

BROKERAGES JUMPING ON THE REO WAGON

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By Peter Kiefer

Major residential brokerages may still snub their noses at the listings, but a growing number of firms, particularly in the outer boroughs, are fighting for a share of the foreclosed homes market.

Lenders took back thousands of homes in New York State last year and thousands more face foreclosure this year.

Take Staten Island-based Wonica Realtors and Appraisers. Last year, according to founder and president George Wonica, the firm's REO division, which specializes in marketing and selling foreclosed residential properties in Staten Island and Brooklyn, accounted for almost 80 percent of his firm's revenue.

"It carried the office," Wonica told *The Real Deal*. "I've never seen anything like it."

The marketplace for REOs -- or "Real Estate Owned" by the bank because they did not successfully sell at a foreclosure auction -- is thriving in places hit hard by the housing downturn. In New York City that usually means in the outer boroughs, although Manhattan is not impervious.

Unlike foreclosures, which are auctioned off and must be paid for in full at the time of the auction, REOs are sold by brokers with a traditional commission fee structure. Last year there were 918,376 REO filings nationwide, with 6,341 REO filings in New York State, according to RealtyTrac.

A report released by NYU's Furman Center said the number of REOs in New York City grew from 290 in December 2006 to 1,750 in September 2009.

That is a pittance compared to California and Florida, which had 199,000 and 82,000 REO filings last year, respectively. But the worst may still be in store for the Empire State.

Rick Sharga, senior vice president at RealtyTrac, said the numbers of REO filings in New York City and State are expected to spike significantly this year. "If you are a realtor and not playing that part of the business, you

are missing a lot of opportunities," said Sharga.

However, selling an REO home in New York isn't easy.

It takes an average of 450 days from the initial notice of a pending foreclosure to an auction. That is about 300 days longer than the equivalent process would take in any other state. This gives people more time to get out of trouble and reduces the pool of properties.

That may explain why none of the larger residential brokerage houses, like Corcoran, Halstead or Elliman, have REO divisions, effectively ceding the market to companies like Fillmore Real Estate, Wonica, Triton REO Management and Safari Real Estate, among others.

Or, as some suspect, it may have to do with image. "There is still a bit of a bottom-feeder image that goes along with it," said Sharga.

Most of the REO divisions tend to be small, with between two and 15 people. The divisions usually have at least one appraiser to help with the BPO, or broker price opinion, the original price assigned to a foreclosed property. Clients are the lenders that provide the listings, paying the broker sales commissions ranging from 5 percent to 8 percent.

"The REO world is very complicated," said Ken McBride, senior vice president and director of REO marketing at Fillmore Real Estate. "A lot of brokers think the bank just hands you a listing and you go and sell it. Not the case. You have to have a specialist in each area to get the bank to give you these listings," he said.

REO listings, unlike traditional residential listings, often require an immense amount of property management and upfront out-of-pocket expenses by the broker. Sometimes a broker will have to front tens of thousands of dollars in maintenance, security and legal fees before being reimbursed after a sale.

Fran Reali of Staten Island-based Safari Realty said the REO division at the firm had doubled its revenue since its inception five years ago, but she also understood why people would hesitate to do the work.

"Everybody will jump on what they perceive to be the easy-money bandwagon until they see how much work goes into it," she said. Tasks for a single listing can include an appraisal, relocating existing residents, court time for eviction hearings, changing the locks and overseeing extensive repairs.

It can also provide some tense moments.

Fillmore's McBride said he has seen some "unbelievable stories" in his 20 years as an REO broker. Just last month, he said, a delinquent landlord in Brooklyn berated him before calling the police when he came by to deliver eviction notices.

The process by which banks assign listings to brokers and brokerages is vague and, according to some,

flawed. It is usually based on prior relationships, but often banks will award a listing based on a broker's predicted sale price, regardless of whether that price is realistic.

"There is a certain amount of politics involved in getting a listing. The process doesn't work very well," said Bill Staniford, CEO of PropertyShark.

McBride said despite a recent spike in the number of listings in New York, the market is far more competitive than most people imagine, particularly given the state's protective measures for homeowners.

Perhaps wary of how this market can be perceived from the outside, brokers stressed that REO work requires diplomacy.

"We try to be as helpful as possible," said Wonica. "But I can't be concerned about something I didn't create. I can't be concerned about how we are looked at from the outside. It's not like we go in there with a black coat and a machine gun and say, 'Get out!'"

And besides, he said, if he isn't out there hustling to sell REO properties, "somebody else will."