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# Morgan Stanley pushes deed-for-lease bulk sales

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One potential solution for helping to alleviate the ailing housing markets in the nation, is to allow investors to acquire distressed properties in bulk so they can rehabilitate the houses and turn them into rentals, according to investment bank **Morgan Stanley** (MS [1]: 17.92 0.00%).

Furthermore, leases on these properties should be set-up for the current, ailing borrower. This way the homeowner gets to stay in their property, and will trade off lower monthly living expenses with the loss of collateral investment.

The investment bank released a study called "REBUILD – What to do about U.S. Housing," in which analysts advocate for housing agencies, as well as banks and trusts, to voluntarily set up bulk sales programs for vacant properties in distress.

Analysts said the solution would capture the attention and involvement of investors by allowing them to increase the value of underlying collateral by buying in bulk.

In turn, Morgan Stanley said investors who participate in such a program would have to agree to rehabilitate the properties, while also constructing flexible lease-terms for renters and, in some cases, developing rent-to-own programs for borrowers.

"Lease back programs can be set up alongside bulk sales programs, which would allow investors to purchase properties currently inhabited by a delinquent borrower, with a pre-negotiated agreement to exchange their deed for a lease," Morgan Stanley said.

Analysts expect investors would only buy into the program if they are able to charge market rents and obtain tax breaks or deferrals.

"Tax incentives could also be used to subsidize rents for low-income renters, passing on partial rental income tax to renters and thereby increasing affordability," the report said.

The proposed plan also would establish a private-public lending platform to give investors a level of debt financing.

"This program could jump-start investor lending before private securitization or bank lending emerges, and do so at minimal risk to taxpayers as the collateral would have strict loan-to-value limits and include only already income-generating properties," the firm said.

Morgan Stanley believes the strategy would give distressed homeowners a second chance by allowing them to move into a lease, while taxpayers could reap the benefits of improved collateral recovery values at the housing agencies.

Mark Calabria, a real estate analyst with the **Cato Institute**, said an investor-driven program incorporating some government housing goals could become a burden if it's not crafted carefully.

"It's good to get that supply out there and have the prices reflect the fundamentals. I think it's almost inevitable so we should almost get it over with," he said.

At the same time, when dealing with distressed properties from Fannie and Freddie, Calabria said, it would be best to ensure the government is not going to place overly burdensome restrictions into the mix, creating a situation where investors are not pushing for the best possible outcomes.

He remembers other housing programs that "had a lot of problems" and "took a long time to implement." He said this type of situation, where everything is overly restrictive, "cuts against the whole desire to do bulk sales."

"You want to move as many properties as fast as possible," Calabria said.

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