

# SAN DIEGO BUSINESS JOURNAL

## Soaring Foreclosure Numbers Mean More Prey for Vulture Funds

Banks Desperate to Unload Distressed Properties Turn to Private Equity Firms

BY NED RANDOLPH

As more homes fall into foreclosure, banks are packaging pools of foreclosed homes and wholesaling them to private equity "vulture funds" for pennies on the dollar.



Lorne Polger

While the phrase vulture fund conjures up cold-blooded opportunists, the funds are buying assets that banks are desperately trying to move off their books to free up capital.

Basically, anyone in the market with \$3 million to \$100 million or more to buy a block of REO, or real estate owned, properties could be called a vulture fund.

National investors such as The Blackstone Group and Lehman Bros. Inc. have reportedly purchased billions of dollars of foreclosed properties through private equity funds.

They haven't, however, left much of a paper trail for local players who are sorting through the chatter to find legitimate deals, says Lorne Polger, managing partner of San Diego-based **Pathfinder Partners LLC**.

"We've been chasing it for six months. There's all kinds of fluff on the Internet, but you find that it's brokers tied to brokers," said Polger, who says he has access to \$400 million in institutional money to buy pools of REO properties.

"Unfortunately, we've got the money ready to go, but so far it's a fruitless endeavor," he said.

### Plenty Of Distressed Properties

In May, foreclosed homes in San Diego County owned by lenders reached 5,463; an additional 3,413 foreclosed homes were scheduled for auction; and 12,320 homes were in default and headed to foreclosure, says Brian Yui, founder of **HouseRebate.com** in San Diego.

San Diego County auction sales increased by 50 percent from March to April. Statewide, auction sales of foreclosed

homes averaged 1,000 a day in April — four times the rate of April 2007, according to Northern California-based **ForeclosureRadar.com**.



Michael Byrd

Banks amassing foreclosed properties need help moving them off their books. That's where vulture funds assist, says Mark Goldman, a lecturer at San Diego State University and residential mortgage broker with San Diego-based **Windsor Capital Mortgage Corp.**



Sean O'Toole

"(They) have to get that liquidity, which has been a problem in this market. So, many lenders are doing fire sales on their portfolios of mortgages," said Goldman, whose firm is not considered a vulture fund but has funded more than \$20 billion in loans, according to its Web site.

Hedge funds buying up "distressed credit" such as default mortgages attracted \$8 billion in the first quarter of 2008, according to Chicago-based **Hedge Fund Research Inc.**

### Overpriced

Local investor Michael Zau has been looking at packages of foreclosed homes in San Diego for months, but says the offers are overpriced.

"There was a firm in San Diego that sold a bulk package for \$3 million," he said. "I saw the package; I was looking at buying it, but I thought it was too expensive."

The firm was selling the assets for 75 cents on the dollar, Zau says.

"There's a pretty good chance that if you can buy in bulk, you'll be able to get a rate of return that is desirable, but you've got to find the right property," he said. "If you're buying in bulk, it's harder to do."

Many properties are bought sight unseen, Zau says.

### Buying In Bulk

Broker Michael Byrd with **Windsor Capital Mortgage** says that he's seen a lot of pitches for bulk home sales but has yet to see offers that make sense.

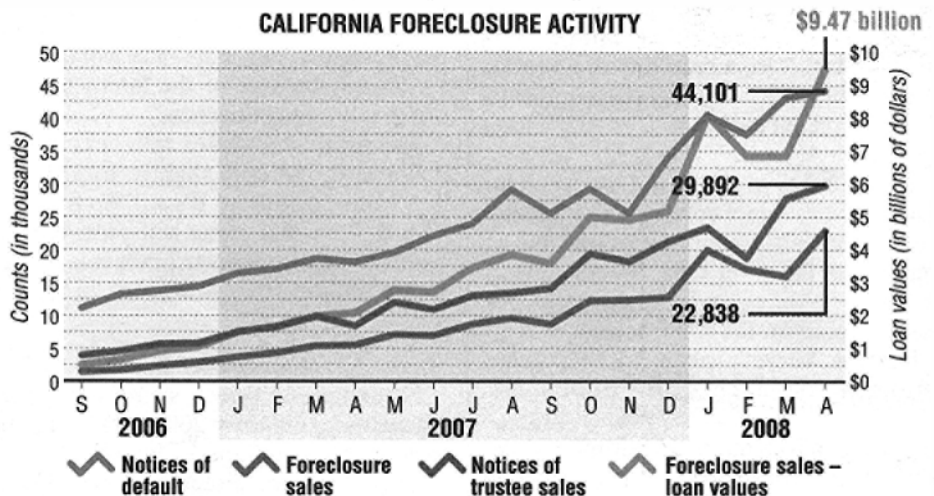
"In the six months I was looking, not only was I not able to get a deal done, but I didn't know anyone else that got a deal done," said Byrd, who was researching packages between \$5 million and \$40 million for a potential buyer.

"It's definitely seen as a big opportunity and attracting a lot of interest and capital," said Sean O'Toole, founder of **ForeclosureRadar.com** in the Bay Area.

"When it comes to buying houses, cleaning them up and getting them resold or rented, it's a lot of work," O'Toole said. "My guess is we'll start reading about a lot of failures as well as successes."

## San Diego Foreclosures Still Climbing

San Diego County is seeing its share of California's foreclosure crisis. As of May 12, there were 5,463 foreclosed homes repossessed by lenders, another 3,413 homes foreclosed and scheduled for auction, and 12,320 homes in pre-foreclosure.



Sources: ForeclosureRadar.com; HouseRebate.com

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