

Real Estate Forecast for 2005 - "Boom or Bust"
by Albert Banks

As we buckle our boot straps and prepare for the ride in 2005, what can we expect in the apartment sector? In spite of the weak trends in the Los Angeles job market, the multifamily market remains tight. One reason, I suppose, would be the extremely low vacancy factor, which today is estimated to be less than 4%.

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real estate prices can be anticipated.***

Although the Los Angeles area remains one of the most expensive places to live in the United States (mainly due to the high cost of housing that continues to sore while middle income earners' salaries do not), the Southern California region leads the nation in both market strength and investor appeal. Demand for apartment units continue to exceed supply and asking rents for vacant units continue to rise at a 5% annual rate. As this trend continues, high real estate prices can be anticipated.

While the thought of higher interest rates becomes reality, sellers will make that last attempt to benefit from a market that has been very favorable to those apartment owners choosing to sell.

We are starting to see more available inventory, however the asking prices have remained aggressive. Economists draw a parallel between today's high Gross Rent Multiplier and a high Price-Earning Ratio for a stock, usually as an indicator that the stock is overvalued and due for a fall. Prices for apartment buildings have rose faster than rental increases implying that either prices will soften or rents will increase. In rent controlled areas, that amount of increase is limited to 3%. As interest rates start to increase it will be equivalent to air seeping from a balloon ... prices will stabilize and investors will once again look to the "yield" to determine the feasibility of their investment. The bigger the yield, the better the investment.

At this point, sellers are still reluctant to lower their expectations to accommodate the market place and perhaps, there is no need to. Even though apartment buildings are staying on the market longer, multiple offers are common for apartment investments offering an acceptable yield.

Is Now the Right Time to Buy?

Simple. The right time to buy an apartment building is when you find the right deal. The right deal is the one that offers capitalization rates that derive reasonable cash-on-cash returns.

Is Now the Right Time to Sell?

It depends on your exit strategy or what your intentions are. As a seller you do have choices which include taking the profit and paying the taxes, investing in another state where the anticipated yield is much higher or you could do a 1031 Tax Deferred Exchange, TIC (Tenant In Common) investment or create a PAT (Private Annuity Trust). The Tax Deferred Exchange, TIC, and the PAT are specifically designed to minimize your tax exposure in the year of the sale.

Call Albert Banks at (818) 235-1125 today for your FREE Booklet on Tax Deferred Exchanges or for additional information on exit strategies that could minimize your tax exposure.

Albert Banks is an associate broker with AOA Commercial Brokerage and has specialized in multi-family sales since 1986.