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PROPERTY REPORT

Point, Click, Own: Firms Transform How to Buy Investment Homes

Real estate startups exploit new technologies and data on house rentals developed after the housing bust

By Peter Grant

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This article is part of a Property Report package looking at small investors and real estate, from new ways for individuals to buy slices of office towers to how real estate crowdfunding is changing to survive.

Buying a home as an investment property has long been too complex or daunting a process for most all but the wealthy. Thanks to a group of real estate startups, that may be changing.

The companies enable individuals to assemble a portfolio of rental homes throughout the country relatively hassle-free. Without ever visiting the properties, investors can buy and manage homes with a few clicks of a mouse or taps on the phone.

Roofstock, an Oakland, Calif.-based firm founded in 2015, offers an online marketplace where buyers and sellers trade about 500 rental homes a month in cities such as Atlanta, Indianapolis and Houston. The homes, which sell for prices ranging from $50,000 to $400,000, typically come with tenants in place.

REI Nation LLC and JWB Real Estate Capital are getting into what is known as the turnkey business in regional markets. They buy, upgrade and lease houses, then sell them to investors.

Other firms are poised to offer investors ways to build their residential portfolios sliver by sliver. Compound, a startup based in New York, is launching an app this month that will enable investors to buy small stakes in condominiums in cities such as New York, Miami, Nashville and Austin. The minimum investment: $50.

Compound empowers even investors without much cash “to participate in the growth of cities where they live and work but can’t afford to buy,” said Janine Yorio, the firm’s co-founder and chief executive.

A Memphis home sold by REI Nation, which buys, upgrades and leases houses, then sells them to investors. **PHOTO:** REI NATION

The proliferation of the businesses reflects how small investors are searching for fresh alternatives when ultralow interest rates have made bondholdings less attractive and a record stock-market run strikes many as vulnerable to a pullback.

Firms like REI and JWB say that investors are getting annual returns after fees and expenses of 7% to 9%. That compares to the yield on the benchmark 10-year U.S. Treasury note, which has been stuck below 2% for months. Home buyers also keep any profit from selling the properties.

“Investors are looking under every rock for ways to have additional cash flow,” said Paul Pagnato, founder and chief executive of PagnatoKarp Partners, LLC, a Reston, Va., firm that advises families on investments. Real estate is particularly conducive to that, he said.

Homebuying services are also taking advantage of new technologies and data on house rentals developed after the housing bust. Firms like Blackstone Group Inc. and Starwood Capital Group bought tens of thousands of houses at discounted prices and converted them into rentals. Along the way, they figured out how to use the latest mobile and cloud-computing technology to manage and upgrade homes on a large scale.

Many of the entrepreneurs behind the new firms learned the business after working at the larger operations. Roofstock founder Gary Beasley was one of the players behind Starwood Waypoint Residential Trust, which went public in 2014.

“We didn’t know when we first started buying homes whether we could do it profitably on any scale,” he said.

Roofstock, whose financial backers include Bain Capital Ventures, recently started a new business which enables investors to buy stakes as low as 10% in single family houses. Roofstock retains at least a 10% stake in each house. The rest of the equity is divided up among investors.

Each startup operates a bit differently, but many follow a similar formula. In a typical deal at JWB, the firm buys a house in the Jacksonville, Fla. region and upgrades it for a total cost of, say, $130,000. JWB also finds a tenant for it paying about $900 a month. Then it sells the tenanted house for $150,000. Investors typically pay with about 20% in cash and borrow the rest.

Owners can manage the house themselves or hire a local firm. Most use JWB's management arm. Rent increases and an eventual sale of the house can boost returns. But investors shouldn't expect to make a quick buck by flipping the house soon after they buy it, cautioned Alex Sifakis, JWB's president.

"This isn't a get rich quick scheme," he said. "You're buying for market value. We tell clients they should hold for a minimum of five years or you shouldn't buy it."

Even holding it entails risks. Investors who buy houses sight-unseen can be hurt by an unforeseen maintenance bill or by the vagaries of the rental market. They might even have to reach into their own pockets if they have borrowed to buy the house, and home prices tend to flatten or fall during tough economic times.

"You're getting equity like returns so you need to take some risk," Mr. Beasley said.

Still, the appeal of a steady return from rental properties is attracting a crowd, especially as rents rise throughout the U.S.

REI got its start in Memphis, Tenn., developing rental housing for Federal Express pilots who wanted to invest in single-family homes without the headaches of management, said Chris Clothier, a partner in the family-owned firm.

Last year, REI sold about 1,000 homes in eight cities. "There are investors that want to swing the hammers and slap the paint themselves," Mr. Clothier said. "But there are way more investors who want to be passive."

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What pros and cons do you see to this approach to rental homes?

Join the conversation below.

Billy Maloney, a 37-year-old graphic designer in Los Angeles, said he had bought and sold investment properties through REI to grow his retirement savings. He owns a home in Memphis, one in Jacksonville and has bought and sold two in Cleveland.

" I'm...thinking like an investor where your money goes further out of state," he said.

—Laura Kusisto contributed to this article.

Write to Peter Grant at peter.grant@wsj.com