

Condo Oversupply Concerns? First Reports Filter In: Slump Signs?

By John V. Kamin

Condo purchases are going crazy in a number of locales. Not only have builders accelerated full speed ahead, owners of existing buildings are converting apartments to condos, warehouses to condos, high-rise offices to condos and industrial lofts to condos.

The hot 2005 property market for single family dwellings has spurred condo construction and condo conversions, no doubt about it. Price rises have also attracted flippers, speculators, leveragers and arbitragers.

The recent attraction was to put down a small deposit, 5% or so for one planned condo, with no further payments due until completion. But that's last year's gig. The idea was to have the condo selling for \$100,000s go up in price while you, the owner, "controlled" it with your deposit, providing 10 to 1 or 20 to 1 leverage. After all, who wouldn't want to make \$200,000 by putting up a \$5,000 deposit?!

Sell your worst properties now, but keep the best.
Build some cash and cash-form assets
that you can utilize in NTS (Need-To-Sell)
situations at the bottom of the next property cycle.

The New Kick

The latest idea is that condo buyers, flippers and speculators just put up a "promise to pay", basically known as a "letter of credit" on the condo in the unbuilt, incomplete project, little or no cash up front. Then, each owner controls the unbuilt ghost unit as construction proceeds. The developer borrows his construction money from lender based upon the "reservations", and all the pieces come together, hopefully. Especially attracted to these new "phantom money" condo deals are flippers and speculators. Many hope never to take possession of the condo, never to have to pay in full, but only to resell condo around completion time for a quick giant profit! Will it work?

The flipper plan, with or without money down, might work if everything falls into place, if developer's promises are kept, if lenders don't foreclose on uncompleted projects, and if the market holds up for 18 to 30 months without a downturn. That's four big "ifs".

NEW REPORTS are filtering in here about a surplus of condos in some of the hottest markets. Chicago, Miami, and Las Vegas metro, that have many unsold condos and 1000s more planned, coming on line.

Voices of Experience

Dr. Alan Greenspan warned bankers at a Texas meeting two years ago with this blunt advice. "Bad loans are made during good times." With so many people putting down cash, no-cash letters of credit, small deposits, but not intending to make the condo their home, what will happen if the condo market hiccups? What will occur if there is a sudden oversupply?

Think Ease of Resale, Liquidity

This economist can refer back to decades of experience, where during much of previous real estate cycles, condos were harder to resell than single-family residences. Condos took longer.

Selling during property downturns, condo prices might have fallen or had to be discounted from 25% to 50% to get a deal done.

One Las Vegas condo buyer mentioned during August 2005 that he now was able to get a \$50,000 discount on a condo; where they already had been selling for \$380,000, he was able to buy for \$330,000. That's not a good sign in Las Vegas metro where some 29,800 condos are already approved to come on-stream over the next four to five years. If condos there are already

in an oversupply situation, what flippers, speculators and absentee owners will buy them once the property market goes through its normal, cyclical acrobatics?

Buyers Never Plan to Live There?

One concern I have for certain hot markets such as Las Vegas is the following. In an area such as Las Vegas metro, where hotel rooms are incredibly cheap (occasionally free), why put up money for a \$500,000 or \$800,000 condo for mostly unused occupancy?

Hotels have better services on site, closer locations, often (less crowded) midweek prices \$20-\$100 per night. Just paying the monthly association fees, plus interest, plus property taxes on a condo can buy you 30-120 days of hotel stays.

Sure, there are less-informed people coming from NYC. Minneapolis, Boston who pay \$299 a night for the same hotel rooms that Californians get for \$50, buy they're not staying long either, not planning to stay two months in a 365-day year! So why pay \$10,000s in interest, condo upkeep fees/property taxes?

Cash Talks, Empty Pockets Walk

If flippers and speculators sense a market turn, or have trouble reselling, or inability to pay for what they promised at completion, with delays, suddenly they'll be out of the market, too. Bluntly, there could be a glut of supply in certain hot resort areas as well as in big cities such as NYC, Chicago, Boston.

Miami apartment building owners are already complaining about the huge number of condos and condo conversions being rented out, saturating the (apartment rental) market. According to owners, these condo rentals compete with apartment rentals and are depressing monthly rentals!

Point is, I'd hate to see our clients get over-extended with limited resources by signing up for due-on-completion contracts that they can't handle. I'd hate to see our friends and Forecaster members get caught up in illiquid situations when they can't resell as fast as they planned if the market suddenly shifts. Strategy: diversify, have fun, make money, but build some (liquid) opportunity money for the next real estate downturn.

This economist's advice remains, "Sell your worst properties now, but keep the best." Sell your problem properties now, those you can't even get callers to come and inspect in a property market downturn. Build some cash and cash-form assets that you can utilize in NTS (Need-To-Sell) situations at the bottom of the next property cycle. And have some fun rather than getting stretched too thin!

The Black Gold/Yellow Gold/Dollar Triangle Shifts

Your assets (or lack thereof) have been moving sharply during the last month.

