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A golden opportunity for prospective landlords?

Home prices are down, interest rates are low, yet rents are rising.

Nashville Business Journal - by [Linda Bryant](#) Contributing Writer

For those with cash on hand, the same residential real estate bust that wrecked the economy has created a potential investment boon.

Depressed property prices and low interest rates have combined with rising rents to draw some investors back into the game.

Mark Storolis, an affiliate broker at Nashville's **French Christianson Patterson & Associates**, is finding success selling duplexes, particularly in west side neighborhoods.

Many of his clients are white collar professionals who want to diversify their portfolios.

"This month I will list two duplexes and sell two duplexes," Storolis said. "Of these four homes, three are owners who will rarely set foot in the house. There are investors who just want to buy right and get their 'mailbox money.'"

Bargain hunting

Rusty Matz, a broker with **Exit Realty Bob Lamb & Associates** in Murfreesboro, said investors "are looking to get in at the lowest possible amount, so that if things go downhill in the market they know they will still be OK." He's seeing a sharp uptick in short sales.

Matz said buyers are scouting bargain properties before they lapse into foreclosure. They also are buying high-return multifamily properties — duplexes, triplexes and small apartment buildings — because it's so hard to make the numbers work on single-family properties.

Owner-financing also has become popular, as buyers sidestep traditional lending requirements of 20 to 30 percent down for investors.

"You have a lot of opportunity now to make deals, but you have to find different ways of acquiring and creating equity," Matz said. "You have to be really creative. You can't push a button and get your deal."

He's seeing a sharp uptick in short sales — in which the mortgage holder allows the property to be sold for less than the amount owed by the seller.

"When I started doing short sales four years ago, most people — even Realtors — were only semi-aware of them," Matz said. "Now everybody wants to know about them. They are a great tool for investors because they create an equity situation for them. It helps the bank and the homeowner, too."

Hot Areas

Real estate agents say there are still some hot neighborhoods for investment in Middle Tennessee, despite stagnant or still depreciating property values and a flat economy.

"The hottest neighborhoods command the highest monthly rent," Storolis said.

"The last frontier is Music Row, specifically Villa Place and 15th Avenue South, between Belmont and Vanderbilt University."

Storolis said Music Row is an area where it's still possible to "buy cheap and rent big."

John Brittle, director of land sales at **Village Real Estate Services**, specializes in putting deals



James Yates, Nashville Business Journal

Mark Storolis of French Christianson Patterson &

Associates shows a property at 2616 Barton Ave., just south of Vanderbilt University.

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together for infill projects in urban Davidson County. He's bullish on Area 2, a wide swath of west Nashville that includes neighborhoods such as Green Hills, Bellevue, Belmont-Hillsboro, Sylvan Park, 12 South and Woodland-in-Waverly.

"There's not a real estate crisis in most of those neighborhoods," Brittle said. "The area around Vandy doubles every 10 years, and there's usually full occupancy on rental units," he said.

The investors Brittle works with usually want properties in Davidson County.

"They want the urban areas, not the sprawl," Brittle said. "They usually aren't looking for single-family homes because they want a higher rate of return."

However, Matz is working with investors interested in single-family homes, particularly in Rutherford County.

"Investors are still looking for good deals," Matz said. "The ones that are succeeding have the ability to change. It's a whole new game now."

Investors are looking for long-term investments and aren't focused on incentives such as tax breaks because government regulations are in a state of flux, Wright said.

"The deal has to stand on its own without tax benefits," said John Weary, a local investor and owner of Weary Financial, a Brentwood-based insurance and consulting firm.

Who's buying?

Angela Wright, broker and principal at Urban Abode, a subsidiary of **The Lipman Group**, said out-of-state investors are scouring markets, including Greater Nashville. They like Middle Tennessee because it's seen less fluctuation than other areas of the country.

