

Buying homes to rent on rise

By Katherine Snow Smith, Times Staff Writer

Published Friday, February 17, 2012

Homes are going to contract in less than a day. Buyers are paying above asking price. Yes, right here in Pinellas County. No, it's not a flashback to 2006.

Since the last quarter of 2011, there has been growing demand from investors to buy discounted properties, not to flip, but to rent. They say they get a better and safer return on their money than banks or the stock market can offer. Though buyers are getting bargain basement deals, this surge of activity for investment properties is reducing inventory and leading the way to an improved overall residential market.

Tony Debenedictis has bought four investment homes since October and has five more under contract. He's paying between \$18,000 and \$500,000 per property, mostly at the lower end.

"I bought one place for \$20 a square foot. I've paid more for expensive carpeting than that," he said. "My criteria I use is not the price point but what the actual amount per unit is and what the rental income is compared to the cost of the property. This is the most intense buyer's market that I have seen in 35 years of owning real estate."

Just one example is the 642-square-foot condo with granite countertops and stainless steel appliances he bought at the Vantage Point community on Gandy Boulevard. The previous owner paid \$130,000 for it in 2006, the bank took it back in November and Debenedictis nabbed it for \$34,000 in December.

"The banks are paying 0 percent interest, so if you have cash why would you possibly keep your money in the bank unless you don't want to be bothered with being a landlord?" he said. "I've put in offers on property where the rent stream will return 25 percent on my investment. I mean how lazy could you be not to do it? As much as you don't want to own rental property, I can't imagine being so lazy."

Plenty of other individuals and investment companies are also far from lazy.

"You can't take more than 24 hours to put a contract on the good ones," said Judy Anderson, a Realtor with Re/Max Action First. She's working with a client who is just starting with investment properties. He wants to find a house in north St. Petersburg for around \$50,000. "In that price range, the only houses on the market for a while are the junk nobody wants because they are uninhabitable or uninsurable. Everything else is gone in a day or so."

She points to a few examples of what's going fast. A 730-square-foot, 1922 home at 3050 21st St. N in St. Petersburg sold for \$14,250 in one day. A 951-square-foot home with a two-car garage built in 1935 at 4010 First Ave. N, also in St. Petersburg, sold in one day for \$40,500, \$500 above asking price. A 1,000-square-foot house built in 1960 at 8420 58th St. N in Pinellas Park sold for \$41,000 in two days.

David Vann and Kathryn Zimring with Re/Max Metro recently took a client to a two-bedroom, 710-square-foot house listed for \$42,700 in Largo the first day it was on the market. After politely waiting outside for an earlier showing to finish up, they finally knocked on the door and were welcomed in by the beaming listing agent and two home buyers.

"Those people were writing an offer on the washing machine while standing," Vann laughed. "There is a frenzy in some ways."

Their client offered more than the list price and have the house under contract.

Tip No. 1: Bring cash

Even though deeply discounted properties can be a smart investment, it's hard to get a bank loan to buy them.

"It's a difficult market to be in if you don't have cash," said DeBenedictis, a health care professional who lives in a downtown luxury condo. "I'm a very low risk to a bank and I can't get money."

Those who have cash are in the catbird seat.

"I'm working with an executive who makes a good bit of money and he just doesn't want to put it in the stock market. So every time he has a chunk of change he goes shopping for a condo," said Nona Peebles of Charles Rutenberg Realty. "He has bought three within the last six or seven months for less than \$100,000 but more than \$50,000 ... mostly downtown."

Jim Geinzer is a St. Petersburg architect looking to increase his investment portfolio. He bought a house in Largo for \$41,000 and has five more in the same neighborhood under contract. His hope is that he can own several properties near each other so it will be more convenient from a property management standpoint.

"That's the utopian, idyllic thought. Whether that really happens is another story," said Geinzer, an architect with JEG Designers.

DeBenedictis advises anyone trying to get a good deal to read all the fine print. Some condos he has looked at have mandates that the owners must be over 55, while others in the same complex but with a different homeowners association allow the owner to be any age but the renter must be over 55. Other rules dictate an owner can't rent the property the first 12 months after buying it.

Also, avoid wasting time and money by making an offer on something and then finding out after the home inspection you don't want it. Be on the lookout for mold.

"There are a lot of properties out there that have gone to neglect. One place I looked at was so bad when I got home that night I was sick," he said.

Companies are investing, too

Because the return is so strong, a growing number of people are using their individual retirement accounts to buy homes and socking the rent money back into their savings vehicle.

"We're definitely seeing an uptick in terms of our clients seeing an opportunity to buy real estate and thinking it's a better opportunity than buying traditional stock," said Jack Callahan, head of Advanta IRA Services in Largo. His company manages investments made with money in IRAs. It bought 17 investment properties in Pinellas last year. Investors want single-family homes and condos now instead of mutual funds. "We saw a dip in the number of clients invested in real estate for a while. Now, the vast majority are buying property," he said. Most of the properties they buy are bank owned.

Limited liability companies, a business structure made up of one or more individuals or entities, also account for much of the demand for residential investment sales in Pinellas County. LLCs bought 10 percent of all homes that sold for under \$150,000 in southern Pinellas County in the last half of 2011.

A *Tampa Bay Times* analysis of residential property bought by LLCs shows a substantial increase in purchases for investment purposes. In Pinellas County, 546 homes were bought by LLCs the last half of 2011 compared with 326 the last half of 2010. That's a 67 percent increase.

A handful of LLCs bought more than 10 properties each.

The lower the price of the property, the more attractive it is to these investors. Of the homes sold to LLCs during the second half of 2011, 166 went for \$25,000 or less. Only 39 sold for \$100,001 to \$149,900.

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LLC purchases by month		
Number of investment properties bought by LLCs by month		
Sale year	Sale month	Count
2011	June	78

2011	July	61
2011	August	74
2011	September	74
2011	October	64
2011	November	108
2011	December	87
2010	June	46
2010	July	30
2010	August	58
2010	September	45
2010	October	24
2010	November	50
2010	December	73

LLC purchases in dollars	
Number of investment properties bought by LLCs by dollar amount during last seven months of 2011	
\$25,000 or less	166
\$25,001-35,000	82
\$35,001-45,000	65
\$45,001-55,000	71
\$55,001-65,000	61
\$65,001-75,000	34
\$75,001-100,000	36
\$100,001-149,900	39
Source: Pinellas County Property Appraiser	
Data analysis by Times researcher Connie Humburg	