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## Housing slump attractive to investors

Some buyers look to get 100 or more

BY GRETA GUEST • FREE PRESS BUSINESS WRITER • MARCH 31, 2008

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Investors from as far away as Hong Kong and Hawaii are coming to Detroit to make their fortune buying foreclosed [homes](#) in bulk.

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"This is a millionaire's market," said Jeremy Burgess, a 28-year-old [investor](#) from Washington state who has been living in Detroit for the past year. "I feel like I'm driving through the city and stopping to shovel diamonds in the back of my truck."

His wife, Jeanna Kiehle, and partner Jared Pomranky formed Urban Detroit Wholesalers to scour the city for houses they can fix and rent. The idea is to generate cash flow until the market improves, and they then can sell the houses. They own 38 houses now and close on 15 more before the end of the month.

Some buyers are looking to buy larger numbers of homes, perhaps 100 or more at a time.

People tuned in to the Detroit area's distressed housing market say the majority of sales now are to investors, often in bulk deals.

Sales were up dramatically in Detroit in February, rising 49% from a year before, and realty watchers say foreclosure properties played a key role in the increase.

Some see significant risk to investors who could get low-end properties without being familiar with pitfalls of the market.

"Real estate is not a commodity. You have to know what you are buying," said Mark Nagy, a broker and consultant for RE Investments Inc. in Southfield. "What typically ends up in bulk sales is stuff that has sat on the market for more than six

months."

Banks see Detroit as a sore spot, Nagy said, because they cannot move the properties and

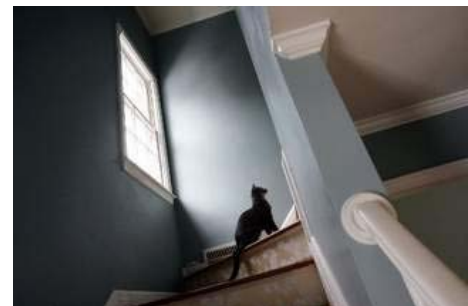


Burgess, left, and Kiehle work March 12 in the dining room of the Detroit home they purchased while it was in pre-foreclosure. Burgess and other investors say there are plenty of good properties in the city.



Photos by SUSAN TUSA/Detroit Free Press

Jeremy Burgess, a 28-year-old investor from Washington state, visits a home March 12 on Buckingham in Detroit that he is trying to sell. His wife, Jeanna Kiehle, and partner Jared Pomranky, formed Urban Detroit Wholesalers to scour the city for houses they can fix up and rent out for profit.



Burgess and Kiehle removed the old carpeting on the stairway leading to the second floor of their Detroit home to install wood flooring instead. "This is a millionaire's market," Burgess said of Detroit's house market.

THE BULK CRAZE, BY THE NUMBERS

there are so many.

"Bulk buying will become more commonplace by the end of the summer," Nagy said.

"Right now, so many properties in Detroit are like a hot potato. Whoever ends up with it will be crushed."

Burgess and others say there are plenty of good properties.

Smith Kitporka, 28, an investor in San Jose, Calif., said he has been buying Detroit foreclosures for two years, often paying as little as \$10,000.

"No war-zone houses or anything like that. Just good houses in good neighborhoods," he said.

Burgess said he can pick up an \$85,000 house in Detroit for \$20,000 to \$30,000 these days. Listings on Fannie Mae's Web site show many Detroit foreclosures for less than \$25,000.

Last year, metro Detroit led the nation in foreclosures. Of the 10,342 homes on the market in Detroit as of Wednesday, 3,355 were bank-owned foreclosures, according to Realcomp Inc. And in the tri-county area, 7,104 bank-owned foreclosures were listed out of 47,095 homes on the market.

Eddie Peters, 44, an asset manager for 15 years at various banks who left GMAC's Homecomings Financial office in Berkley last month in a wave of layoffs, said bulk sales are picking up.

When banks were getting 10-20 foreclosures a month, they would list them with local agents and recover what they could. But now, as foreclosure volume has risen, banks must sell in bulk so they don't get overwhelmed with property, Peters said.

