



## The Empire Group

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Geoffrey Jacobs

Last month, the **Federal Housing Finance Agency (FHFA)** announced the **Fannie Mae** REO-to-Rental bulk purchase pilot program. As one of the applicants, the Empire Group may enjoy an advantage competing for the contracts: It is already one of the nation's largest and most active acquirers of distressed and foreclosed single-family homes.

The real estate development company, which at one point managed thousands of apartment properties, says it has raised \$100 million in closed end funds to acquire some 1,000 single-family homes in the Phoenix metropolitan area since 2009.

Rather than flip the homes it owns for a quick profit, The Empire Group follows an investment strategy that it says is part business and part humanitarian. Its single-family homes are held for an investment period of four to seven years, after which the company will sell the properties to buyers, whether they are current renters, homebuyers or other investors, according to Geoffrey Jacobs, principal.

The Empire Group first started acquiring homes after the Phoenix housing market crashed in 2009. Being a homebuilder, the company realized that development opportunities were inevitably drying up in its home base of Phoenix—"the poster child of the heated housing market," as Jacobs acknowledges. On the other hand, the company realized that it could take advantage of the historically low housing prices in the Phoenix metropolitan area by purchasing and operating these homes as rentals.

"When bubbles pop, there is always an over-correction," says Jacobs. "We felt that buying houses at that time was comparable to buying into the stock market while the Dow was at 6,600." The company projected the market would return to on-trend pricing in a few years, and was convinced there was a ready market for the single family home rentals in the meantime. As it turns out, the performance of the properties have far exceeded The Empire Group's expectations, Jacobs indicates.

The Empire Group acquires single-family homes in the Phoenix metropolitan area that are discounted to the non-distressed market. Prices of homes that the company has bought can be as much 30 percent below the prices of homes in the current non-distressed, but depressed, housing market, says Jacobs. And when compared to peak prices, these home prices can be as much as 70 percent discounted.

The Empire Group purchases the homes with clean titles, free and clear. It has acquired its investments from Fannie Mae and Freddie Mac, HUD and national banks such as Wells Fargo, Chase, Bank of America and Deutsche Bank.

The Empire Group's ideal investment is a four-bedroom three-bath, starter or move-up, track home, measuring about 2,100 square feet, says Jacobs. The property would be located in a planned community with a Homeowners Association. The target investment homes are less than 10 years old, so that they would still be relatively new when they are sold in a number of years. It is not necessarily an easy task finding the right single-family investment. To purchase 1,000 homes, the company has had to examine close to 4,000. "You have to kiss a lot of frogs to find the right units," comments Jacobs.

According to Jacobs, apartments and single family rentals cater to different and separate market segments. Phoenix is experiencing positive population and job growth again, so it is no surprise that renters of The Empire Group's single family homes include new migrants to the state, as well as people who have lost their homes to foreclosures and who now wish to rent. There are also many residents whose mortgages were underwater and have decided to give up their homes and rent in the meantime, Jacobs says.

In any case, apartments are not plentiful in the Phoenix metropolitan area, and do not act as intense competitors for the single family renters, Jacobs says. Indeed, vacancy in The Empire Group's housing portfolio is currently five percent.

One of the requirements for being a investor in troubled single-family housing is an established local presence. Most importantly, investors need to have "an infrastructure of meaningful size that allows plenty of boots on the ground," says Jacobs. "You have to get rent ready in a short period of time. Time is key. You could be in 20 houses at any one time, and you have five to seven days to get them rent ready." And unlike apartments, the single-family homes can be spread over a large geographic area.

No doubt, The Empire Group will be putting its skills to use if it wins any bids under Fannie Mae's pilot program. At press time, the company has received preapproval to bid for portfolios of single-family properties.