

Real Estate Recession? What Slowdown!

By John V. Kamin

Own rental property? How much are you getting per square foot per month in rent? If you live in Hong Kong, average rent for office buildings is \$44 per square foot per month. Rent on a 1,000 square foot spot to operate your fax machine and computers and maybe see a few clients would run \$44,000 per month rent.

Think that's high? Retail space in Hong Kong averages \$334 per square foot per month. Yes, it would cost you \$1/3 million per month rent for 1,000 square feet of retail space. Rent a warehouse? That's a bargain at \$6 per square foot per month. Source: CB Richard Ellis.

New high-rise buildings are being built and being sold – lots of action.

Compare That to Los Angeles

Suburban space may bring \$3 per square foot monthly; small to medium size offices or small retail. Warehouse space is still available for \$1.50 to \$2.00 per sq. ft. per month. If you want a fancy Century City high-rise office, you may pay \$5 per sq. ft. and up. 900 sq. ft. to 1,000 sq. ft. apartments that are decent, but not necessarily in upscale neighborhoods, average about \$1,430 rent per month. In better places, apartments cost \$3 per sq. ft. per month. Parking may not be included – that's extra.

USA home inventories went down last month, constricting supplies across the USA.

PREDICTION: A couple of months more of shrinking supplies, homes for sale and the real estate correction may be history.

Homebuyers lost their confidence six to twelve months ago – post-Katrina. But with FOMC rate hikes non-existent lately, reasonable mortgages near 6% (30 year FRMs), I'm expecting a potential slow-growing surge of buyers during 2008 to 2010 for homes again. Homebuilders have contributed to the shrinking inventory of new homes by default.

When the home-buying boom cooled, major builders were quick to lay off excess workers, cut inventories of unsold homes and created new incentives. Their 2004-2006 "irrational exuberance" (translated as overbuilding) simply evaporated into thin air. A dozen or so months more of cutbacks and then it's off to the races again!

Cheaper Chinese imports? They don't affect home purchases and sales. People need a place to live *here*, near the metro job centers where they work, within commuting distance.

Tough Sells!

Boondocks purchases (second homes, resort homes, resort condos)? That's going to be tougher sledding. Might be a bunch of distressed properties there.

I don't expect condomania to reappear – widespread condo speculation, widespread overbuilding and overbuying. Most major metro markets have an adequate supply of condos for sale. Raw materials increases and labor increases may compete to push up prices, both in condos and houses. But right now there's a bit of oversupply there. I am not recommending condos in our favorite metro markets such as Orlando, Florida or Las Vegas metro due to market saturation among individual condo buyers.

Many of the condo buyers in Las Vegas metro, for example, don't ever plan to live in them – it's just a second destination for them, costing high upkeep and high mortgage,

and extra money out the door as long as they can afford it. When condo buyers could put down \$5,000 on a \$400,000 condo and then expect to resell it for \$500,000 before groundbreaking time, there were many more buyers in Clark County, Nevada. But now that the easy money has already been made, the market is tending to return to more normal growth.

Cheaper Sleeper Area: Profitable Growth Ahead?

One area that I investigated numerous times seemed like a potential sleeper for capital gains. It was near enough to metro job centers to commute, yet much cheaper than other metro areas.

The place was South New Jersey near the conjunction of Highway 40 and I-55 and Highway 47 – not far from Vineland. To the east, Atlantic City was growing and expanding. On the other side, many residents were commuting to jobs in the Philadelphia metro area. They'd live in South Jersey (lower taxes, cheaper house prices) but work in Pennsylvania, across the Delaware River, Philly metro, commuting about an hour or so. Houses with acreage seemed a bargain in South Jersey. A simple ordinary house that would sell for \$500,000 to \$600,000 in North Jersey would cost only \$100,000 to \$200,000 in South Jersey, not that far away.

Someone retiring could sell their house in North Jersey, pocket up to \$500,000 in tax-free profits, (due to exemptions) and re-buy in South Jersey for \$100,000 to \$200,000 if they wanted to stay in the general area.

Furthermore, you might get a couple of acres with the South Jersey house compared to no acres with the North Jersey house at four times the price! It seemed that people in the NYC area had never circulated in South Jersey and were unaware of the differences in values and prices. Rural South New Jersey is like a different planet compared to Northern New Jersey.

Trouble With Sleepers?

The risk with a sleeper area is that it may remain in a coma for decades and never wake up. How long can you wait? Still, developed land with houses and/or business zoning is better than junk land in New Mexico, Colorado, Wyoming, Arizona; South New Jersey land with all utilities, plentiful highways and infrastructure. Rental houses are in short supply.

New Action ... Finally!

There seemed to be a surge of activity recently around Vineland/Millville with a new Walmart, NASCAR and other developments coming in. Whether development will continue to expand or simply fizzle out remains to be seen. New Jersey is one of the most heavily populated states in the nation, though South Jersey is ignored; mostly vegetable farms in the South Garden State.

I don't want to suggest that locals have pretty well locked up development and kept outsiders out. But sometimes, when you want a zoning change or road extension, that may be the distinct impression you get. Set-asides for agriculture seem common. Though I'd been interested in this area for many years as a sleeper, I hesitated to plow more than minimal speculative money into it because of travel distance from Los Angeles. The nearest major airport is Philadelphia, 45 minutes away. But for those who

want to say in the Mid-Atlantic states, South Jersey has advantages over other metro job centers such as Philadelphia, Baltimore, Boston, suburban New York City/Northern New Jersey and Hartford.

Many NYC workers are more familiar with Florida, far to the south (due to lower taxes, warmer climate, no inheritance tax, etc) than they are with South Jersey. Will southern New Jersey develop? Well, I'd bet a few \$100,000s on it on the basis of it being a sleeper area; but it's a speculation.

Cape Higher

Warning: Don't go too far south, say to Cape May, New Jersey as the growth has already pushed up home prices there to the \$550,000 to \$650,000 range for ordinary homes. Too late, too costly – NYC prices.

P.S. Please stay on the blacktop numbered highways near the Interstate exits. Get the frontage with potential commercial development with existing buildings to rent out.

Prediction: You'll make more money in the long run with commercial zoning potential than if you just buy houses without potential commercial frontage. Sometimes you can pay the price for the frontage land and get the buildings free (to rent out, to generate cash flow and help with carrying costs of owning the property).

Warning: Just as with many Eastern Seaboard states, I tend to view South Jersey as over-regulated, heavily unionized and with plenty of existing bureaucracies with which to deal, just in case you are thinking of opening or re-opening a plant there. New Jersey is not as bad as some adjacent states, but nevertheless, there can be tangles and red tape especially on business activities. Rural New Jersey itself is not a jobs center.

The next five to seven years or so should determine whether this little-known sleeper will awake finally and make you some big money or stay comatose.

To be continued next month. More predictions and forecasts upcoming about hard assets, property values, cash flow rental ownership and six specific geographic areas to invest in now.

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. A \$150 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.