

Investment firm buying up houses in Sac, El Dorado, Placer counties

By Hudson Sangree and Phillip Reese, Sacramento Bee

An investment firm that owns the Waldorf Astoria hotel and the Weather Channel has bought more than 500 houses in Sacramento in the past few months, betting upward of \$60 million that home prices will rise.

Blackstone, a New York-based group with billions of dollars in investments and offices from London to Tokyo, has been snapping up low-priced homes across the region, from Elk Grove to Citrus Heights, at a rate of about 40 a week.

It marks the first time a major investment firm has bought in Sacramento on such a scale – a direct result of the thousands of houses left vacant by foreclosures in recent years and offered at fire-sale prices.

“Prior to the current housing cycle, it was essentially unheard of” for major investment funds to buy single-family homes, said Stuart Gabriel, director of the Ziman Center for Real Estate at UCLA. “The exodus from home ownership and the dislocation of homeowners has been unprecedented.”

Experts said the bulk purchase of single-family homes by Blackstone and other big investment firms could have a significant effect on Sacramento neighborhoods, pro and con.

The purchases may boost prices in the short term by clearing out distressed properties and create needed rental housing. But they could also alter neighborhoods once populated by owners rather than renters, and make it more difficult for first-time buyers to compete in today’s market.

Whether the entry of such large players is positive or negative depends in large part on how well Blackstone treats its tenants and maintains its piece of suburbia.

“The jury is out in this particular respect,” Gabriel said. “There’s a lot of asset management involved here. It could be more challenging than they expect.”

This year, across the United States, a number of big investment firms have been active in areas hit hard by the housing collapse. Blackstone, one of the largest, says it will spend about \$1.5 billion to buy 10,000 homes nationwide with the idea of renting them until prices increase enough to sell.

The firm calls itself the world’s largest real estate private equity firm, whose \$54 billion in assets includes shopping centers, hotels and office complexes.

But fixing faucets and collecting rent on single-family homes is a new strategy for Blackstone, which owns hotel giant Hilton Worldwide, has a major stake in T-Mobile parent Deutsche Telekom, and frequently partners with Mitt Romney’s old firm, Bain Capital.

Blackstone has embraced the plan with gusto.

“It’s a long-term investment for us,” said Philippa Brown, spokeswoman for Blackstone’s new housing division Invitation Homes.

Starting in May, the firm bought about 900 homes in Riverside and San Bernardino counties, Southern California’s Inland Empire, which saw a boom-and-bust cycle last decade similar to Sacramento’s.

Big player, small prices

Blackstone arrived in Sacramento in August, opening a Roseville office for its purchasing partnership, which operates under the name THR California and includes Invitation

Homes.

The company wasted little time in becoming the largest purchasing force in the Sacramento foreclosure market, spending more than \$60 million, according to a *Bee* analysis of county records.

Using local real estate agents, brokers and former house flippers, the company went from owning no homes here in August to owning 250 by mid-October.

House flippers who had to compete against Blackstone's buyers in auctions on courthouse steps began to grouse. They were regularly being outbid.

THR has paid, on average, a roughly 20 percent premium for homes, according to a *Bee* review of data from Zillow.com. In one case, THR purchased a 1,000-square-foot home in Meadowview for \$175,000, or roughly 80 percent more than Zillow estimates the home is worth.

"They're betting on appreciation," said Eric Peterson, managing director of Praxis Capital, a house-flipping and property management firm in midtown Sacramento. Blackstone's attitude, Peterson said, is "'I don't really care what I pay today, because I think it's going to be double that five years from now. Ten grand's not going to affect my return that much.'

"We don't necessarily disagree with their thesis, but our appetite for risk is much lower than theirs," Peterson said.

As of last week, tax records showed THR California owned 510 houses in Sacramento County. The firm added about 40 properties a week during the last three months – one in every 10 houses sold in Sacramento County in that period.

More recently, Blackstone has sped up the pace. During the first three weeks of November, the Sacramento County

recorder's office showed THR bought 145 properties, almost 50 per week.

THR California also bought 22 homes in Yolo County, 21 in Placer County and one in El Dorado County during the past three months, according to official records.

Most of the houses THR has acquired are relatively small, between 1,000 square feet and 1,800 square feet, and cost from \$75,000 to \$200,000. They are located mainly in distressed areas – such as North Highlands, Rancho Cordova and Galt – where sales prices have plummeted but rents remain relatively high, creating quick cash-flow opportunities.

In South and North Natomas, the company has purchased about 50 homes. The *Bee* visited a dozen last week. Some were dilapidated, with paint peeling and dead grass in the yard. Some were being fixed up by contractors with new carpet and sod. Others were neat and trim, with fresh paintwork and appliances, ready for new tenants.

Only one had a tenant in residence.

At his house on Regatta Drive in the city's Northgate neighborhood, John Coaxum, 50, gripped two eviction notices he had received from THR California.

Coaxum, whose rent is subsidized by Section 8, said he had lived in the house for 14 years and done much of the landscaping himself. His landlords used to be a local couple, but they lost the house to foreclosure.

When THR bought it from the bank, the company wanted more money, which he didn't have, he said. Coaxum said he called the company's number in Roseville and left messages but had not heard back.

Now he was facing the prospect of being tossed out.

"I'm not scared, I'm terrified," Coaxum said. "I raised all my

kids here. I love my neighborhood. I have no delinquency. I don't know what's going down."

THR California has not yet filed any "unlawful detainer" lawsuits in Sacramento Superior Court to force the eviction of tenants. But in Riverside and San Bernardino counties, where the company has been active a few months longer, THR California has filed more than 125 such lawsuits, court records show.

Tenants and toilets

Dealing with tenants in single-family homes is sure to pose challenges, even for a multi-billion-dollar behemoth.

It will be difficult to rehabilitate 500 houses in short order, Peterson said, and keeping them up won't be easy, either. Praxis manages 80 rental homes, and the coordinator's phone rings off the hook with complaints of leaking roofs and broken toilets, he said.

Profit margins that look great on paper can end up being offset by tenant and maintenance headaches.

"It's a lot to handle," he said.

That's why Blackstone's Invitation Homes has contracted with Riverstone Residential Group, one of the nation's largest managers of apartment complexes. The two companies now share an address in Dallas.

"We want our customers to be happy," said Invitation's Brown. "Those are their homes."

Brown, who just began her job two weeks ago with the startup company, said she could not answer questions about the Sacramento market or individual tenants. She referred questions about property management to Riverstone. Riverstone, in turn, referred all questions back to Brown.

Ryan Lundquist, a local property appraiser, said that how the properties are managed remains a crucial question. By purchasing en masse, Blackstone is helping boost neighborhood property values, but increasing the number of rentals is potentially destabilizing, Lundquist said.

Whether the properties are kept up and rented to good tenants will affect values of neighboring homes, he said.

In Elk Grove, where Blackstone has bought about 40 houses, newly elected Mayor Gary Davis said he shares those concerns. He also worries about a future hit on home prices if Blackstone decides to sell its holdings all at once.

And he said the company's spending spree could squeeze out local residents who are trying to buy homes at today's low prices and interest rates.

"We have residents who are finally able to buy their first home or get back into a home after renting for a while," Davis said.

"When they have to compete with national investment companies," he said, "it makes it hard for residents to get a foot in the door and get their house."

Citrus Heights Mayor Jeff Slowey had a different take.

Blackstone's purchase of about 60 homes in Citrus Heights and surrounding communities is a good sign for local homeowners, he said. By investing, Slowey said, Blackstone is saying "they think it's a good market, and it's going to turn around."