

# Star-Telegram

## Cheap, distressed properties are plentiful in Dallas-Fort Worth, but loans are rare

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HURST -- In December, when Bedford-based real estate investor Jon Westrom looked at buying the Dakota Place apartment community in Hurst, he admits that "there were some alarming things."

During his due diligence review, the city showed him a nearly eight-page inspection report of all the things wrong with the property, many of which Westrom said were health- and safety-related. He counted more than 40 water leaks himself, and knew that if he bought the place it would take \$100,000 right off the bat to just replace the air conditioning system.

"It was not good," Westrom said, "I saw the water bill."

But he added: "Those things don't scare me."

Undeterred, Westrom got past his initial impressions to find structures with good bones and lots of potential. The property was built in 1964, mostly with concrete and steel. It is believed to have once been a housing facility for employees of Bell Helicopter, whose plant is across Hurst Boulevard from the property.

Westrom closed on the 77-unit community March 26, buying the property from a Florida lender that had foreclosed on the previous owner in February 2008. The lender had done as little as possible to keep the place open, all the while listing the property for sale.

That's when Westrom walked in.

He's like many real estate investors right now: He has some cash, good credit and wants to buy. And he wants to buy distressed properties at a good price. Those properties are out there; the problem is getting financing, he said.

Westrom, who has been buying and rehabbing properties since 1997, said he applied with about a dozen lenders, but all turned him down. In some cases, that was because the property was only 70 percent leased, rather than the 90 percent they wanted to see; in others, the lenders wanted him to become a bank customer. Two lenders he had borrowed from in the past told him to not even bring in an application.

He said he could have received financing right away from sources charging 14 percent to 18 percent interest, rates way too high to make the deal feasible. Finally, Wichita Falls-based First National Bank Town Square in Southlake loaned him money at 6.5 percent, which will cap at 7 percent in two years.

"I found a bank that would take the deal," he said. "I had to work a little harder."

### Tough to borrow

Nationally, the numbers are not good in commercial and multifamily lending, according to the Mortgage Bankers Association.

Commercial and multifamily mortgage origination volumes decreased 46 percent in 2009, the group said last week. Multifamily properties, however, were the main type getting loans, representing \$36.5 billion, or 44 percent, of the lending total last year, it said.

Federally backed lending on multifamily deals by Fannie Mae was down 32 percent in 2009, and that backed by Freddie Mac was down 24 percent, the association said of the nation's two dominant mortgage repurchasers.

In its 2010 multifamily market forecast, real estate firm Marcus & Millichap said that in Dallas-Fort Worth, local buyers will emerge while the out-of-state owners who flooded the market in the past few years leave. Lenders' foreclosures and Class B properties in good locations will attract buyers, the report said.

In Westrom's case, he was negotiating with a lender stuck with a property it was desperate to sell. In 2004, when the previous owner bought the property, the loan was for \$1.6 million. Now the asking price was \$1 million, already a loss for the lender. Westrom said he paid about \$800,000.

Steve Fithian, managing director of Sperry Van Ness Visions Realty, who represented Westrom, said out-of-state owners were able to buy cheap, but then had a hard time managing properties. "There's many examples of it," Fithian said.

### Finding his niche

Westrom sold a Bedford office building and bought the apartment complex in a 1031 Exchange, a transaction in which real estate investors who sell property then invest in another property to defer capital gains taxes.

He said he was looking for a Tarrant County apartment community that had been undermanaged and needed a little turnaround.

"That's my niche," Westrom said. "My philosophy is to find out what everyone else is doing and do the opposite."

Westrom got what he wanted in Dakota Place, once known as Aspen Square.

Less than a month into ownership, Westrom has made some noticeable changes. He said he's on the property every day with two full-time maintenance employees and a full-time property manager, although they're still underwater trying to get things fixed.

"My to-dos are on four different note pads," he said. "Today, we ordered 12 new appliances."

Westrom said he's focusing on fixing vacant units to get them leased; as units turn over, those too will be renovated.

He's put up exterior lighting and will soon install security cameras. The outdoor pool is cleaned and operational, and he's going to put up some playground equipment for the kids who live there.

"I take pride in what I do," Westrom said.

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