

FEATURE ARTICLE

THE BEST PLACES TO LIVE 2008

BY KATHERINE BOWERS

The Fearless Flipper

Would you want to be a real estate investor right now? You would if you were Fran Yerardi, house-flipper extraordinaire, who believes almost no property is too far gone to be rehabbed for a profit—and is more than happy to share his secrets with those willing to roll the dice with him.

By Daniel McGinn

Photo by Kathleen Doohar



The two-family house at 95 Hollingsworth Street in Mattapan has seen better days. The paint on the porch is peeling. The aluminum siding is weathered. Inside, the empty second-floor apartment is pure squalor, with plaster hanging from the ceiling. The owner, Fran Yerardi, motions toward the back of the house. "I'll show you where he did the deed," he says, walking to a dingy bedroom. Yerardi points to blood splatters under the window and remnants of crime-scene tape on the door frame. Two years ago, the home's former resident, a 70-year-old retired machinist, was allegedly beaten to death in this room by his 41-year-old petty-criminal son, who then dragged his father's body to the basement and cut it into pieces, dumping the head and limbs in a yard a few miles away. Back in the kitchen, the woodwork retains a coating of the powder that detectives used to lift fingerprints. Out front, the victim's name is still on the mailbox.

Last fall Yerardi, a West Newton-based real estate investor, purchased the 2,800-square-foot duplex for \$209,000. "This is an okay house," he insists. He walks through the gutted downstairs rooms, explaining his plan to convert both apartments' dining rooms into bedrooms, then to resell the property as three-bedroom condos. "The way I look at it, the ceilings are high, the doorways are awesome, the hardwood floors are perfect," he says. "It's got a good roof, good windows—it's ready to [renovate]." If you factor in what Yerardi has spent to empty the home of garbage and demolish the downstairs walls, as well as the interest on the money he's borrowed to buy the home, he's already invested \$225,000. But after \$100,000 more in renovations, he hopes to sell the pair of condos for \$500,000. True, the house's history presents some challenges: Twice Yerardi nearly sold the place to people who intended to rehab it themselves, but each time the neighbors scared them off by vividly recounting the murder. Still, he's not worried. "It is what it is," Yerardi says. "We'll get out of it in a couple of months, and we'll make money on it."

This seems like an inauspicious time to try to profit from investing in homes, what with Massachusetts, like much of the nation, now mired in a housing downturn that's not just brought a jarring end to a half decade of sharply rising prices, but also appears likely to exact a lot more pain before it's through. In 2007, lenders foreclosed on 7,653 homes statewide, more than double the total seized the previous year. In Suffolk County, the median home price dropped by 5.7 percent, from \$350,000 to \$330,000, according to real estate research firm the Warren Group.

As politicians debate proposals to ease the skid, however, another group views the current atmosphere a bit differently. Sure, it's a lousy time to try to sell a house, but it can be a fabulous time to buy one. That's giving hope to a new generation of real estate speculators, who continue to tune in to Flip This House and crowd into meetings of the Massachusetts Real Estate Investors Association. Where some fear the worst housing market since the Great Depression, others are seeing a great chance to scoop up deals.

Yet even among those determined optimists, few are buying as aggressively as Yerardi. The 40-year-old married father of three first tried his hand at real estate in the mid-1990s, a few years after opening Yerardi's Restaurant on Watertown Street in West Newton. He started by buying homes adjacent to the restaurant and renting them out. Every so often, he'd buy a house to rehab, doing some of the basic work—like demolition and painting—himself. During this time, Yerardi also became active in Newton's chamber of commerce, and was asked to join the board of directors of a local bank. Three years ago, near the peak of the housing boom, the bank hosted a strategy session. There, Yerardi learned about homeowners' fraying balance sheets and the growing risk of a housing downturn. Seeing the opportunity that would create, he decided to make property investing his full-time gig.

In 2006, Yerardi paid \$50,000 to become New England's first franchisee of Home-Vestors, a Dallas-based company that teaches operators to flip houses. Founded in the late 1980s, it today has 260 offices across the country, and provides people like him with training, financing, and advertising—via those billboards that scream "WE BUY UGLY HOUSES"—that yield a steady flow of owners looking to unload their homes. Greater Boston, with median home prices topping \$300,000, is considered a tough place to ply such a trade, but in less than two years Yerardi has earned a rep as an unusually savvy operator. "He knows what to zero in on, to focus on the issues that will make him money," says HomeVestors CEO John Hayes.

