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Investors rode housing boom, and now many are going bust

Wave of foreclosures hits owners who bought multiple properties

By Mike Freeman

UNION-TRIBUNE STAFF WRITER

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Robert and Yvonne Cromer began investing in real estate in 2000, when they tapped the equity in their College Area home to buy a nearby rental property.

Over the next few years, the San Diego County couple repeated the pattern, accumulating 17 properties in five states. In 2004, they were featured in a CNN Money article headlined "Tycoon in the Making."

But today's severe real estate bust has exposed cracks in the foundation of the Cromers' property empire. Since October, they have lost three homes in San Diego County to foreclosure – homes they bought for a combined \$2.6 million, according to county deed records. They have lost three homes in other states to lenders, Yvonne Cromer said.

The Cromers, who are both real estate agents, believe they have weathered the worst of the storm. Rental income on their remaining properties roughly covers their current mortgage payments, Yvonne Cromer said.

But their troubles highlight how the lure of big profits drove investors and speculators into the real estate market during the boom years – when home values in San Diego County were posting double-digit annual gains.

Their appetite helped fuel an already frenzied market, driving up prices. And now, like the thousands of individual homeowners swept up in the wave of foreclosures, more investors are being caught in the repossession riptide.

A review of county foreclosures over the past 18 months by *The San Diego Union-Tribune* found about 200 investors who had lost multiple properties. That number probably understates multiple-property foreclosures because people with common names were excluded from the survey and not all foreclosures were reviewed.

"A lot of people made a lot of money, but the people who bought at the end got stuck," said Jon Maddux, co-founder of YouWalkAway.com, a Carlsbad company that advises borrowers who are considering foreclosure. About 25 percent of Maddux's clients are investors, he said.

Just how big a role investors played in inflating San Diego's real estate bubble is unclear. Experts have widely varied estimates – with some putting the number as low as 10 percent of overall buyers in the last couple years while others speculate that it was closer to 30 percent.

"The only sure answer is: It was more than we knew about and more than we should have had," said Peter Dennehy, senior vice president at the market research firm Sullivan Group Real Estate Advisors in San Diego.

Studies by the Mortgage Bankers Association of America estimate that about 16 percent of California foreclosures have involved investors. "But here's the rub on that," said John Robbins, a longtime San Diego mortgage executive and past chairman of the Mortgage Bankers Association. "We know there was a percentage of borrowers who lied on applications and said they were going to move into a house."

Borrowers had plenty of incentive to lie, Robbins said. Owner-occupied borrowers get lower interest rates than investors do, since speculators typically are among the first to stop making mortgage payments when home prices fall.

Buying at the peak

The real estate investors who are now in trouble have some things in common. Most bought at the peak of the market. Several worked in real estate themselves.

In 2003, Staci Gemigniani bought a two-bedroom, 1,100-square-foot house in City Heights for about \$295,000. The next year she got her real estate license and purchased three more homes in the succeeding 18 months – condos in downtown San Diego and Escondido, and a house in the College Area – for about \$1 million combined, deed records show.

Since October, Gemigniani, 35, has lost all four to foreclosure. She did not return repeated phone calls seeking comment.

Pamela Khamo, 42, began a career as a real estate agent in 2002 after selling her La Mesa coffee shop. As the housing market heated up, so did her commissions. By 2005, her annual income swelled to \$360,000, according to bankruptcy records.

Khamo had begun buying investment properties a year or so earlier. She favored downtown San Diego's new condo projects, sometimes partnering with relatives, she said. She also purchased properties in El Cajon.

In all, Khamo ended up with 13 properties at the peak, she said. Income from renting the properties fell well short of covering the mortgages. But the commissions she earned on the purchases helped offset the rental shortfall, she said.

Things started to unravel early last year. The slumping real estate market cut her income in 2007 to \$180,000, bankruptcy records show. She became ill for a time. Meanwhile, her adjustable mortgages started to reset from low “teaser” rates to higher rates – sometimes doubling her monthly payments.

