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Partnership peeks into new venture: bulk buying of distressed homes

Premium content from Tampa Bay Business Journal - by Michael Hinman, Staff writer

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A partnership of local and national investors has a deal to purchase up to 350 distressed homes in the Tampa Bay market by fall of next year.

Frantzen Tampa Bay Property Fund LP is the creation of a deal between Tampa-based [Frantzen Capital Management Inc.](#) and its strategic partner Lifsey Real Estate & Holdings Inc. [Anderson & Strudwick Inc.](#), based in Richmond Va., which will solicit investments to its client base.

It's a move designed not only to rescue a small chunk of the thousands of homes sinking under the pressure of foreclosure but to prepare for a market recovery when many of the homes have the potential to appreciate, maybe even double in value over the next five years.

Buying up distressed real estate since the bubble burst isn't new, however focusing on building a sizable inventory of homes rather than land is something expected to grab attention in a market trying to surface.

A long-term look

Stan Lifsey, whose grandfather Julian Lifsey was one of the driving forces behind the development of Tampa's Rocky Point business district, will act as a real estate consultant to the partnership. He wouldn't disclose how much Anderson & Strudwick's clients would invest with the new Frantzen Tampa Bay Property Fund LP.

But if the partnership sticks with its average purchase price of between \$45 and \$65 a square foot as he has with the group's first 30 homes, it's a deal that could create a \$35 million partnership.

"There is a lot of opportunity out there, and we feel that opportunity will still be with us for the next 18 months," Lifsey said.

The fund is staking out foreclosure auctions in Hillsborough, Pinellas and Pasco counties, looking for larger homes that sold for around \$300,000 originally. It then rents out the homes as part of a strategy to keep them for up to five years while the market recovers and then sell the properties for closer to their original list price.

"If you're able to hold on, which is the way we've established it, you're certainly going to benefit in the end," Lifsey said. "Being an all-cash buyer, we have no leverage on anything and have a leg up on the other folks that may try to come in."

The partnership's closest competitors in the distressed housing market are looking for a much quicker turnaround, he said. They'll typically drop \$30,000 on a house, add up to \$15,000 in improvements and renovations, and then quick flip for around \$90,000.

"Maybe you can do four or five like that, but your returns are so washed out because of all the other expenses involved in doing this like paying broker fees, taxes and insurance," Lifsey said.

Instead, Lifsey, Frantzen CEO Eric Frantzen and partners are depending on the shadow rental market — seemingly immune to the same vacancy struggles of traditional rentals — to make timely dividend payments for investors. Their first group of purchases rented out in less than a month, Lifsey said, and demand remains high for larger homes with rental prices that rival average multifamily units.

Cash competition grows

Bulk land purchases have provided much of the positive real estate activity since the end of the housing boom. But that's a much different market than distressed home purchases, especially since land can be grouped together in a portfolio while homes have to be individually selected and negotiated for.

"There is not one lender that controls a package of homes locally, so it can be a hugely challenging way of doing business," said Peter Murphy, CEO of Home Encounter LLC, which tracks distressed property sales. "You may find someone like a [Bank of America](#) (NYSE: BAC) that has dozens of homes in foreclosure, but none of them seem to be happening in the same cycle."

Banks could try and hold some of the homes to group them together, but their focus is more of ridding bad loans from the books as quickly as possible.

Cash has sat on the sidelines of the real estate market, looking for well-paved avenues in. Lifsey, however, has found his group competing not with other bulk homebuyers for capital but with land builders.

Starwood Land Ventures LLC, which in February added 2,700 residential lots in Florida from [Lennar Corp.](#) (NYSE: LEN) in a deal that included \$4.5 million for lots in Tampa's Live Oak Preserve, has since raised nearly \$2 billion to buy more land through its Global parent.

"It's getting more and more competitive out there," said Mike Moser, Starwood's east region president based in Bradenton. "There is quite a bit of money on the street so you have to work a little harder to find deals."

Correction

An original version of this story did not accurately describe the partnership of investors aiming to purchase distressed homes.

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