In a perfect world, Yerardi aims to buy a home a week, to own nothing for more than six months, and to earn a minimum of \$20,000 per home. With the market as soft as it is, the first goal is easy to achieve. But the corollary is that it's gotten much harder to sell the homes he's rehabbed. So Yerardi and his four-person staff spend much of their time on tactics that wouldn't have been necessary a few years back—courting prospective purchasers, working with mortgage companies to line up buyer financing, and helping novice home-flippers work deals. At any given time, Yerardi typically has a dozen homes on his hands, each costing him an average of \$150 a day in interest. For all his confidence, he is not blind to the risks involved. Inside his offices, he constantly can be heard saying, "I've gotta get this house off my plate."

There's an old axiom among property investors: Nobody ever makes money selling real estate; they make it buying real estate. The key to success, in other words, is acquiring your properties at deep discounts. For Yerardi, that means paying a mere 65 cents on the dollar.

It's just past lunchtime on a January afternoon, and he's in his West Newton storefront, looking over a file on a homeowner in Mattapan. The woman's house is set back on a dirt road. She's getting older and wants to move. Yerardi notices that she owns the house free and clear; without a mortgage to pay off, she may be more willing to strike a deal. Yerardi gives her a call to chat. "We're almost like a car dealer," he tells her. Anyone who trades in a car to a dealer knows they're getting a lower price than if they sold it on their own, but people make that tradeoff for the convenience. Home-Vestors, he hopes, offers the same appeal.

Most houses Yerardi sees have serious flaws. If they didn't, their owners would be calling a broker instead. Once in

a while he'll look at a house in an upscale suburb, but more often Yerardi is inspecting basements in places like Brockton, Dorchester, and Mattapan. The worse shape they're in, the more he likes them. As he gathers his flashlight and tape measure one day, an assistant tells him about a call from a man who's inherited a place in Dorchester that's infested with pigeons. The assistant hopes to visit in a few days. "I'm coming with you," Yerardi says excitedly. When he hears about a house near Worcester with a maggot problem so bad its broker refuses to step foot inside, Yerardi enthuses over it as if it were a waterfront manse. Late last fall, assistant Laelea Skerrit called him from a "buy" appointment in tears: The house had an extreme flea infestation, and she refused to go inside. Yerardi ordered her to drive to CVS, buy flea collars, and wrap several around her ankles and wrists—then get back to that house. Anything that scares off other property buyers is great news for Yerardi, since it makes the owner more likely to sell to him at a bargain price. Who else is going to buy that house but him?

Yerardi drives to Mattapan for his appointment. The woman's home is nearly impossible to find, in a thicket of woods down a long muddy road hidden behind a condo complex. Inside, paint cans litter the floor and dishes crowd the counters.

As a HomeVestors franchisee, Yerardi has received weeks of training in preparation for the conversation that unfolds. He tries to get a feel for the woman's situation. She bought the house in 1980, paying \$25,000. She wants to move to a new home and doesn't want to worry about fixing this one up in order to sell it. She doesn't know what the house is worth, but her college-age daughter checked some Internet sites and came up with \$340,000.

Yerardi politely looks around. Upstairs are three small bedrooms with low ceilings. The sole bathroom is downstairs, off the kitchen, its leaky shower patched by a plastic grocery bag. He asks if the city plows her dirt street. (No, she snowblows it herself.) Is the house hooked up to city sewers? (It is.) He asks her rock-bottom price. She tells him she wouldn't sell for less than \$200,000. Yerardi excuses himself to his car to crunch some numbers.

In the car, he checks a listing for a house around the corner, in better shape than this one, priced at \$260,000. He jots numbers on a sheet of paper. "Her price"—the \$340,000—"is unrealistic," he says, particularly due to the home's isolated location. While his offer will be below the woman's \$200,000 threshold, he hopes she'll be attracted by the fact that he'll allow her to close whenever she finds a new place to relocate to.

Back inside, he tells the woman flatly, "I'm not going to be able to meet your number." Their conversation meanders, but it's clear the woman still wants to know what he would offer. He pulls out his notebook and walks her through the math, just as HomeVestors has taught him. Her house, if it were perfect, might be listed at \$260,000, not \$340,000, he says. But getting it ready to sell for \$260,000 would entail \$30,000 of repairs. And if it's listed for \$260,000, a buyer is going to negotiate it down. If she uses a real estate agent, she'll pay a brokerage commission of \$12,500. Then come the closing costs. All told, he figures she'd be lucky to walk away with \$190,000. Yerardi is willing to offer \$161,075 today—and since Home-Vestors provides him quick financing, he'll be ready to close in three weeks.

The woman is disappointed. "Can I think it over?" she asks. They agree to talk by telephone in five days. "That's definitely not going to be somebody's dream home," he says in the car. But after Yerardi's team "fluffs and buffs" it—new paint, new carpets, a new kitchen and bath—it could look great to the right buyer. And since Yerardi's employees are constantly cultivating potential purchasers, whom they track in specialized databases, he even has a particular buyer in mind, a single mom with two children in a tough part of Dorchester. "That would be a step up for her," Yerardi says.

