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Company Pulls Potential Out of Housing Slump

REAL ESTATE: Compass Discovers Cash Is Key; A Revival in Spring Valley

By MIKE ALLEN



Chief Denney

Despite an ongoing malaise in residential buying and a dip in median prices in recent months, one real estate executive says San Diego is still a fantastic place to invest.

“Right now San Diego is without a doubt our absolute best market in the entire nation,” said **Chief Denney**, executive managing director of **Compass Real Estate Capital**. “It isn’t a question of whether the San Diego market will come back. It’s only a question of to what degree it will come back.”

Denney, 46, and partner **Bob Pabian** launched Compass Real Estate to take advantage of a market plunge in property values that ranged locally up to 50 percent in some areas from their peak around 2006, and resulted in a massive wave of foreclosures.

He said Compass purchased 67 houses in the region, primarily single-family homes, all of them taken back by lenders through foreclosure when the owners defaulted on their mortgages.

The key part of Compass’ business plan is paying cash for the houses, which helps in securing lower prices and contributes to the company’s profit margins.

Denney says it buys most of its properties from banks or real estate agents hired by banks, fixes them up, and then resells

COMPASS REAL ESTATE CAPITAL

CEO: Chief Denney.

Revenue: Undisclosed.

No. of local employees: Two.

Investors: 12 with Denney and Bob Pabian being the largest.

Headquarters: Rancho Santa Fe.

Year founded: 2011.

Company description: Investment firm that buys, renovates and sells distressed residential property.

them to buyers who pay market rates. The formula has provided the company with an annualized cash-on-cash return over the two years of 50.9 percent, he said.

Generally Compass buys its houses in the \$175,000 to \$400,000 range with most of the deals located in middle-class neighborhoods such as Spring Valley, Mira Mesa and El Cajon. The business avoids buying newer homes and doesn’t get involved in short sales because that involves working with existing owners, Denney said.

After it buys houses, the business hires contractors to do extensive renovations on the usually older structures that have lots of problems, Denney said.

Rebuilding Value

Although some cash buyers in many markets are simply turning around and reselling houses, Compass spends some time and money fixing up a house before it’s put on the market, Denney said. He cited a recent purchase of a Spring Valley house for \$165,000 that once sold for \$450,000 near the market’s high. The company then spent about \$33,000 doing renovations that took about a month to complete before the house was listed

for \$285,000, he said. The house sold for about \$283,000, netting a profit of \$85,000.

Denney said along with the profit for investors, the business removes eyesores from good neighborhoods by fixing them up, and helps first-time buyers get into decent homes.

Compass is just one of perhaps two dozen businesses that are actively buying distressed properties in the area, Denney said. Some are doing a better job in fixing houses up, but the whole idea is buying low and selling at prices that keeps inventory moving, he said.

In Southern California, the number of cash purchases has remained fairly steady in the past year, and was most recently reported at 31 percent in April by **DataQuick**, a San Diego-based real estate research firm. A year earlier, the cash purchased properties made up 29 percent of total sales, according to the report.

Profits Can Be Elusive

Leonard Baron, a lecturer on real estate at San Diego State University and a long-term property investor, said although there are plenty of cash buyers out there, it’s extremely tough to make a profit.

While investors may get a decent purchase price, many inexperienced cash buyers fail to accurately calculate the costs for rehabbing, and end up spending more time and money than they originally planned. Then once a property is listed, it may take several months instead of a few weeks to make a sale. The carrying costs as well as costs associated with the property’s sale are often overlooked and cut into the profit, Baron said.

“The chance of making money on the short-term ownership of real estate is so hard, but if you’re investing for the long term, the chances of making money are high,” he said.