

## **Jump on Construction Projects Before Prices Escalate** **by John V. Kamin**

Forecast: Construction costs in 2005-2007 are going to be on an upward escalator. In fact, the list is endless.

Prediction: A recovering economy that adds jobs, no matter who is elected, will drive up the cost of services such as plumbing, repairs and heating/air conditioning installations.

Forecast: Higher copper prices, high steel prices will drive up the cost of new homes and remodeling jobs. Ongoing inflation of 3% and rising is leading cash-starved firms to raise prices 10%, 20% and 40% at a crack. Most firms weren't able to raise prices during the 2000-2002 recession. They had to "eat" material and labor cost increases. So, when they can raise prices, they don't just raise them 2% or 3%, they raise prices 10% to 40% in one move.

Valuable Tip: Just take care of what needs to be done now before costs start to jump 20% or more over the next 12 months.

### **New Strategy**

Many of you own houses, commercial buildings, apartments or rentals. Many of you have deferred maintenance, remodeling projects or additions sometimes for many years. **RED FLAG ALERT:** Get those competitive bids in now. Get your contracts under way now.

Prediction: Don't wait for materials and services to increase further, as they definitely will!

### **More Strategy**

Splurge for the energy-efficient units. Pay a little extra to get the energy savings on machinery, units and vehicles.

Prediction: Utility and energy costs will continue rising in the years to come, regardless of what happens at the gas pumps.

Strategic Moves: Any disruptions in energy supplies, whether oil, natural gas, nuclear or hydroelectric, will add to your cost, add to wholesale costs and after time lag to construction costs.

Forecast: Even if the USA were to drill for more energy, natural gas, in the Arctic regions during 2005, it will take two to five years, 2006-2009 to get it to the point of construction. Even if they were to build more pipelines for better distribution it would take years. Even if the electrical grid that caused the August 2003 East Coast and Midwest blackouts were to be improved, those changes will take years to implement 2006-2012. Therefore, it's prudent and economic to do what you can as an individual to improve your energy situation now.

[E.G. Many Western states from Texas to California have an abundance of sunshine, therefore installing nearly-free solar heating panels makes sense. Don't go backwards into the 19<sup>th</sup> Century with coal and wood stoves. Instead, move forward with rooftop solar heating panels to cut, improve or eliminate energy-guzzler hot water heating bills.]

Russian scientists are now teaming with California scientists to improve new wind-energy (electric) generators shaped like eggbeaters instead of the propeller-type, bird-killing machines. Widespread usage of the new, more efficient, quieter wind turbine, electrical generators are years away, 2008-2015.

## Labor Predictions

Those of you used to dealing with contractors will verify: it's much easier to get contractors working now on repair and remodeling projects than it will be after another year or two of prosperity. You want to hire your work done at the initial states of economic recovery, not get stalled out at the very top. You know what I mean, where you have to make 15 calls to get three guys to show up to bid or even return your calls!

Rule of thumb I use: On any job over \$1,000, I get a minimum of three competitive bids. Material and workmanship are important, as East Coast hurricane victims will verify, using licensed and bonded contractors.

Forecast: It will get much harder to get reliable competitive contractors to come out, make bids and do quality work as the economic cycle tops out later, somewhere between 2005 and 2007. So, get busy now.

Valuable Tip: Just take care of what needs to be done now before costs start to jump 20% or more over the next 12 months. If you can't get contractors to get your entire job done, just get the most important parts done now and add the finishing touches later, separately.

[E.G. If you have roofing leaks now but also need painting and other work done get the roofing done now, finish painting and remodeling jobs later as best you can; just to coordinate with less necessary "fashion statements".

If you have jobs that require tons of raw materials such as cement, wallboard, plaster, asphalt, tar, shingles and pipes, get those jobs done now and add your fancy finishing touches later.

Forecast: Higher per-square-foot prices for homes is pushing many building owners to add square footage by reconfigurations; adding second stories to one story buildings. "Crowding" trend is accelerating in build-up neighborhoods; tearing down small houses to build double-sized "McMansions" on small lots, especially in suburbs near close-in commutes to metro job centers.

