Property Owners: Boom Against Bust!
By John V. Kamin

Just the facts: listings have increased in the last year on homes for sale. Sales of new homes are down with sporadic price weakness. Building permits are down from the boom years of 2005-2006. Interest rates are up. Lenders are tightening qualifications. Previously lenders issued too many sub-prime loans, 0% to 5% down, to doubtfully-qualified buyers.

Sound like a bust? Not really. There are huge segments of the property market that are up, not down. Many metro job centers are still experiencing a shortage of homes for rent. Certain areas like Miami and Las Vegas metro are overbuilt with condos and former no-money-down deals where potential buyers walked away (from zero or low-deposit deals).

Increasing Prices Incredible In 2007?

But in the San Fernando Valley, home prices are still rising 2% to 6% over the last year. Hardly a bust. Speculators have exited, of course, as property flipping doesn't work well any longer. But deals are being done.

Second area of increasing prices: small office buildings. Rent in some areas have risen over 40% on commercial streets over the last 18 months.

Third area of higher prices: small retail buildings, usually 5,000 to 15,000 sq. ft., even small strip malls. Many retail store rental rates are rising, from $1.75 sq. ft. to $3 sq. ft. per month for Class B buildings.

Why? Many of the smaller retailers are being squeezed out of the monster malls by rents that are being doubled or more as soon as a new owner buys the giant malls. So, small business tenants, in turn, are fanning out to try to re-rent in non-monster mall locations, and that's pushing the market upward.

Fourth area of gain: apartment buildings. Rents are rising. For example, in Los Angeles, two years ago an average apartment rented for about $1,275. As 2006 ended, average rents were $1,432 and still rising.

What's Behind the Divergence in the Marketplace?

1. Rental buildings, residential, apartments, offices and retail buildings are not suffering from the overbuilding that plagues the new homes marketplace.

2. Business listings have not soared, but in many places have instead tightened as the smaller commercial tenants have fanned out from the monster malls, big turnovers.

3. Lenders have not tightened up on commercial-building lending the same way they have on qualifying for homes. What really stands out is that higher rents are pushing commercial building values higher and amidst static or even decreasing supplies. More demand, less supply.

4. Unlike homes, commercial buildings sell at a multiple of cash-flow incomes, traditionally, how much GRI (Gross Rental Income) that buildings can generate in a given year. With rents rising on commercial buildings, that pushes values up, as even the small building owners are constantly playing catch-up on leases.

5. Buildings formerly neglected are being refurnished, rehabbed, refinished and remodeled to generate higher cash-flow rents.

Examples: As energy prices soared, many building owners installed new energy-efficient heating/air conditioning systems, to lower monthly energy bills. Some are adding rooftop solar heating panels. Others are adding more efficient insulation and energy-saving windows, doors, etc., as they remodel. Improvements also increase building values.

What Could Cause a Train Wreck
Among Commercial Buildings?

Very simple. A move into full-blown recession could: A) increase vacancies; B) stop rent hikes in its tracks; C) lower rental/lease demand.

During a recession lasting more than 18 months, many building owners, history shows, will say, "The heck with it," and either liquidate their business or sell it, which further increases vacancies. Office buildings traditionally entail higher vacancies as businesses downsize.

Strategic Planning To Profit
From New Developments

A. We're advising young potential homebuyers not to buy a home at the market tops, but instead to buy a duplex, triplex, or fourplex, then let the tenants pay off your 15-year fixed rate mortgage, while you await long-term capital gains. You'll build equity much faster than owning a home.

B. Practitioners with 10 or more years to go before retirement should own their multi-unit commercial building. E.G. Storefront clinics for MDs, DDSs, LLBs, CPAs, plumbers, contractors. Let your peers pay off your mortgage.

Forecast: Commercial loans will continue to be available, as lenders burned by too many sub-prime home loans will instead start to diversify into lending on more commercial buildings.

C. Apartment owners, those of you who are way behind the market know who you are. Very helpful is a survey of similar competitive vacant apartments, to see how much they're charging per sq. ft. (Don't include occupied apartments in your survey, they are off the market, and sometimes tenants don't move for 20 years.) In other words, check the competition, make your rates competitive with the marketplace. The <u>Forecaster Moneyletter</u> has shown you many ways to generate extra cash flow, which increases the value of your buildings, your potential borrowing power, and potential capital gains.

Money Trees Grow Cash

D. Just one example is separating out parking charges, renting out multiple car spaces accordingly. Don't forget to rent out storage space separately, rent safes, and when doing any remodeling or rewiring work, bring the wiring up to date for heavy Internet usage, Wifis, etc. Computer geeks with heavy electronics usage will pay more rent for modern-wired units.

Improve your bottom line by cutting expenses, such as installing energy-saving bulbs, shades, chopping down or eliminating overgrown shrubbery and trees, which contribute to crime, unsightly trash, and fire hazards.

Middle-agers within 15 years of retirement can buy a small rental building, improve it and make your golden years truly golden due to the rising rent trends plus the eventual capital gains profits medium term to long term. Borrow while still working, you'll get a better lower-interest mortgage, 15-year FRM.

More ways to make more money flow and make bigger capital gains are in upcoming reports. To be continued. Don't miss a single one; it could mean $1,000s, $10,000s, or even $100,000s to you and your family!

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