

Cash Flow Apartment Rental Properties: What's Ahead (The No-Show "Housing Bubble": Where Is It?)

By John V. Kamin

During Y2K hysteria, 2000, 2001, 2002, 2003, many traditional analysts kept predicting a "housing bubble" soon to crash. But by 2004 and early 2005, though they'd been wrong for going on 6 years, that stubborn "housing bubble" had failed to show up.

Seems that some analysts might have wanted you to put your money in something other than homes, housing, apartment buildings, and other fast-increasing real estate, which analysts saw as competition.

This Contrarian's predictions, however, were very much different, based on our laws.

According to a survey of 42 apartment markets nationwide, the TOP 5 markets in the country for apartment buildings in 2004 were ...

By 2005 many developed properties in growth-oriented metro areas (where the jobs are) had gone up 50% to 100% and even more. In our favorite growth area, Las Vegas, during 2004, homes were marked up 50% that year alone! Long waiting lists were created (until buyers rebelled at the super-speedy monthly markups)!

What's The Point?

A. Before you jump off a speeding train, you'd better make sure it is stopping at your station. Our advice in the last four years has been consistent: Keep your best properties, but use the steep rise in prices to sell your worst properties, ones you can't even get a bid on in the normal cycle. Boondocks. Areas going bad, toward high crime and slums. Problem properties.

B. Real estate indeed does move in cycles, usually lasting between 7 to 10 years from top to bottom to top. While we probably are approaching the top of the current property cycle, or already may be at the top, so far there are few other signs of slowing.

1. Listings are still down, though increasing slightly, are still way below normal levels.

2. The recent rise in the Federal Funds Rate by the FOMC has pushed T-bills from below 1% up to 2.6% and the FF Rate was raised several times.

3. **PREDICTION:** As long as mortgages are obtainable well under 7%, rate rises in mortgages will probably not sabotage the housing market.

4. Another market supply-limiting factor has been the bureaucratic delays in zoning new land. Or as Will Rogers put it, "They ain't makin' any more land." There is a shortage of building lots available in many urban neighborhoods, sometimes with no building lots available in high-growth communities such as San Diego, etc.

5. While outlying suburban locations may be opening up to massive new developments, the in-close building has slowed to a crawl.

Newest Trends

6. There is a new trend; the building of McMansions. That is, lot-starved builders will tear down small houses on large lots in close-in established older neighborhoods then put up two-story and three-story McMansions running 2500 sq. ft. to 6500 sq. ft. to the amazement of their established neighbors! Whether the neighbors like it or not, that's what's been happening. One guy in Santa Barbara put up a four-story residence on a 20 ft. lot!

7. Another new trend can make for a shaky property market in the years ahead, as the cycle turns. Dr. Alan Greenspan said, "Bad loans are made during good times."

8. **FORECAST:** I believe many lenders will probably regret, a few years down the road, lending on properties where the buyer has little or no equity at 0%, to 3%. If the property market turns down 10% or 15%, a number of those buyers may become "walkaways"; just getting behind

on their payments during any new recession, or individual problems, handing over the keys to the lender, and walking away. Those repos could turn into quick foreclosures.

9. But because many buyers have little or no equity, the banks and other lenders may have to discount those repo properties 10% to 20% to “move” the foreclosures. Of course, we like foreclosures where you can pick up substantial equity; see the book How to Make Money Fast Speculating In Distressed Property.

10. **FORECAST:** I expect the metro real estate market to return to its normal cycle, topping out as the months go by, though there is no telling exactly where the top is, probably 2006-2007.

Trends Localized

11. Another new factor that you must consider is that not the whole market moves up and down the cycle the same way. Or to paraphrase one politician, “All property markets are local.” In other words, South Florida and Central Arizona and Southern California and Clark County, Nevada, could be increasing. Meanwhile, mid-sized cities suddenly could go slack due to move-outs by one employer in smaller towns, closing of military bases, other factors.

FORECAST: I don't expect the national housing market to move as one unit, but to move instead sector by sector, continued growth in some urban markets, while sales-slack appears in areas with stagnant job opportunities and areas where populations may be decreasing. (Avoid the boondocks.)

12. Another new factor is that when the real estate cycle turns, sales become harder, but most people don't sell their properties. E.G. if you are a homeowner, would you sell your house simply because it had dropped 5% or 10%? Probably not.

Even on over-mortgaged properties, even if prices fall, owners who can keep making the payments probably will...otherwise they just have to find a new place to move and live.

It's not the same thing as when copper prices fall or used SUV prices may be subject to more expense, you don't just dump everything when you are a homeowner. You find other ways to keep making those mortgage payments, even if it means borrowing from relatives, running up the credit cards, or other alternative measures.

13. One way past housing cycles usually worked, is that sales may stagnate for a while, the urgent deals get done at discounts; but for various reasons listing prices don't drop much, if at all. In other words, I don't think you have to worry about 30% or 40% drops in the housing markets in established urban neighborhoods where the jobs are, nor even in the new farther-out suburbs. Nothing like the RTC debacle that took place during the late 1980s where established repo properties were auctioned at average 59% of low appraisal.

14. **FORECAST:** Inflation is ongoing, reflating has begun, and all the world operates on fiat currencies. Everyone needs a place to live in 2005-2007.

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According to a survey of 42 apartment markets nationwide by Marcus & Millichap, the TOP 5 markets in the country for apartment buildings in 2004 were in Southern California and Las Vegas: Riverside/San Bernardino, San Diego, Orange County, Las Vegas, Los Angeles. Worst for apartment rentals? Indianapolis, Cincinnati, Houston, Raleigh, Columbus, Milwaukee, Cleveland, Detroit. What did the M&M survey look at? Rental demand, rental growth, employment growth, vacancies, construction and housing affordability among other weighted factors.

Coming in on the good side of markets, #6 is Washington, D.C. I like D.C. suburbs' growth!

FORECAST: Government. is a growth industry, regardless of which party is in power.

One major factor: high housing demand and sharply-rising home prices make renting more affordable than buying for millions. Biggest rental “dropper”? Miami, due to competition from affordable (CHEAP) condos.

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 Wealthbuilder 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.

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