

# While Foreclosures Mount for Many, Others Profit

| BY HOWARD McEWEN, CFA

**Q:** TRAIN A, CALLED CONSUMER SPENDING, IS HEADING EAST AT 6.7% PER YEAR. TRAIN B, CALLED CONSUMER DEBT, IS HEADING WEST ON THE SAME TRACK AT THE SAME SPEED CARRYING A LOAD OF \$2.425 TRILLION OF CREDIT CARD DEBT AND MORTGAGES. WHEN WILL THEY MEET?

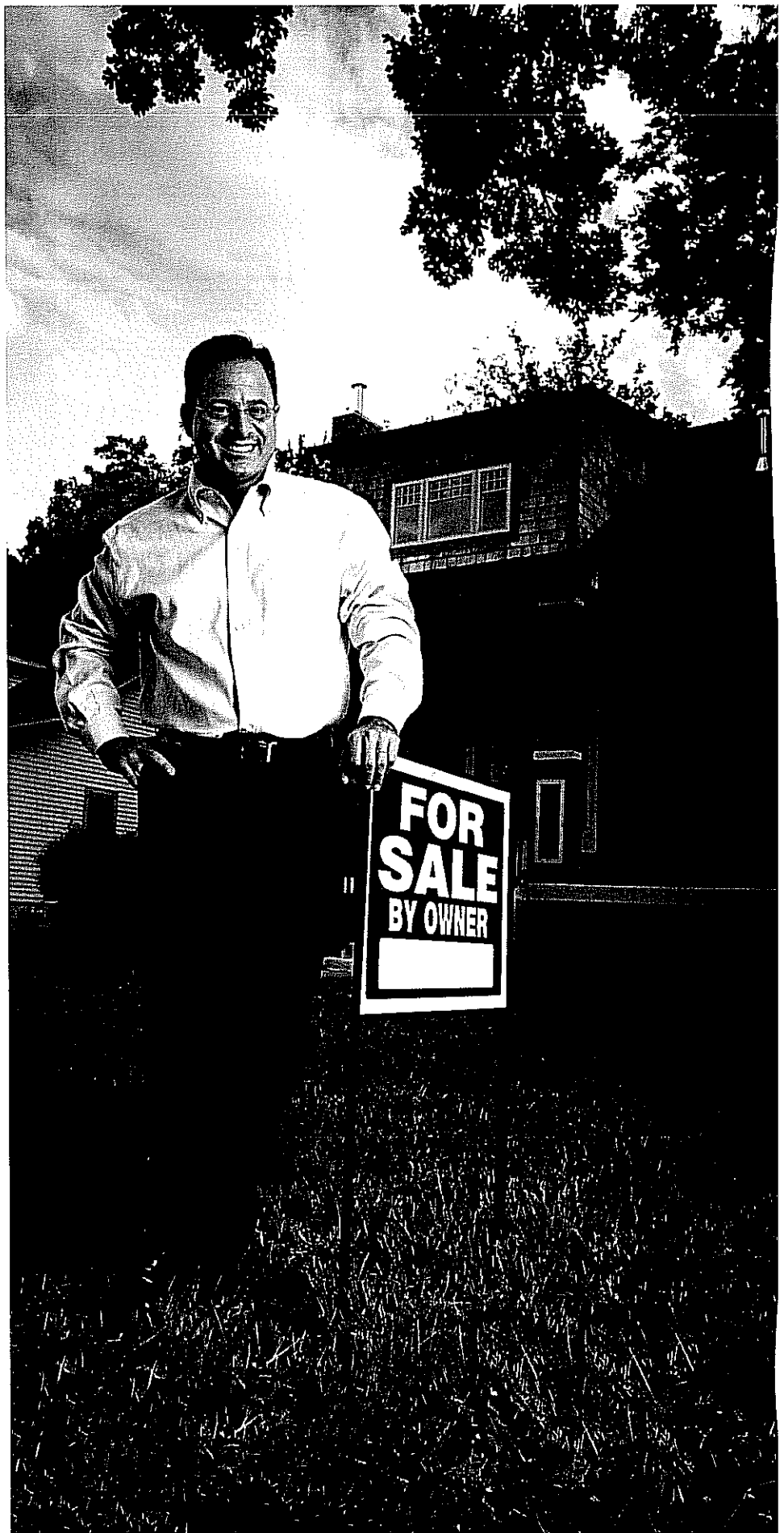
**A:** NOW. AND WHILE IT'S A TRAIN WRECK FOR MANY, ASTUTE INVESTORS WILL PROFIT BY CLEANING UP THE MESS.

"Cincinnati is an untapped opportunity," said Jeff Moles, a real estate investor who buys distressed properties and rehabs them for rental or resale.

"According to RealtyTrac.com there are 452 properties in pre-foreclosure, meaning the owners still have the opportunity to sell their homes without the stigma of foreclosure on their credit record. There are 3,056 properties currently in foreclosure, 1,270 properties of which the banks have already taken ownership. That does not include all the surrounding suburbs and communities - over 4,500 properties that are potential opportunities for investment and profit."

Much of the current trouble can be attributed to easy money in the sub-prime mortgage market. Beginning in 2001, as interest rates dropped, mortgage companies began lending money to just about anybody in an attempt to increase profits. Why lend to just good credit risks at low rates of return when you can take on higher risk people and charge them more? Banks then bundled up these mortgages and sold them to financial institutions.

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### What Led to The Wreck

The easy money drove up home prices. Homeowners borrowed against those higher valuations. Banks lent more money. This spurred even higher valuations that owners then borrowed against. Then, in late 2006, many families with those 'sub-prime' mortgages started to miss their payments.

The entire engine was being thrown into reverse. Banks started recalling loans, valuations dropped, and mortgages became harder to come by.

Jeff Trunick works full-time as a marketing manager for Paxton Product, but has been investing in real estate for several years. In the past, he has rehabbed and flipped several homes. Now he focuses on renting his rehabbed homes. He has a real estate portfolio of about \$1.3 million. His target market is homes below \$100,000 – homes often bought by sub-prime borrowers.

Trunick doesn't see the credit squeeze as hurting him.

"It'll affect it on resale, but what it will do is it should increase rents," said Trunick. "What sub-prime lending did was turn renters into homeowners – they're paycheck to paycheck people."

### Another Shift

Trunick sees just the reverse happening now. Foreclosed homeowners who bought his properties in the past will now become his renters. More renters competing for his homes means he can charge higher rents.

Either way, he profits.

Moles started investing in real estate in Newport, but now sees investment opportunities in Middletown. "With 1,400 workers locked out of AK Steel for over a year, many people were not prepared financially to carry the month to month payments of home, car, utilities, etc for that length of time," said Moles. "I anticipate the timing for buying foreclosures is excellent. Now that AK Steel has settled their union contract many people will be looking for homes to buy during the next 12-18 months. So buying a deserted home now for \$20,000 applying \$25,000 in repairs and reselling for \$75,000 or so could be very profitable. It is possible that the homes won't sell right away, but renting is still viable until the home sales market returns."

Moles doesn't see himself as living off the misfortune of others. Like the men who clean up train wrecks, he's performing a public service.

"Like the bank, I can't save a person after too much time has expired," he said. "It's too late and the bank will foreclose no matter what. So from my standpoint, we are providing an excellent service for the community, the town, the new renter or new home owner."

"The neighbors benefit when we take a neglected, run down home and make significant changes. Our improvements drive up the value and marketability of their homes. The town benefits because there is one less 'eye sore,' the new tenant or new home owner benefits from having a home that has been updated with wood floors, carpeting, windows, plumbing and other items that make a house a home."

