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Investors revel as housing looks for bottom

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By Leah Schnurr

NEW YORK (Reuters) - Tony Alvarez recalls his doubts as he contemplated the wrecked, two-bedroom foreclosed house up for sale 30 years ago with his real estate agent's reassuring hand on his shoulder.

It was Alvarez's first venture into a real estate investing career and he didn't know the difference between a good investment and a bad one.

"I remember when we opened the doors, birds flew out where there were supposed to be windows," Alvarez said of the property in Burbank, California.

Alvarez was so unsure whether to buy it, he took his mother along. With some friendly persuasion from his agent and loans that included money from his parents, he took the plunge.

Two housing busts and millions of dollars in profit later, he now scoops up homes in the hard-hit Antelope Valley of northern Los Angeles County and aims to buy one a week.

Often blamed for helping to create the U.S. housing boom and crash by driving up prices, investors are now being welcomed as a key support for the battered property market.

Traditional buyers -- who plan on living in the home they buy -- are being hampered by tight loan standards by banks stung by the financial crisis.

Those able to qualify for mortgages often cannot overcome fears that prices might fall further after 2010's short-lived recovery.

That leaves the market wide open for investors with plenty of cash.

In May, all-cash purchases made up 30 percent of sales of existing U.S. homes, the bulk of which were acquired by investors. That was double the rate of October 2008, according to the National Association of Realtors.

Speculative investors are no strangers to the housing market. But the upswing in all-cash purchases is a recent trend, the NAR says. It found 59 percent of property investors in 2010 used only cash.

To be sure, Alvarez and others often finance deals with a mix of cash and loans or partner with other investors.

By contrast, many ordinary Americans are too worried about losing their jobs or their level of other debt to consider taking advantage of low housing prices. Demand for loans to buy homes, as measured by the Mortgage Bankers Association, has dragged at low levels since a government tax incentive ended spring of last year.

Even so, investors are more cautious than at the height of the boom in the 2000s. Last year, they accounted for 17 percent of the market, compared with 28 percent in 2005 when loans were plentiful and "flipping" houses for quick profit was a craze.

This time around, many investors are focusing on the deeply discounted low end of the market, buying homes for about $100,000, fixing them up and selling them or renting them out.

Cheap prices are expected to entice more buyers into the market and experts hope they will help stabilize prices.

"Any time there's a boom and investors are participating in the boom, it may not necessarily be healthy because they are putting additional fuel to the fire," said Lawrence Yun, chief economist at NAR. "But in a downturn, investors are very helpful in stabilizing the market."

RISKY BUSINESS

Alvarez bought that first home for $78,000, sold it less than a year later for $155,000 and promptly bought another.

Having seen bubbles pop before, he sold everything he owned in 2006 before the market collapsed, shedding about 100 homes and exiting the boom with nearly $10 million.

Not all investors were as successful in calling the turn in the market.

Lance Young has been investing in houses in Washington, D.C., for 24 years but was caught off guard by the abrupt reversal in home prices in 2007. As prices started to turn, he sold his house as fast as possible but says he lost a six-figure sum.

"Who would have thought a correction would ever have been so sharp? Here in the D.C. area, it turned in two weeks and it was rapidly going downhill in that span of time."

That experience, however, hasn't kept Young out of the market. Young, who says he is conservative, is only buying homes in Washington's center at a good discount. He recently picked up a home for $500,000 that he thinks he'll be able to sell in the $750,000 range once he's done fixing it up.

"It's got to be basically a home run kind of deal or else I'm just not going to get involved," said Young, who bought and sold two homes in 2010 and has bought two more this year.

NO LONGER OPPOSED

Investors have long argued they improve neighborhoods by taking shuttered homes and making them livable, ultimately helping to support prices.

The plunge in home values showed signs of abating in April, according to the S&P/Case-Shiller home price index. Even so, prices on average are at levels seen in the summer of 2003.

"Where I was violently opposed to short-term flipping five years ago, I'm not opposed to it now," said Jim Gillespie, chief executive of real estate firm Coldwell Banker. Gillespie has been buying and renting properties for 35 years.

"What people are doing is fixing up depressed properties and putting them back on the market for young families to move into starter homes."

Some say neighborhoods where investors rent out their houses are less desirable to homeowner communities where residents tend to care more about at maintaining their properties and form closer ties. But at a time when few people want or are able to become homeowners, it's better than the alternative.

"It's less attractive compared to owner-occupant communities, but it is much better than vacant homes just sitting and sitting," said Yun.

WAITING ON THE MARKET

California condominium investor Lin He expects the market has three to five years to go before a meaningful recovery, time he plans to spend buying up as many properties as he can.

Working as a software engineer at housing data firm RealtyTrac in 2006, He said it was clear to him the market was overdone and a collapse was only a matter of time.

"I was just waiting for this market to come to me," said He. "I was lucky enough I was able to see all the notices of defaults, all the foreclosures nationwide. ... I could see the momentum, I could see the clouds gathering." .

In 2007, he quit his job and bought his first condo in Orange County. He now rents out more than 20 and says he made about $265,000 last year.

Alvarez, Young and He, who all finance their deals through various combinations of cash and credit, are full of stories about other investors who got burned.

During the boom, speculators believed home prices could only rise. The market now is more nerve-racking with values difficult to predict and rising prices far from guaranteed.

Like any investment, playing in the housing market is a gamble. Novices in particular face big risks, Alvarez said.

"They think they're going to do fixer-uppers and they'll sell based on something they heard or read or some idea they have. The market is more fickle than that," said Alvarez.

"These guys get slaughtered like sheep."

(Editing by Leslie Adler)