

## **Real Estate Bubble or Super-Bargain to Foreigners?** **by John Kamin**

Those who tell you there is a "housing bubble" have to admit one thing (which they don't like to admit): certain cities considered somewhat overpriced now, such as NYC or even Miami, are finding new housing demands...from foreigners! Yes, the sales to foreigners of houses and condos are skyrocketing in Florida, New York, Massachusetts, other areas. Here's why.

The drooping dollar has made American houses cheaper for foreigners, 30% to 40% cheaper, now that their foreign currencies (euros, pounds, yen) buy more dollars!

The drooping dollar has also made American homes cheaper for Canadians.

Another factor is those foreigners who plan to spend weeks to more than a month in their new U.S. housing!

Thirty days in a New York hotel at \$300 per night plus hefty taxes, can get very expensive indeed. That month-long hotel bill might well make a down payment on a home in nearby NY or NJ suburbs. Same with Orlando, FL (one of our favorite growth areas), San Diego, and a few others.

Cheap mortgages paid back in devaluing dollars at 4% or 5% interest are another attraction. Says one Londoner, "You really don't get much for your money in housing in England."  
Cash Flow and Capital Gains...To Resident Visitors?

Many foreign buyers of U.S. homes and condos are planning to generate extra income by renting out their new place 10 to 11 months per year, while they're not there, generating \$1,000s of monthly cash flow.

Considering that many countries in Europe have rent control, visitor's home-country options for generating big cash flow can be far more lucrative in the USA (to foreigners) in comparison.

New 2005 demand by foreigners for USA big-city housing, coming with fistfuls of excess dollars to put down, is helping to prolong the real estate boom, even in areas that most Americans would consider overpriced, costly and subject to bubble-pricing!

For decades it's been mostly a one-way street, American tourists running to Europe, occasionally with affluent Yanks buying their villa in Venice, or their Rome apartment, or even small two-room unit in France.

But now cheap dollars boost two-way commerce, and the flow of money is more toward USA than away. Truth be told, foreign visitors get more bucks for their yen, francs, euros, pounds and rubles than they ever did before! They discover USA is not at all as violent and heartless as propaganda they see on their hometown TVs. They enjoy the vast spaces, big dwellings, and spread-out lifestyles that are hard to find in Paris, London and Rome. Everything from easy parking, less regulation, and fewer bureaucrats and others with their hands out (though foreign politicians may be reluctant to admit it). I still find it disconcerting to park daily on sidewalks in Rome!

FORECAST: The dollar will turn around as U.S. interest rates eventually rise to more competitive levels (6%-8%?). Meantime, foreign buyers' big bucks are flowing in, especially to the big Eastern cities and their suburbs.

Reminds me of the inflow of visitors from Japan and Asia to Canada in general and the Vancouver/British Columbia area in the 1990s. Japanese travelers were getting many more dollars during 1990s than for their yen. 1990s Hong Kong residents were troubled by the imminent takeover of the former British Colony by the Red Chinese government. Hong Kongers moved their money to Canada with some trickle down effects toward the USA; but nothing like this new East Coast trend in 2005! Real Estate brokers love the influx of new foreign buyers, many of whom pay full ticket instead of negotiating sharply as well-trained USA buyers are likely to do.

FORECAST: For 2006 to 2008, the influx of foreign buyers to big USA cities such as NYC, Miami, Orlando area, San Francisco/San Jose, is likely to continue. But I don't think new foreign buyers alone can prevent the next downward real estate cycle, but only prolong the current up-cycle.

Our 2005 advice to our clients remains consistent: "This is an excellent time to sell your worst properties, those growing stagnant or threatened by high crime and drooping population stats. But keep your best properties, and ride the boom."

## Is the Dollar Going Down or Your Property Going Up? 12 New Trends!

Owned your house or property for 10, 20, 30 years or more? Have you watched its price rise, often by 6 figures or more? Why did it increase so much?

Let's take a Contrarian viewpoint to analyze the question.

It's probably the same house it was the day you bought it. Sure, you took care of problems, made repairs, painted, cleaned, and repaired plumbing. But unless you put on some large additions, it's probably the very same house you bought years back. In other words, you're not re-selling a highly-improved product; the house didn't change.

If anything, the house may be less desirable now than when you first bought it, in the sense that it's 10 years, 30 years or more older, right? (Older plumbing, roof, furnace, appliances). Admit it.

1. So, what exactly has changed if you're living in the same house as you bought, or something similar?

Demand is one thing that changed. Population is growing.

### Newest Trends

FORECAST: I expect the USA population to double by 2055 to 2060. This estimate may turn out to be too conservative (due to immigration, longevity, safer cars, increasing birth rates, better health care).

FORECAST: Expect upward demand for more houses.

American attitudes toward home ownership have changed, too. A far higher proportion was renters during the 20<sup>th</sup> Century; now 68% of American families are homeowners or expect to be homeowners. And among the remaining 32%, many want or expect to become homeowners this decade or in the following decade.