Many of the homeowners who sell their properties to guys like Yerardi tend to be desperate, ill-informed, and persuadable. That troubles some observers. Bruce Marks is founder of Neighborhood Assistance Corporation of America, a Jamaica Plain-based advocacy group. While he has no specific complaint against Home-Vestors or Yerardi, he believes many real estate investors are taking advantage of owners in financial trouble. "It's a further exploitation of hard-working people who are desperate to keep their homes," Marks says. For his part, Yerardi says most buyers are grateful that he's helping them get out of a home they no longer want.

But watching Yerardi happily sign contracts to buy houses filled with maggots and bloodstains raises a bigger question: How on earth does he expect to resell them at a profit? His long hours of manual labor and networking with first-time house-hunters is part of it—but above all, his business model is based on the belief that no matter how unattractive a home might be, it still represents a small slice of the American Dream to someone further down the ownership ladder.

Many of his sales are to other investors, who will make over the properties for themselves. To help convince some of these entrepreneurs to buy from him, Yerardi mentors new rehabbers on exactly what fixes will maximize their returns. Joanne Rodrigues, his design-savvy assistant, even accompanies clients to choose cabinets, colors, and fixtures. In November, Belle Borde, a nurse supervisor from Boston, purchased a home in Shirley from Yerardi for \$150,000, putting another \$12,000 into it for renovations. On a January afternoon, she stood waiting for a potential buyer to view the home, which she's listed at \$219,000. With a rehab in Boston also in the works, she admits she's a bit overextended. "I need to sell this house, like, ASAP," says Borde, who's never flipped a property before. Joan McCabe, a 72-year-old medical records worker at Brigham and Women's Hospital, is another Yerardi protégé. She paid him \$335,000 for a six-bedroom home in Jamaica Plain that she hopes to resell this spring, post-rehab, for \$450,000. "Fran really cares about us doing well with this property," McCabe says, adding she'd love to buy more houses from him.

In addition to lavishing attention on what he hopes will be repeat customers, Yerardi is employing new tricks to spark buyers' interest. One recent afternoon, he's standing in a five-bedroom home in Everett. He'd bought it for \$222,000, and his team has decided to auction it off using a technique called a round robin. Yerardi placed a newspaper ad listing the house at \$199,900, and inviting buyers to an open house that weekend. The ad said the house would be sold to the highest bidder on Sunday evening.

By Sunday afternoon, dozens of people have eyed the property. The house is structurally sound, with a roomy foyer and a nice fireplace. But the kitchen and bath require a full renovation, the floors and windows need some work—a typical fluff and buff. Once it's fixed up, he believes, the home will be worth \$350,000. Yerardi considers it perfect for a handy first-time homebuyer, and he's got a mortgage broker standing by to fund the purchase and renovation costs in a single loan.

At 5:30, Yerardi is back in his office. Altogether, he's received 17 bids, the highest from an engaged couple named Michael and Nicole, who've offered \$237,000. Yerardi calls the bidders, one after another, reading from a prepared script. He asks if they'd like to drop out, stand pat, or up their bid. He expects the process to go quickly, but things bog down. He repeatedly ends up in voice-mail. One bidder doesn't speak English. After an hour of phone calls, he's left with seven bidders and a top offer of \$241,000.

Yerardi's team is loath to sell the house for less than \$255,000, but Yerardi has grown fond of Michael and Nicole. He tries to coax them to bid a little higher. "If you just bump it a bit more, the house is going to be yours," he tells him. A few minutes later, Michael calls back and bids \$252,000. It's 8:14 p.m. Yerardi has missed putting his kids to bed, and now he's missing *The Amazing Race*. He calls the rival bidder, Marabella, and makes a token push to get her to top Michael's number. But his heart isn't in it. He's happy the young couple won the house. He's happy for himself, too. After expenses, Yerardi will make \$22,000 on a home he's owned just three weeks.

It's not exactly a scene from *It's a Wonderful Life*, but the thought of the soon-to-be newlyweds living happily ever after in this Everett flip is to him a heartwarming image. It's also short-lived: As so many deals have done lately, this one blows up when the couple's mortgage broker takes a closer look at Michael's credit card debt.

The setback, though, is only temporary. Within two weeks, Yerardi has convinced an investor to pony up \$260,000 for the home. After a little work, he expects, the new investor could sell it for a profit of \$40,000. Another house is off his plate—and somewhere out there, perhaps down a long dirt driveway, another vermin-infested home stands waiting. Who else is going to buy it but him?

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