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Residential Real Estate Market Is Not for the Faint of Heart

By Eric Billingsley - 9/28/2009

San Fernando Valley Business Journal Staff

Home sales in the San Fernando Valley are indeed up from this time last year, said Todd Jones of Rodeo Realty. But agents, the ones who've stuck around at least, are working three times as hard for a third of the money to clean up the flood of distressed properties on the market, he said.

"You have to work hard and you have to work smart," said Jones, who represents buyers of residential real estate owned (REO), short sale, and foreclosed properties. "This market is not for the faint of heart."

Combined single family and condo closed escrows in the San Fernando Valley were 1,259 in August, according to the latest data from Southland Regional Association of Realtors, up from 1,181 a year ago, but down from 1,322 in July. The majority of closed escrows occurred in the \$200,000 to \$450,000 price range.

While there's some up-tick in traditional sales and sales of higher priced homes, foreclosures, short sales, and REOs continue to drive the numbers, say industry experts. And it takes a lot of know-how and patience to close these deals.

"Agents doing well right now are the ones who understand the system," said Jim Link, CEO of Southland Regional Association of Realtors.

On the buyer side, 30-40 percent of Jones' clients are looking to scoop up one of these distressed properties. They often fall into the non-investor category and are families trying to break into a formerly inaccessible market.

"Challenging" is an understatement for what it takes for the average buyer to close one of these sales, he said.

Buyers who have 20 percent down and proof of funds are consistently getting beat out in bidding wars with cash-flush investors. FHA loans rarely fly. Prices are often far from a steal. And the condition of some REO properties is so bad that you walk in and quickly walk out because of the stench.

The words "Not an REO and not a short sale" are quickly becoming a selling point for many homes in the Valley, said Jones.

About 75 percent of homes on the market in the \$400,000 and less category are considered distressed assets, said Jones. And working with REO agents is far from a warm and fuzzy experience.

Institutions these agents represent are making cut and dry business decisions versus taking a people oriented approach. "Time (referring to buyers being quick to the punch on bidding) is your biggest asset," said Jones. "But it sure takes the joy out of buying a home."

On the other side of the equation are agents who specialize in listing distressed properties. They have the un-enviable job of representing anxious corporate lenders trying to minimize their losses as much as possible.

Winnie Davis of Coldwell Banker Quality Properties specializes in listing REO properties in the San Fernando Valley. Her company is the agent, and eyes and ears, for lender/sellers such as Bank of America and Freddie Mac.

"This job is not for everyone," said Davis, adding working for lenders requires technical expertise and going through an extensive application and interview process. "I have the passion to do it, but it's very

challenging.”

An REO listing company must set aside an out-of-pocket budget to maintain the distressed properties. Some REO homes are in good condition while others are stripped of air conditioning units, light fixtures and other easy-to-grab items. Clients also require quick turnaround times.

Receiving up to 50 offers on a property is not uncommon for homes in the \$350,000 and less category, she said. And cash transactions are the most likely to go through.

Davis works 12-16 hours per day and has a team of professionals to make the sales happen. A representative of the company also goes to court on behalf of clients in cases of unlawful detainers.

Her company receives a traditional commission on sales a week to 10 days after closing. But all out-of-pocket expenses for repairs and other property maintenance must get approved in advance and are not reimbursed for up to 90 days.

Davis said market data right now is incredibly confusing, because it shows an increase in sales and home values. However, she does not believe the residential market has hit bottom because more foreclosed properties are poised to come on the market.

But challenges, out-of-pocket expenses, and long work days aside, Davis said she's glad there are signs of recovery and happy to play a part in cleaning up the residential real estate mess. “I've been in business a long time, and I like the challenge. I enjoy helping bring things to a close.”

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