"The bulk sale is an acceleration of what is normally done," he said. "About 80% of the houses sold now are being bought by investors."

Banks contacted for this article either declined comment or did not respond.

Peters said lenders don't want to be identified with the subprime loan collapse that hit last year and rippled through the U.S. economy as lenders tightened all forms of credit.

The prices in metro Detroit -- mainly within the city limits and nearby suburbs -- are so low that investors from more expensive markets such as California, Nevada and Florida feel certain they can grab bargains here.

"Right now, people are buying for the thrill because prices keep going down," said John Graham, a real estate agent with Keller Williams in St. Clair Shores who works primarily with investors. "The rental market is going to be crazy good. That's what these out-of-state people are seeing."

Burgess and his partner started out by buying foreclosed houses, fixing them up and then selling for a profit, a practice known as flipping.

But after the subprime loan crash last year, potential buyers had trouble obtaining loans and flipping essentially ended.

The new trend is to buy properties cheap from banks in bulk and then sell the properties to investors who hope to collect rent until the market improves.

Burgess said homes in Detroit's better neighborhoods are renting for \$850 a month. His company manages the properties for the out-of-state investors.

Investors are buying foreclosed Detroit homes in large numbers, hoping that the real estate market takes a positive swing and they can make a hefty profit.

\$10,000

What some Detroit homes are selling for.

80%

Estimate of houses sold in Detroit being bought by investors.

One-third

Homes listed for sale in the city that are bank-owned foreclosures. It's 15% in Wayne, Oakland and Macomb counties.

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The investors are banking on a Detroit recovery in the next 5-10 years.

Drew Sygit, vice president of the Lending Edge in Bloomfield Hills, said that most of the investors he talks to in Michigan are trying to be wholesalers and sell property to other investors.

"The Michigan people are scared of Detroit," Sygit said. "It's not a sure thing. They have to worry about inspections, copper stealing, equity stripping. It's challenging, but there is a big reward."

Tarik Dinha II, 30, of Clarkston is the owner of Urban Development Solutions Group [LLC](#) and Deeds4Cash.com. He buys 20-40 houses at a time from banks for "pennies on the dollar" and then sells them as fast as possible.

But making those connections with the right people at the banks is not easy.

None of the investors interviewed for this story would divulge which banks they work with.

But Dinha said he has made the right connections and has contacted banks with a list of properties for which he can pay cash within 72 hours.

"I usually buy 40 at once, but anything over 10, 15 is a bulk deal. The key thing is to be able to not get stuck with a bunch of junk," he said.

More bulk sales are combining hard-to-move property in several states that have been hit hard by foreclosures, said Marshall Mandell, a realty agent and foreclosure expert who deals only in bank-owned properties in metro Detroit.

Nagy, the Southfield broker, said he saw a bulk listing for 256 properties valued at nearly \$30 million in five states, with 105 of the properties in Michigan. The deals can be difficult to close, as investor Travis McKee, 35, of Pontiac found. He made an offer recently for clients on 195 houses owned by a bank, but the deal fell apart.

"I haven't completed any bulk deals yet. I'm still interested," he said.

Letitia Patterson, a realty agent and foreclosure specialist at RCH Brokerage in Southfield who also runs DetroitCashDeals.com, said banks must prove to auditors that they are getting a reasonable return for each property, she said.

"It is very few brokers who deal with the banks," Patterson said. "It is really sexy and exciting to say we are buying 100 houses for pennies on the dollar. The deals often don't close."

Nagy said that in many cases, there's still a disparity between what banks want to get for foreclosed properties and what investors are willing to pay.

In many cases, a bank today wants 55-65 cents on the dollar for a suburban property, yet investors want to pay 40-45 cents on the dollar, he said.

In Detroit, the bank may want 30-35 cents on the dollar, and investors want it at 20-25 cents on the dollar.

"Those two points have not met in the middle yet," Nagy said. "It's an evolution process. It's going to evolve that bulk sales will increase."

Contact **GRETA GUEST** at 313-223-4192 or [gguest@freepress.com](mailto:gguest@freepress.com).

