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Flipping Property is Harder To Pull Off Than Ever

Fewer foreclosures has been good news for everyone — except fix-and-flip investors

by Steven Yoder

Until last year, it looked like Sacramento's frothing real estate market could be developing a giant bubble. Median sales prices climbed 43 percent from January 2012 to January 2014. Then, last summer, prices flattened out and actually fell 5 percent in October of 2014.

Dustin Rose of Sacramento Fix and Flip felt the effects immediately. In early fall, the company bought a Placerville house for $289,000 and put $70,000 into it, aiming for a final sales price of about $450,000. It was a no-brainer, he remembers thinking.

Then the hedge funds pulled out of Sacramento,

he says. Not only did Rose not get his asking price — he ended up losing money. It was one of three flips for which the company came out in the red late last year. Now a drop in foreclosures has made him mostly pull out of Sacramento altogether. In early 2014, he had 10 or 15 homes in the pipeline — now it's two or three.

Other investors report something similar: The dearth of upside-down homes has brought the fix-and-flip market to something of a standstill. This year average asking prices are rising again, but the lack of foreclosures means finding a bargain to flip in a picked-over market is all but impossible. "That market is dying," says Harry Saini of Lyon Real Estate, who has worked with many who would buy, renovate and sell homes quickly in the past.

You might think of fix-and-flip investors as predators, but that's mostly wrong. Retail buyers themselves usually don't have the time, money or expertise to turn upside-down properties right-side up. Enter flippers, who buy those houses at bargain prices and make them livable for resale on the retail market more cost-effectively. Like stock market short sellers, their somewhat-dim reputation is undeserved: They're essential to a healthy real estate sector. "The fix-and-flip market will always exist," says Gil Albiani of Albiani Real Estate Group in Elk Grove.

Nationwide, the number of flip sales has steadily fallen since hitting a peak at the end of 2011, a time when bargains were everywhere. Flipped homes are also taking longer to sell — an average of 176 days, the highest since early 2011.

That pattern holds true in Sacramento. Homes for which default notices were issued in Sacramento and Placer counties fell by more than 25 percent between June 2014 and June 2015, according to data from PropertyRadar, a Truckee-based real estate data services firm. In Placer County, they were down by almost 40 percent.

Over the longer term, the slide in foreclosure numbers has been even steeper. "What's interesting about first-half 2015 is how rapidly the relationship between distressed and nondistressed sales has changed since 2009," says PropertyRadar's Madeline Schnapp. That year, nearly 80 percent of Sacramento County sales

were distressed properties. This year it's 20 percent and falling fast, she says.

That's a good sign for the region — six years out from the crash, homeowners have built up equity again. That makes it in their best interest to maintain their properties, which keeps DIY suppliers like Home Depot doing well, says Albiani.

But it's tough on investors, and even when they do land a foreclosure, "it's often more expensive to turn around than before," says Sacramento-based Colleen Sinkey of Fusion Real Estate Network, herself a former flipper who now helps finance investor purchases. That's because upside-down owners have gotten more sophisticated. They stay in their foreclosed homes, and investors then almost always need to offer them a "cash for keys" deal. That adds $3,000 to $10,000 to investor costs, she says.

A few pros say there are still deals to be found. "If someone is diligent, they'll find opportunities," says Kris Vogt, president and CEO of Coldwell Banker in Sacramento and Tahoe. Sinkey insists she's still unearthing good buys: "You can still pick up short sales and houses through the multiple listing service for $100,000 to $200,000."

And to the south, the flip market is running full throttle. In Stockton, flips make up almost 7 percent of total sales, the eighth-highest of any U.S. city. San Diego and Fresno are not far behind at 6 percent each, which puts them in the top 20 cities for flip sales.

For his part, Rose has headed out of town, following the big investors to Indiana and Ohio. But he'll be back: with the Sacramento market now riding relatively high, dual-income households who relied on both earners to qualify for a big mortgage may someday find themselves in trouble if one loses their income. "I'm basically waiting for the next downturn," he says. ■

Steven Yoder writes about business, real estate and criminal justice. His work has appeared in The Fiscal Times, Salon, The American Prospect *and elsewhere. On Twitter @syodertweets, and online at stevenyoder.net.*