

Should We Be Worried About Our Real Estate Investments?

Cliff Hockley, President

Bluestone and Hockley Real Estate Services

As the stock market continues to respond nervously and yo-yo up and down, and as money market fund yields and 401K balances are shrinking, we are faced with the real question: where to put our funds to invest into the future?

Investors face many issues that continue to astound us, many related to real estate financing; let's look at what has happened over the past few months.

- The Treasury Department has taken over Fannie Mae and Freddie Mac
- Commencing in October of 2008, the federal government is funding \$300 Billion in FHA loans to enable homeowners to refinance from variable rate loans to fixed rate loans, and authorized FHA to refinance up to 500,000 loans.
- The federal government takes an 80 % stake in AIG and invests via an eighty-five billion dollar loan
- The Federal Government wants to create a seven-hundred billion pool of funds to buy bad debts
- FDIC coverage is limited to \$100,000, per tax payer ID number per Bank
- Residential new housing starts are down 25% over last year (which was a banner year for housing starts). <http://www.marketwatch.com/news/story/us-housing-starts-hit-10-year/story.aspx?guid=%7BF3D19719-465F-44E1-806C-37758D194B05%7D>)
- Residential foreclosures for September 2008 according to Realty Trac and Bloomberg News (Dan Levy, September 12, 2008 internet edition): "Nevada had the nation's highest foreclosure rate for the 20th consecutive month, with 1 in 91 households in some stage of default, according to RealtyTrac. Filings rose 16 percent from the previous month and 89 percent from a year earlier to 11,706. **California had the second-highest rate, one in 130 households, and the most filings at 101,724, a third of the nation's total.** Defaults increased 40 percent from the previous month and 76 percent from August 2007. Arizona had the third-highest rate at 1 in 182 households, followed by Florida, Michigan, Georgia, Ohio, Colorado, Illinois and Indiana" RealtyTrac said.
- Washington Mutual is sold to JP Morgan

- Merrill Lynch is sold to Bank of America

Other issues to consider:

- Oil prices will decrease
- The truly global impact of this recession will make it mandatory for the federal and other governments to prop up businesses in trouble
- Move by the Federal government to increase the regulation of the banking and finance markets
- New bankruptcy laws make it much more difficult for businesses and individuals to file for reorganization. This will increase the number of people that give up their homes, and close down their businesses.
- Businesses will be working hard at right sizing, so they are not caught in the maelstrom of the financial meltdown. Layoffs will be prevalent and the unemployment rate will increase.
- Inflation will be visiting us again as the government tries to find the money they need to keep the economy intact.

What does this mean to the average real estate investor? In all cases each market place is different. In some areas:

1. Houses are still renting - if they are priced competitively
2. Apartments are renting, but the quality of the tenants can be challenging, with medical collections and credit problems.
3. Retailers are beginning to suffer, some are closing stores and leaving holes in strip shopping centers.
4. Office building owners are losing tenants; for example mortgage companies, builders, real estate companies, and companies that have real estate related interests.

Investors want to know where the bottom of the market is, so they can decide if they are going to purchase investments. The biggest challenge is that some properties have vacancies or are totally vacant and therefore, face a hard time getting financing.

As we see the number of large national banks get smaller, there is room for local banks and insurance companies to step in and fill the void although some local banks may face problems with too many non-performing loans to builders and developers, which will first need to get cleared off the books.

Developers are motivated to unload land and projects that they may own to generate cash to keep their doors open for the next 12 to 24 months.

For those investors who can tolerate risk, now is the time to look closely at land deals and make selective purchases to hold for the next 36 months.

The Bottom Line

We are in for 12 to 24 months of market reorganization. Those investors that have been sitting on their money will be able to find deals in many markets, especially in Nevada,

California and Arizona. Local markets will have pockets of opportunity as properties with high vacancy rates will go back to banks.

Those investors who have not over-leveraged their investments will be able to sustain the vacancies. Those with too much leverage will need to create a method to negotiate with banks or bring in cash partners to reduce the risk.

So if you have money, you have 6 – 12 months to find some good deals, and hold onto them while the market improves. Simple demographics dictate that our population will continue to grow nationally, and that a strong market will return, albeit a more conservative highly regulated market.

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. Reprinted with thanks and permission.