**In your voice**[READ REACTIONS TO THIS STORY](#)**ArthurVandelay** wrote:

Even though, I think most of the end investors will take a bath, I wish them success though. At least the homes they buy are being renovated and not sitting vacant to rot like so many other Detroit houses.

3/31/2008 7:25:06 AM

[Recommend](#)[Report Abuse](#)**umich07** wrote:

Bahahaha. At least these people are pumping some money into the coffers at our banks and such. Three-quarters of them will take a serious bath on these "investments." The fact that they are not from Detroit shows me that they do not know any better. It will be tough to generate positive cash flow when the market is so bad and you have high taxes constantly vaporizing cash. And even if things do turn around (it doesn't look like it will happen anytime soon), people aren't going to want to buy homes in Detroit. Double whammy...pay Kwame high taxes while you sit on property that probably won't increase in value. Ouch!

3/31/2008 7:13:17 AM

[Recommend \(3\)](#)[Report Abuse](#)**ArthurVandelay** wrote:

Interesting article - nice job FP. The investor's strategy of renting until the seller's market returns is sound and logical - but not in the City of Detroit. There is a good reason that local investor's won't touch Detroit real estate yet. The few investors with bank contacts that can buy massive bulk to immediately sell to other less connected and naive investors are probably doing ok, but the investors who intend to rent will get killed; due to the many reasons too numerous to list that we are well aware of.

3/31/2008 7:12:24 AM

[Recommend \(2\)](#)[Report Abuse](#)**JJDITIEBUCKLE** wrote:

I tend to agree with most of you. Until the schools, crime rate and city services improve, you could give houses away and you would still have a surplus of homes. My dad sold his house for less than \$10K when he moved out of Detroit and it was well kept and in excellent shape. Hell, you can't get a nice car for that these days. I hope these investors know what they are in for.

3/31/2008 6:44:37 AM

[Recommend \(3\)](#)[Report Abuse](#)**DetroitMark** wrote:

Isle of Detroit, They would if it began to appear that Detroit was on the verge of not being a city that represents fewer city services and higher crime rates. If enough people decide that there's profit in buying a home and the buyer gets a ring side seat in watching the middle and upper incomes take back the riverfront and woodward corridor ... then there will be profit. The story above suggests that some investors are getting homes rented at \$800 a month. No one who has to stand in line at the local Comerica branch for their monthly salary in the form of a government welfare check can afford those kinds of rents. Are the odds in favor of such a perfect storm of poor and unemployed flight, and affluent takeover? No. But lets face it - We were marketed into electing George W. Bush ..... TWICE ..... for goddsake. We can be led to believe anything, so long as we can believe that everyone else believes it too.

3/31/2008 6:36:02 AM

[Recommend \(1\)](#)[Report Abuse](#)**lighthouseann** wrote:

This will bring out another pack of vultures that will sceme and scam the public again. they will buy these homes many of them that they orginally financed and resell them to a battle worn public. It is all about money and those that prey on those that desire a home of their own. Whatever happened to honest business, it seems to be a thing of the past.

3/31/2008 6:35:19 AM

[Recommend \(1\)](#)[Report Abuse](#)**hambone** wrote:

Know how many times I've heard this since the 60's? At least you readers know what the score is. How long before out tax \$\$ are used to bail out the "investors"?

3/31/2008 6:33:15 AM

[Recommend \(2\)](#)[Report Abuse](#)**thom1950** wrote:

School system remains very poor. High level of violence in public schools, no educational structure. Not prepared to enter society as a viable, responsible person. High school grads in the city have to do remedial work in college, if they get accepted. Have to be educated on basics just to perform medial employment. If

you are able to take care of 18+ year olds with no job potential good for you.

3/31/2008 6:32:14 AM

Recommend (1)

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isleofdetroit wrote:

DetroitMark - rent in bulk? You are not going to convince a large quantity of educated and affluent people to move back into Detroit. The people in the Pointes, B'ham, RO and Troy are not going to leave their areas to go backwards in city services, higher taxes, poor schools and higher crime rates.

3/31/2008 6:24:09 AM

Recommend (2)

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