

Investors are buying houses again

Some pay in cash to avoid interest; goal is rental income, for now

By Stephanie Armour
USA TODAY

More home buyers are snapping up properties with cash, a trend driven in large part by investors returning to the market after four years of falling prices around the country.

The share of home sales involving all-cash transactions was 26% in January, up from 18% a year earlier, according to the National Association of Realtors. The figures come from a survey of members about their most recent transactions. Many home buyers also are paying cash, but investors are largely using cash so they can avoid paying interest charges on loans and get a larger return on their investment.

Other NAR data also show a pickup in investment activity.

Home purchases made by buyers identified as investors climbed to 17% in January, up from 15% in December and 12% in November.

"We bottomed out in 2008, and in late 2009, prices stabilized and investors have returned," says Mark Fleming, chief economist at First American CoreLogic. "It's a different type of investor going after foreclosed properties and expecting to hold on for longer time frames."

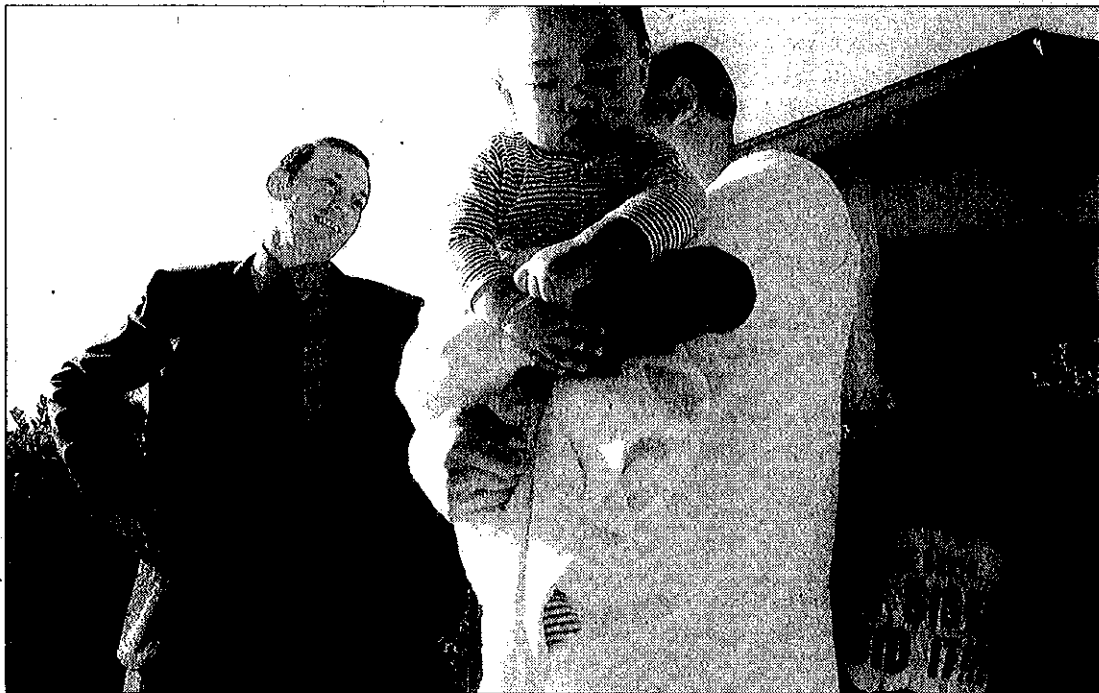
Many investors say they're financing their purchases with cash on hand, rather than borrowing.

Evan Spinrod of San Francisco bought three rental properties in November and February and now owns 21 in four states. The rent he collects gives him an 8.5% annual return on his investment. Some of his homes are worth about \$165,000. "I'm still looking," Spinrod says. "You can't build these houses for the prices they're selling them. I've always seen that the real wealth was in real estate. People have been sitting on cash, and there's no interest from the bank (to pay)."

Leonard Baron, a real estate professor at San Diego State University, has bought three homes with cash in the San Diego area in the past eight months, ranging in price from \$100,000 to \$130,000. He rents the properties.

Baron says now is an ideal time to make such purchases. "It's because prices have dropped so much and rents really haven't," he says. "The deals were unbelievable."

Some Realtors also say they're seeing



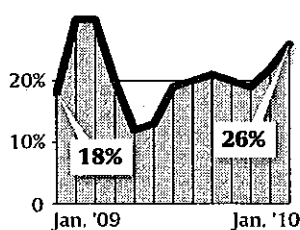
Photos by Robert Alan Benson for USA TODAY

Property owner and buyer: Leonard Baron, left, talks with his tenants, Joseph Munar, daughter Arabella, 1, and son Joseph, 9, outside one of the homes Baron owns in Chula Vista, Calif.

More buyers pay cash

All cash purchases of homes

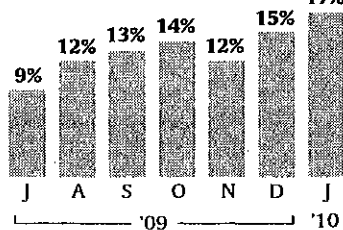
Share of existing-home purchases paid for with cash:



Source: National Association of Realtors

Investor percentages of home sales

Share of existing homes bought by investors:



By Karl Gelles, USA TODAY

increased investor activity.

"Flippers, rehabbers, investors ... are, in fact, buying," says Lisa Johnson, with Coldwell Banker Residential Brokerage in Haverhill, Mass. "I'm getting builders who have stopped building and are instead buying up condos and single-family homes to fix them up and sell them. It's a neat change I haven't seen in four years."

All-cash purchases also reflect a growing number of investors buying higher-end properties without credit, says NAR spokesman Walter Molony. That's a sign that some investors see real estate prices as having nowhere to

go but up. All-cash offers give buyers a competitive edge on rival offers — even higher ones — that are dependent on financing. Cash deals can close faster and are less likely to fall through.

"You have to have cash to be able to close quickly and have negotiating power. Cash is king," says Tanya Marchiol, president of Phoenix-based Team Investments, which buys about 70 properties a month with cash it raises from investors. "We do want to flip it or generate cash flow (through renting it out). Now is the time to buy for cash flow. We know the market is going to rebound."

Some investors say the current real estate market is an ideal time to buy because homes are so low priced, they are bound to hold their value.

That's the philosophy of Jim McClelland of Tinley Park, Ill.

He is buying about 120 to 150 entry-level homes in the Chicago area this year and owns a total of about 300 properties.

He says now is a good time to buy because properties going into foreclosure are no longer just one-bedroom, fixer-uppers but nicer, split-level brick homes with more bedrooms that will probably appreciate to a higher value.

That's because so many prime-rate borrowers who bought more expensive homes have gone into foreclosure.

He puts about \$60,000 into upgrading a property, then rents it out.

"Do I think this year will be a better time to invest than in 2009? Yes," McClelland says. "There have always been foreclosures. The difference now is you get a better home for the same kind of money. You're sitting on better inventory. People get into real estate for financial independence. It's not a quick fix. It appreciates. It doesn't happen overnight."



Find prices of recently sold homes in your neighborhood, or any neighborhood, at realestate.usatoday.com.