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More Investors, Vacationers Snap Up Homes

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By DAWN WOTAPKA

Sales of investment and vacation homes surged last year, the latest evidence that investors and higher-income households are taking advantage of low home prices to scoop up bargains.

In its annual survey of investment- and vacation-home sales, the National Association of Realtors found that the number of homes purchased by investors rose 65% during 2011 to 1.2 million, accounting for 27% of all home sales. In 2010, investment properties accounted for 17% of all sales.

The number of homes purchased as second or vacation homes jumped 7% last year to 502,000—accounting for 11% of all transactions, up from 10% of all sales in 2010.

While the majority of homes sold last year went to traditional buyers who plan to use the home as a primary residence, their presence in the market declined to 61% from 73% in 2010.

During the housing boom, speculators were blamed for helping to inflate the bubble by snapping up homes, especially new homes, and then quickly reselling them as prices rose higher. That led to overbuilding. Some economists now believe that investors are helping to stabilize the market by buying up excess inventory.

While their activities could help to stabilize prices, they also are creating problems for some buyers. Real-estate agents say investors, and to a smaller extent vacation-home buyers, are outmaneuvering traditional buyers, who are less likely to have the financial means to pay cash for a home and may not devote as much time to searching for properties. The NAR survey found that nearly half of all investors and 42% of vacation-home buyers purchased their homes using cash. Traditional buyers, meanwhile, are seeing deals derailed because they can't qualify for a mortgage or because appraisals for the homes they are trying to buy or sell come in too low.

"The last two to three years has been a battle between the first-time home buyer and the investor," said Budge S. Huskey, president of Coldwell Banker Real Estate LLC, a national franchiser based in Parsippany, N.J. "Investors have won."

In some of the hardest-hit housing markets, investors are the largest category of buyers. But unlike during the boom years, when many investors were buying properties to "flip" quickly for a profit, many of today's investors buy the homes with plans to rent them out and sell them when the market improves.

"Obviously, it's a great rental market, and it's going to be a great rental market for a while," said Geoffrey Jacobs, principal at Empire Group, a developer that has amassed a portfolio of nearly 1,000 single-family homes in Phoenix since 2009. Because the typical home that he buys is only about 10 years old, "it'll compete well with a new home down the road when we go to sell the houses," Mr. Jacobs said.

Amid increased demand from investors, real-estate agents say there aren't enough foreclosed homes in good condition available in some markets, including parts of California and Florida. Buyers are "begging for properties," Mr. Huskey said. "There is an insatiable demand."

Thirty percent of vacation-home buyers said they plan to use the property as a primary residence in the future, indicating that buyers who can afford to take advantage of low prices and low interest rates to buy their future retirement homes are doing so.

In December, Sarah Donovan, who owns a home in Littleton, Mass., purchased a roughly $300,000 vacation home on Cape Cod. "My husband has wanted a house on the Cape for about 20 years," said Ms. Donovan, a stay-at-home mother who made an offer near the asking price the day she saw the three-bedroom home with a guesthouse. "The Cape market is coming back with decent housing prices, and we didn't want to miss out," she said