Prediction: The rapid rise in home prices (24%-39% year-over-year in many areas) makes 2003-2002 earlier appraisals obsolete.

Therefore if selling, planning, strategizing, be sure you are up to date in third quarter 2004 prices and availabilities, not using obsolete figures from last year, nor first quarter 2004, nor even older numbers. Insisting upon up-to-the-minute appraisals could mean \$50,000, \$200,000 or more extra to you! Careful. Stay up with the accelerating newest trends.

Personal Observation: I see more homes and other properties being quickly "flipped". Some who bought within the last year or so are now selling for a 30% or 40% profit, even though they made their purchase mostly (80%) with borrowed money!

## Advance Dangers Ahead? Is the "Market" Topping out?

This economist foresees five dangers ahead that the general public does not.

1. Major geological events, fire storms, earthquakes and hurricanes, are unpredictable. But you can buy earthquake, flood, or windstorm insurance, though it can cost \$1,000s. Geological events kill markets. After the 1994 Northridge earthquake, the real estate market was stagnant-to-soft-to-dropping 30%, for five to seven years.

2. After Hurricane Andrew, a few years earlier in Florida, many snowbirds "opted out", voted with their feet to relocate elsewhere.

Eventually, though, both Florida and Southern California recovered, with record breaking prices by 2004!

**Forecaster Advice Stands:** Sell your worst properties now, before going into the next downturn. Diversify instead of concentrating all your holdings within a block or two...

3. Weakening Prop 13 or rolling back some property tax-limitation provisions: Many property owners have not sold their properties in response to higher market prices, simply because they have low property taxes that they would lose upon resale, if they sold and then replaced elsewhere.

Prediction: Therefore, higher property taxes and reassessments every one to two years to boost taxes further would cause many reluctant owners to sell their properties, especially in California, possibly flooding the market, overloading it!

Prediction: Weakening tax limitations (e.g. Prop 13) would cause market drops.

4. Higher inflation equals higher interest rates equals higher government deficits. (Uncle Sam is the world's biggest borrower). Higher interest rates means less people qualifying for mortgages. When interest rates on long-term mortgages finally hit 10% to 16% interest back in the early 1980s, it killed off the real estate boom, ruptured the FSLIC which went out of business, strained the FDIC during the Savings & Loans crisis, led to the formation of the Resolution Trust Corporation. The RTC then auctioned off the improved properties at an average of 59% of the low appraised value during the late 1980s and auctioned off the vacant land, farmland and improved lots at an average of 41% of low appraised value to "solve" the Savings & Loan crisis! Watch it.

5. A terror attack can depress property values, temporarily or even longer term and cause lack of confidence until memories fade.

[E.G. 9/11 events caused many NYC firms to diversify their operations; some moved across the river to New Jersey, others to Connecticut, others to the Boston area or even Philadelphia. Can anyone predict where terrorist attacks are going to occur in the future? Even the government? Even if government could predict where you wouldn't be able to sell your illiquid property fast enough to get out of the way!]

**Forecaster Advice Stands:** Sell your worst properties now, before going into the next downturn. Diversify instead of concentrating all your holdings within a block or two, maybe even diversification to another state or at least to a different metro area, as each opportunity arises. But stay within manageable distance, stay within the path of growth wherever you own property. Avoid rent-controlled locations.

*John Kamin is a Consulting Economist and publisher of The Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356, (818) 345-4421. \$180 per year. For more money making ideas, order his latest book Active Money Strategies & Hidden Wealth Builder Secrets For Young Adults: What They Were Afraid To Teach You In School. If They Ever Knew! \$20 + \$4 s & h Add \$1.65 tax. 95 pages.*

*Forecaster Money-Letter publishes confidential reports about the future to benefit you, and makes decisions easier. It helps you profit, sidestep losses, enhance lifestyle and creates financial independence.*

*Send for a 10 issue trial. \$120 value. . . only \$59 when you mention the AOA. Mail check to: Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356; or if you wish immediate shipment, phone (818) 345-4421 and put it on your credit card.*