Khamo scrambled to refinance. She sought loan modifications from banks. But lenders – reeling from easy-money excesses during the boom – had tightened standards. They wanted more equity in the properties than Khamo had, she said.

“I did buy at the height of the market, unfortunately,” she said.

Khamo filed for bankruptcy in February. She has lost the bulk of the properties to lenders already, according to county deed and bankruptcy court records. She expects to lose all of them. The East County home in which she and her husband reside has been taken back by the bank – although the family still lives there for now, she said.

“It took six years to build everything up and six months to lose it,” she said.

Khamo is embarrassed and said she shouldn't have bought so many properties. While she still works in real estate, she has put resumes out for jobs with a steady paycheck. “I'm looking for \$40,000 or \$50,000 a year to pay for health care, car insurance . . .” she said.

Downturn's costs

During the boom, the median home price in San Diego County more than doubled from \$246,000 in November 2000 to \$518,000 at the peak in November 2005, rising at an average clip of 22 percent per year.

But real estate investing is risky. Houses are often highly leveraged and hard to sell when the market turns bad. The median price of a San Diego home in February was \$415,000 – a 20 percent decline from the peak.

Meanwhile, the number of county foreclosures in January surged 257 percent over the same month last year to 1,305.

Homeowners, lenders and investors in mortgage-backed securities shoulder a lot of the pain from the mortgage mess. But there is also a community cost, said Paul Leonard, California director of the nonprofit Center for Responsible Lending.

Often renters are kicked out of foreclosed homes, usually on about 30 days' notice, he said. And investor property foreclosures have the same drain on neighborhood property values and a community's tax base as owner-occupied foreclosures.

That may not bode well for a quick market recovery in neighborhoods where investors were particularly active, such as

downtown San Diego.

Mayur Shetty bought two condos downtown, one in 2004 and another in 2006, for a combined \$955,000, according to county deed records. Shetty, who owns another downtown condo, lost both investment properties to foreclosure, deed records show.

Reached by phone, Shetty said he didn't know about one of the foreclosures until after it occurred because renters were sending checks directly to the lender. He said he bought that condo back from the bank when he learned of the foreclosure, although the county assessor's office has no record of the transaction. Repeated calls to Shetty to elaborate were not returned.

For the Cromers, buying their first house in 1998 was a stretch. Robert, a hotel manager at the time, and Yvonne, a stay-at-home mom, used a cash advance on their credit card for a partial down payment on the first home, which they purchased for \$131,000.

The Cromers took extraordinary measures to better their lives. In 1998, Robert spent 10 weeks on unpaid leave riding a Mission Beach roller coaster for more than 20 hours a day in hopes of winning a \$50,000 prize. The contest, sponsored by a radio station, was finally called off with no winner. The station sent five die-hard contestants, including Robert, home with \$10,000 each.

While the roller-coaster adventure wasn't a good investment, their first home was. They sold it in 2002 for a hefty profit. By then, they both had real estate licenses. Eventually, they would both work in real estate full time.

Yvonne Cromer said 2007 was a tough year. The Cromers attempted to launch their own real estate company, which took time away from working with customers. At the same time, the real estate bust made their customers nervous about buying and selling – reducing expected commissions.

With the economy slumping, some of the Cromers' tenants stopped paying rent, said Yvonne Cromer, 34. At its worst, the couple's mortgages were \$16,000 a month more than they were receiving in rent, she said. Efforts to refinance the loans failed.

“We were upside down,” Yvonne said. “We went into survival mode.”

Besides losing two homes in Chula Vista and one in San Diego, the Cromers also lost homes in Nevada, Texas and Florida, Yvonne Cromer said.

“It was the most trying time of our lives,” Yvonne said. “We leveraged more than we ever would again.”

Today, both are still working in real estate. Yvonne has joined Ashlon Realty, which specializes in foreclosure properties.

■ Union-Tribune library researcher Denise Davidson contributed to this report.

Mike Freeman: (760) 476-8209; mike.freeman@uniontrib.com

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