



## Business - Investor's Business Daily

### Red-Hot Housing Market Spurs Buying Homes For Investment

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Sherman L. Ragland II has ridden many of the big business waves of the past 15 years, from arranging sales of failed thrifts to starting a dot-com. The 42-year-old father of three is now hoping the most recent wave, real estate investing, will carry him safely into retirement -- and more.

"The expectation is that my son or my grandson will be the one making the decision" about whether to sell or keep renting the apartment buildings he recently bought, said the Bowie, Md., resident.

Real estate has been this decade's siren song, especially for investors singed in the bear market. Housing activity remains hot. New-home sales soared 12.2% in March to a record 1.43 million annual rate, the [Commerce Department](#) said Tuesday. Existing-home sales hit their third highest level ever last month, the National Association of Realtors said Monday.

#### Many Investing In Homes

Homes bought for investments made up 23% of all home buys to a record level last year, found the National Association of Realtors. Vacation homes made up an additional 13%. A more conservative measure says 9% of mortgages taken out last year to buy homes were for investment, said market researcher LoanPerformance. The cities with the most investor activity tend to be smaller metro areas not far from major cities but with enough rural life to attract second-home buyers and retirees. About 19% of mortgages taken out to buy homes in Redding, Calif., north of San Francisco, and southern Oregon's Medford were for investment, said LoanPerformance.

Home buying is now a hot investment class. Individual investors in November ranked real estate as the best place to invest, ahead of drug firms and technology, said the National Association of Investors.

Buying homes for investment has fed fears of a bubble. One worry is that wage growth hasn't kept pace with home appreciation in some areas. A shock like heavy local layoffs or an earthquake could force overextended buyers to sell.

The price and income gap is widest on the coasts. In California, only 19% of families can now afford to purchase a median-priced home vs. 37% in 1999, said the California Association of Realtors. In greater Boston, prices have jumped 80% in the last five years as employment inched up just 2%.

Those factors gave the Boston area a 53% chance of experiencing a price drop in the next two years, according to PMI Mortgage Insurance. Six California metro areas held over a 32% risk of decline.

**"It's 1990 all over again. The market is sitting at the top," said Phyllis Rockower, president of the Real Estate Investors Club of Los Angeles.**

Nationally, the situation doesn't look so bad. Over half of families can afford to buy a median price home, said the California Realtors. As hiring improved, the national risk for a price drop actually fell to 16% last year, said PMI. Yet national averages mean little to the owner watching home prices on his cul-de-sac fall. "In specific metropolitan statistical areas, the risk has gone up and is quite high," said PMI chief risk officer Mark Milner.

But interest in investing in real estate hasn't slacked. A Los Angeles "real estate wealth expo" featuring Donald Trump is expected to draw 25,000 to the two-day event this weekend, said organizer the Learning Annex.

Real estate clubs have blossomed. The National Association of Real Estate Investors' club members neared 150 at the end of 2004, triple their level at the end of 2001. In contrast, membership in stock investing clubs at the end of 2004 was down 40% from three years earlier, said the National Association of Investors Corp.

For investors like Ragland, real estate looked like an oasis of stability after stocks peaked in 2000. First, gross income at his firm, which made most of its money from running a private airfield at Reagan Washington National Airport, fell to \$2 million from \$24 million after the 9-11 attack spurred the U.S. to ban private planes flying near the White House.

Meanwhile, the graduate of the Wharton School of the University of Pennsylvania wrote off a \$250,000 stake in an online real estate startup after he and his partners had trouble raising venture capital during the bear market. And Ragland's IRA, mostly in mutual funds, fell from about \$500,000 to \$200,000 by 2001.

Luring buyers like Ragland are home price gains like 25% in Los Angeles and even 18% in Baltimore. For his first purchase, Ragland in 2001 shifted \$27,000 from his mutual fund IRA to a "self-directed IRA" that allows real estate investments. With that, he bought a two-bedroom home in Maryland's Capitol Heights area. After investing \$7,000 to rehabilitate it and renting it for a year, he sold it in 2003 for \$78,000.

The second purchase he "flipped," assigning the contract on the same house to another investor before he closed it, making a \$7,500 profit. Ragland says flipping gets a bad name because some disguise real problems in a home when they sell.

Still, rapid turnarounds have made builders and owners nervous. Las Vegas home prices shot up 36% in 2004. But last fall, a flood of homes for sale caused Pulte Homes (NYSE:[PHM](#) - [News](#)) to slash prices, sinking some investors who'd bought high-end models. Bubble fears have prompted builders to tighten the sales process. Last week, MDC Holdings (NYSE:[MDC](#) - [News](#)) said it raised deposit requirements to weed out speculative investors in Las Vegas and Phoenix.

Four years after his first buy, Ragland has moved from flipping to rehabilitating higher priced homes. He sells three rehabbed homes a month for about a \$100,000 profit each. Profit goes into buying apartment buildings, whose value should rise as higher mortgage rates slow demand for homes. He envisions having enough in real estate to turn to other investments. "I expect to be back in the stock market sometime down the road," he said.