

## **The Long Term Outlook for Rents** **by John V. Kamin**

A quick look backward to the late 1930s, say 1938-1940, shows big city rents for a large apartment in Chicago would run \$15-\$20 per month. By WWII, the early 1940s, when NYC imposed rent controls, many smaller apartments were \$40-\$45 per month. During the mid 1960s, you could rent a nice Los Angeles apartment, furnished, near downtown, for \$115-\$125 per month. But by 2007, the average apartment in Los Angeles area was \$1432 per month and rising toward \$1500.

### **What History Reveals is Ahead**

Do these trends from 1937 to 2007 spanning seven decades tell you anything? Where rents went from \$15 per month to \$1500 per month? What if you went seven decades into the future, say, to 2077? Well, if rents increased 100 times in the last 70 years, might rents increase in a straight-line projection 100 times more by 2077, using history as a guide? If so, that would put 2077 rents for the average apartment at \$150,000 per month. That sounds ridiculous, right? But that's what historically happened over last seven decades.

Not all the gain in prices was due to the simple trend of rising rents. Rents are but on segment amidst a field of 100,000s of prices in the USA economy. Much of the rental increase was due to what we loosely term, "other factors": devaluation of U.S. dollar, inflation, rising building costs, added regulations on construction, rising taxes. But you also have these "other factors", many of them similar, operating today.

No one thought (except Forecaster predicted) that the old Russian ruble valued at \$1.40 U.S. officially during the 1950s to 1980s, would be devalued 1000 to one to where a new "reformed" ruble is worth 20¢ U.S. (equivalent to 1000 old rubles valued at \$1.40 U.S. each). This is just one example of currency devaluation.

During the 1930s, you could buy a nice farm in the Midwest, operating, for about \$1,500. By 1945, a brick two-flat (one to live in, one to rent out) brand new duplex would run \$5,000 in the far-out Chicago suburb of Berwyn, within easy commuting distance of the factories. Last year, the average home in Los Angeles, median price was \$624,000 where half of the sales were for less, and half sales were for more.

### **Cheaper Prices Elsewhere?**

You could find cheaper rents and cheaper housing, if you searched, in less-developed areas. While prices of homes in North Jersey, average \$500,000 and up, within commuting distance of NYC, South Jersey averaged \$150,000 to \$200,000, commuting distance to Philly metro jobs, depending upon the areas measured.

Head north to Boston, and you may pay \$2,000 per month for a basement apartment, not very fancy, but an easy commute to a nearby university in Cambridge. During the 1930s, 35¢ would buy you a good meal at a big city cafeteria. During the mid-1950s, McDonald's was selling hamburgers for 15¢, cokes for 10¢, french fries 10¢ and shakes

for 20¢. Comparable burger joints now want to sell you their burger sandwiches for \$5 to \$6 each!

#### What Does It All Mean?

Since the U.S. currency was completely separated from its gold and silver backing on Aug. 15, 1971, and even earlier, creeping inflation has pushed prices to levels a kid might think are “normal” today. But adults doing “look-backs” would think increases are massive.

Now here’s the rub. No matter how scientifically and mathematically you study the last seven decades of statistics, it’s hard for educated adults to admit, and even consider the possibility that over the next seven decades ahead to 2007 prices could increase also at historical rates. It’s hard for adults today to consider that the U.S. currency could continue to devalue at historical rates. And it’s hard for them to admit that routine inflation could cause your brain to flame out when you consider price levels seven decades ahead!

It’s not just regional demand, even though in 1900 most of Beverly Hills was just bean fields. In 1967, I bought five rental units near Palm Springs on a commercial half acre where the rents were \$35 to \$60 per month, and hard to collect as tenants were claiming those rents were “way too high”. That was just five decades ago. You don’t even want to know what rents for those five units would be today.

The point is, if you are going to use history and math and economic statistics from the past, as equally far back as you wish to look into the future, you cannot close your mind to what the factual numbers tell you, nor be super-selective looking for exceptions. Truth is, most Americans spend most of their money on housing, food, clothing and cars. If you measure the things they’ve spent their money on in the past, using history as a guide, the answers are fairly easy to go into the future, to see what things will look like then. 35 years ago, I was looking at new 1972 Cadillacs at \$6,000 list, and also 280SL Mercedes Benz convertibles at \$5,900 list. In just 35 years, comparable vehicles have list price increases of 1000% to 2000% or more.

Therefore, do your kids and grandkids a favor, help them get into hard assets early, into things that will go up in value; rental properties that throw off a continuing stream of increased income are a good place to start. Right now, the Forecaster Moneyletter is cautioning our young adult clients not to buy homes, but instead to buy a duplex, triplex, or fourplex, priced about the same or a little more, that will throw off a continually increasing stream of income on a fixed FRM loan.

The actions young adults take today may make them multimillionaires come retirement time! Don’t take my word for it, just check the history.

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