 properties in Chicago and 572 properties in Atlanta) and investors must agree to rent them out for X number of years (the number has not been determined).

Conceptually all of these public and private foreclosure conversion programs offer a combination of extremely compelling possible benefits of high yields with sizable profits for investors, stabilization of neighborhoods for homeowners and a chance to fight blight.

While only a few can participate in the mega-deals, there are opportunities available for everyone.

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