"Investors are looking at Nashville, Huntsville, Chattanooga and Murfreesboro," she said, adding that Class B and Class C apartment buildings, which respectively cater to the middle class and lower income levels, are being snapped up quickly.

Cindy Stanton Fey, managing broker for **Crye-Leike Realtors'** division that handles bank-owned properties, also is hearing from out-of-state investors for the same reasons. Business is up for Stanton Fey; she's seen an increase in business, doubling sales on distressed properties from 2008-2009 and anticipating a 20 percent increase in 2010.

"It's an ideal time for investors if they have access to capital," Stanton Fey said. "We are going to continue to have a demand for rentals because few people are buying homes. Banks are very motivated to move inventory."

Darin Cunningham of Remax Elite said some of his recent clients have investment trusts that have gotten discounts from banks by buying distressed properties in bulk. The deals have allowed banks to get the properties off their books, while giving investors enough cushion to make repairs and still relist the houses at attractive prices, Cunningham said.

He also said other investment funds are planning to hold onto the properties for five to seven years, collect rent and sell when the market has improved.

"Even though the banks are taking losses on these homes, they are minimizing their losses and getting money back now, which ultimately makes it a winning situation for them," Cunningham said.

Holding Pattern

Investors winning in the current lending environment are often able to pay cash entirely, team with other investors to make a deal or work out owner financing agreements with sellers.

Rusty Matz of Exit Realty witnessed a seven-figure cash purchase on a property. Yet, investors flush with cash are in the minority. What's it like for everyone else?

Fletcher Lance and John Weary, two local investors, are waiting on the sidelines until conditions improve.

Lance, a health care consultant at Brentwood-based **The North Highland Co.**, stopped investing in rental properties in 2008, although he's pleased with the nine properties in his portfolio.

“A lot of investors are still wondering if the other shoe is going to drop in the market,” Lance said. “For now, I’m just holding because it’s very difficult to get financing if you have multiple properties.”

John Weary, a member of a local investment education group, Nashville Real Estate Investors, is in a similar position to Lance’s.

“I’m riding the market,” Weary said. “Yes, interest rates are low and there seems to be a lot of opportunities out there; but a lot of investors aren’t able to take advantage of the environment.

“You can’t get government financing when you own more than four rental units,” Weary added. “You need 20 to 30 percent down to make the number work. Plus, houses aren’t appreciating; they are still depreciating.”

Weary, and others, believe it will take another five to six years for the market to completely recover. In the meantime, “creative financing” becomes the norm for investors, he said.

Foreclosure rates

The foreclosure rate in the Nashville area in June was 1.39 percent, according to data from California-based **CoreLogic**. That’s up from the 1 percent foreclosure rate seen in the Nashville-Davidson-Murfreesboro-Franklin area in June 2009, but it is down from 1.47 percent in May and 1.53 percent in March. Nashville’s rate is far below the national average of 3.06 percent in June. The overall foreclosure rate in June for Tennessee was 1.44 percent.

The amount of delinquent mortgages in the area — those 90 days late or more — was 5.5 percent in June, down from 5.7 percent in May.

— *Eric Snyder*

Top 5 tips for landlords

1. Screen your tenants. Tenant screening is absolutely imperative. Use a respectable application verification service to conduct the tenant background check. Two big red flags: Broken leases and felony convictions.

2. Application fee. Screenings can add up, so charge the prospective tenant a non-refundable application fee. This may help weed out the tenants who know they have credit or criminal issues.

3. Check tenant income. Make sure the tenant can afford to lease. Some landlords require tenants make three times the rent in verifiable gross income.

4. Develop a solid reliable maintenance team. Make sure tenants feel comfortable calling when they have a maintenance issue. Having people available to go out and handle the matters can relieve a lot of work for landlords.

5. Make sure the lease is detailed. Lawn maintenance and other tenant responsibilities should be spelled out. Also spelled out should be at what point the landlord will have the lawn mowed and bill the tenant.

— *David Klobedans, author of “Smart Investments Made Easy”*