

## **What is a Fair Price to Pay for a Real Estate Investment?**

*By Clifford A. Hockley, President Bluestone and Hockley Real Estate Services*

Here are some important facts that will affect real estate pricing over the next 20+ years:

- By 2010 over 40% of all households will be comprised of an age group over 55 years.
- The number of citizens over the age of 65 years will jump from 34.7 million in 2000 to nearly 70 million by 2030 (a mere 30 years).
- The Spanish speaking population will increase from 31.4 million in 2000 to nearly 65.6 million in 2030.
- 50% of children under the age of 18 (42,853,649) will be a minority in 2030. Total US population is estimated at 400 million in 2030.
- The traditional household (married couple with children) which comprised 90% of the households in 1950 will comprise only 65% of the households in 2030.
- 29% of the US households will be living alone in 2030.
- From 2000 to 2030, the U.S. population will grow by 82 million, 72 million of this growth will occur in the South and the West.
- Worldwide the percentage of the population living in Cities is projected to grow from 47% to 60% by 2030. (UN study 2003)
- **Researchers find 'large is smart' when it comes to cities**  

“Large cities will grow larger.” Cities are considered by many to be a blessing and a curse. Large cities generate considerable wealth; they are home to many high paying jobs and are seen as engines of innovation. But cities also generate pollution, crime and poor social structures that lead to the urban blight that plagues their very existence.” (www.physorg.com - April 17, 2007)
- To deal with the challenges of large cities taxes will increase.
- Much of the projected future growth will be in Texas, California, Florida, Virginia, Arizona, Nevada, Utah, Colorado, Georgia and North Carolina.

These facts have a significant impact on the real estate investor. The challenge is decoding the facts as you make your decisions to invest.

Clearly the Hispanic immigration trends will affect the southern and western border states, in addition, the sunbelt will grow due to the population shift of retired folks from cold climates to warmer climates.

All this means that investing in those states and in cities with large populations will pay off in the long run.

It also means that larger investors will hesitate to invest in small towns, the rust belt and the Midwest. The major challenges for the southern and western states will be supplying water and infrastructure to keep up with the rate of growth.

### **What is a Fair Price to Pay for a Real Estate Investment?**

Given these facts, what is a fair price to pay for real estate investments? Due to the aging of the baby-boomers there is a significant amount of cash available for investment, creating an increased demand for real estate investments. Sellers sensing this have increased the pricing of their product and until recently buyers were willing to pay more. The key in the decision making process has been the ability to make money either through cash flow or through appreciation. The challenge has been to get the banking partners to go along.

We are seeing a slow down in deal making, because banks are nervous and are making it more challenging to borrow money. In addition, the current asking prices are making buyers hesitate especially with C and B properties. In A class properties buyers are willing to overpay a bit because of the longer lifespan and higher net revenues expected.

This means that we expect to see lower Cap rates for Class A properties (say 5 – 5.5 Cap rates) because of the expectation of lower maintenance costs. B and C properties have an aging infrastructure with higher operating expenses and are therefore priced closer to 6 and 6.5 Cap rates in the Portland metro area.

Buyers and banks are generally not willing to look at projected rents and projected proforma expenses in their analysis of properties. Real numbers give investors a better handle on future operations and a future of upside in a real estate investment. Therefore a fair price to pay for real estate depends on the kind of property, the interest rate you are paying, the market conditions, the real income and expenses that a property experiences. Location and age of the property are also key variables which might entice you to overpay for an investment.

There is no golden rule regarding the pricing of real estate, but a prudent investor will make sure that he has taken the above facts and the local market conditions into consideration as they develop a price for the purchase of their next real estate investment.

*Clifford A. Hockley, Certified Property Manager, is the President of Bluestone & Hockley Real Estate Services, which is one of the larger brokerage and property management companies in Portland. Bluestone & Hockley is an Accredited Management Organization (AMO) by the Institute of Real Estate Management.*

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Summer 2007 edition, [www.Physorg.com](http://www.Physorg.com) April 17,2007,[www.goliath.ecnext.com](http://www.goliath.ecnext.com)*