## Can Any Warm Body With a Steady Job Get a Mortgage?

Financing is easier, cheaper. During the 1930s, for example, most mortgages had a length of 3 to 5 years. Now you can buy houses with a little as 1% to 10% down, sometimes even 0% down on FHA or VA repos and other programs! Interest rates are now at levels not seen since the 1950s, early 1960s! Cheap tickets. 30 to 40-year loans! Interest only loans.

There are more blended families, more people in these families, which require homes instead of apartments.

2. A fourth factor is higher rents, constantly increasing long term.

3. A fifth factor is overwhelming newer bureaucratic regulations to build new tract homes.

4. Sixth factor: a shortage of building lots. This adds to demand for existing homes. Existing (used) home sales are running at over 6 million per year, while new home sales are running at about 1.2 million per year, both record rates; but resales are outnumbering new sales 5 to 1.

5. A seventh factor: increased enhanced lifestyles, higher living. Simply put, as Americans make more money, they can afford more, and a home is high on their priority list. And for those with steady jobs and decent incomes, competitive lenders are climbing all over themselves to make the loans (and make \$1,000s in loan fees). As Dr. Alan Greenspan said, "Bad loans are made during good times."

### Refis Trend

6. Increased ease of refinancing; ever-more homeowners have discovered how easy it is to pull out \$50,000, \$100,000, \$200,000 by simply "upping" their mortgage and taking out a home equity loan. Lenders love refis.

Easier refis have affected supplies of homes for sale. Bluntly, more people are choosing to refi their home, pulling out big cash, then pay the profit-taxes, then buy another place to live.

This isn't exactly what real estate brokers like to see, but lenders are making a ton of this 21<sup>st</sup> Century trend. I estimate that over 50% of the long-time homeowners I interview have either refinanced their home one or more times, or are thinking about "pulling money out" through refis to do other things. In the latter half of the 20<sup>th</sup> Century, refis were much tougher, more costly, harder to get, and far fewer were accomplished.

Now, modern homeowners are using refis as a cash source and unofficial "bank account".  
Money Changes: Dollar Down Equals Prices Higher

7. Another factor has been the change in the U.S. dollar's long-term purchasing power. The homes haven't changed that much, but the dollar surely has. Oil used to be \$2 a barrel in the early 1970s; now it's over \$50 per barrel. That new full-size car you bought in the early 1980s at \$13,000 now lists at \$33,000. You'll need a few \$1,000s extra for taxes, prep, delivery, license, and an inflated insurance bill. The plumber who used to charge me \$35 for a house call in the 1990s now charges \$100 minimum. The house you live in may be essentially the same, but the (weaker) dollars you spend on it are not.

Folks are Smart, Getting Smarter

They realize when they take out a 15-year or 30-year mortgage, they can repay over time with cheapened dollars. Last year, inflation (measured by CPI) rose 3.3%. Now in 2005, inflation is running at 4.8% (CPI annualized rate). But if owners had a 5%, 15-year or 30-year mortgage, after even modest inflation, their mortgage costs them less than 2% net, and they could write off (deduct) the 5% mortgage interest costs from their income taxes. After tax deductions, their 5% mortgage costs them nothing! And they didn't have to pay for the joint in full until 15 or 30 years has passed by!

10. Meanwhile, inflation was pushing up new homes price (average cost to build \$175 per square foot plus \$90 sq.ft. for "soft costs", land, permits, etc.).

FORECAST: Rising new home prices set the price levels for used homes (in competition with new homes among homebuyers). So, even if homeowners did nothing near the big city job markets, their homes were pulled up by inflation; as well as a solar declining in purchasing power. They borrowed the money when they bought years back, borrowed dollars heavy with purchasing power, and they pay back the loan with even-lighter dollars. Millions of homeowners have figured this out, we just put in exact words, encourage strategy.

#### Other New Trends

11. Many entrepreneurs, business persons and practitioners have figured out something else, too. Instead of paying \$1,000s per month rent for a cramped office in a medical building, they buy a three or five unit commercial building.

Then, they lease out the two to four extra units to their peers; let the tenants pay off their building.

[E.G. One friend just bought a quiet commercial lot with a small auto repair building on it, 30 to 40 years old. Know what he intends to do? The auto repair business sits about 4 blocks from one of the busiest hospitals in this area.]

12. I told him to bulldoze that crummy old building, get a permit for underground parking, put a nice two-story clinical medical building on the site, and he'll be able to collect 10 times as much total as previous auto repair shop rent! Many doctors who practice at the nearby crowded hard-to-park hospital would be glad to save 40% on rent to have an office or clinic nearby just a few blocks away! So, that's what he'll do.

Many other practitioners, CPAs, LLBs, DDSs, are buying their own small commercial building, instead of renting something on the fifth floor and getting rent upped

When they buy their own building, they not only chop the rent payments, but also get something that will provide a likely huge capital gain over the next five to 10 years or more, maybe leverage such a mortgage. And they'll be happier there! They've turned a monthly cash-eating alligator outflow into a capital-gainer and a rent-obliterator! Good for them!

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