

Exclusive: Scottsdale builder rides rental wave into leasing out new homes, looks to go national

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For most home builders, the post-recession wave of renters not buying homes has been a punch in the face.

But Scottsdale builder and real estate executive Darryl Berger Jr. has turned the current trends favoring renting and discouraging home buying into a business model of leasing out new homes left empty or in foreclosure after the recession.

Berger, CEO and founder of Scottsdale-based Berger Holdings, along with partners Matt and Sam Blank, have found a market segment in between single-family home purchases and renting apartments. They buy distressed subdivisions and groups of new homes and lots left unsold or in foreclosure in the wake of the recession.

Berger and his partners then rent them out to households who might not be able to get or interested in getting a mortgage, but aren't keen on apartment living.

"We come in and buy shovel-ready lots," said Berger, whose company also has real estate investments in Queens, New York, as well as New Orleans and Baton Rouge, Louisiana. That includes the Omni Royal Orleans hotel.

The Scottsdale group already has 151 single-family rentals at Gilbert's Higley Park development. Berger also has sold 30 homes his group purchased in Gilbert subdivisions, and they are renting out 112 condos at the Santana Ridge complex in Chandler.

Berger's group will close on 134 lots at the Vistancia development in Peoria next week, he said.

Rents usually range between \$1,300 and \$1,400 per month. Berger Holdings hires property managers to maintain the for-rent subdivisions.

Berger said his groups originally focused on buying foreclosed homes, but soon found a market niche with new homes, condos and land that also got swept into the subprime foreclosure wave and real estate bubble.

"We buy broken deals," he said.

He said some of the subdivisions and lots acquired already have all the infrastructure and amenities built into them, providing a quick transition into a single-family rental market. Berger said his group is open to selling rental homes to tenants and currently has about 500 residences and lots in its inventory.

The group also recently sold some previously foreclosed Gilbert condos for \$14.3 million to a new buyer, which will transition the project into apartments. Berger said his group bought the Gilbert complex for \$12 million in 2013.

He's also looking at taking the business model to other markets where there are plenty of starter homes and rental demand similar to Phoenix's demographics and prices. Those include Denver, Las Vegas, Nashville, and some markets in Texas.

Berger said his business model works better in lower-cost real estate markets such as Phoenix, and he does not see the potential returns for rental homes in more expensive places such as California.

Berger Holdings is an offshoot of heavyweight New Orleans real estate firm the Berger Co. Inc., which owned the high-end Shops at Canal Place as well as hotels and parking lots and garages in downtown New Orleans and the city's French Quarter.

Phoenix home-buying has been subdued since the recession. Some households are still dealing with poor credit scores and foreclosures and can't qualify for mortgages. Others are avoiding or putting off home purchases after losing equity during the real estate bust.

Berger said he also sees tenants, especially younger ones, who just want the flexibility and mobility of renting, but still want a yard and the single-family home lifestyle.