Clearly, the Federal Open Market Committee recognized the shift and boosted interest rates, a dozen times, in ¼% amounts. **PREDICTION:** The Forecaster has predicted higher inflation ahead for the last 2 years, to give members plenty of advance warning.

FORECAST: Both in The Forecaster and at speeches over the last 2 years we have warned that higher-cost energy is not a temporary phenomenon, and that energy costs would remain high for a long time.

Oil performed like a trained seal, then backed off, to settle at still-high levels.

As predicted, as OPEC and Arab oil producers make big money on \$60+ per barrel oil, some of that money finds its way into gold. Silver gets pulled up as the poor sister.

FORECAST: A rising gold price will attract more goldbugs and silverbugs.

The U.S. dollar, which has been a basket case for several years, neither strengthened nor declined, settled just above record lows in relation to the £, the ¥, the yuan, and the euro.

FORECAST: You're not done yet. Example: oil is priced in dollars per barrel, worldwide. A stronger dollar would mean Americans paying less for oil, while other currencies (including the recently strong ones) might flounder.

FORECAST: Higher interest rates might kill the mortgage market. That would kill the housing boom, eventually. Whom do you know who doesn't buy property with borrowed money,

mortgages, 1st Trust Deeds, and home equity loans? Commercial properties are invariably sold with some kind of carefully-schemed-out financing.

So, higher interest rates clearly do endanger the housing boom.

PREDICTION: If there's one thing that might cause the FOMC to stop pushing up interest rates, it would be a sell-off in the housing markets, an end to the housing boom. So far, that has not happened. We're still waiting, prepared to wait a long time for the other shoe to drop.

The BIG QUESTION: will Americans conserve, cut their demand for oil, energy?

FORECAST: Maybe they will conserve, drive less. But so far there's been little numerical evidence. Americans and their much-loved vehicles are still guzzling, still paying the price, regardless. Drivers do not want to change.

Meantime, those members who believed us during 2003, 2004 and 2005 about higher inflation coming soon and just ahead, have now had their faith justified. The new inflation numbers over the last couple of months have been a shocker to Washington and New York.

Politicians, bureaucrats, and those with vested interests would have you believe that "rising inflation is not really happening". Nonsense! But to strengthen their case, current hype is to factor out food and energy prices from inflation, and then it "won't look so bad".

My Answer? Just show me those folks who don't eat food and consume energy, and I'll go along with the factoring out energy prices and food prices from the monthly inflation numbers (CPI). In case you hadn't noticed this summer and fall, even during peak seasons and with plentiful imports, families have been paying substantially higher prices at the supermarkets.

PREDICTION: Transport costs now will rise (as a result of higher energy prices during 2005).

FORECAST: Producers and produce-sellers at the wholesale levels and those who transport the goods are now being forced to raise their prices. With transport prices increasing, can supermarket hikes be far behind? I think not.

Just as higher gold demand resulted when oil producers reaped max profits, higher inflation will recruit new goldbugs and silverbugs. Goldbug buy-ins (we especially prefer gold and silver coins to bars), are likely to support and lift further the precious metal (coin) prices.

Gold and silver appear to be in new higher trading ranges compared to 6-24 months ago, as predicted. They're no longer in the doldrums.

That's not to say that prices can't fluctuate, giving you some buying opportunities on bullion gold and silver coins on the lower part of the bounces. But we don't know (yet) where the tops of the current trading ranges are. If we had to bet on it, it would be somewhere between \$500 and \$525 oz. on coined gold.

FORECAST: Those new tops could easily be exceeded, given a few more months of higher inflation numbers as producers, transporters, manufacturers, builders, and others, all quit eating all those creeping cost increases and instead hike prices accordingly. Look for it.

You probably won't see nor hear this sort of Contrarian analysis elsewhere. But the trends are strong and likely to get stronger. Techies rejoice! Breakout points on the charts have been exceeded, and you're in new territory, though diehards may deny it even as the numbers rise. More on this in reports to come. Don't forget to have some fun as you're making profits. Your persistence and faith have been rewarded. Perhaps it's time to tell your friends to subscribe to Forecaster Moneyletter, which led the charge of the faithful among tangible asset crusaders and accumulators!

Best Silver Bets on Rarities for Small Budgets and Larger Ones

When the 1916P Walking Liberty 50¢ first came out, nearly a century ago, observers called it "America's most beautiful silver coin". In the late 20th Century, the design of 1986 Silver Eagle "lifted" the design of the 1916 WL 50¢.

With an original mintage of only 608,000 90 years ago, the 1916P 50¢ still sells for only \$285 wholesale Mint State 60, \$385 MS63.

A sister coin from San Francisco, 1916S WL 50¢ has an even lower mintage: 508,000, \$900 MS60, \$1750 MS63. 1916 Denver 50¢ had mintage of 1.04 million, but is still cheap - \$300 MS60, \$460 MS63. Purchase these and following recommendations in PCGS or NGC holders; avoid the black dogs; white ones are worth a premium.

Heavyweight Silver Dollars out of America's Past

If your wallet is a little heftier, suggest you consider the 1879 thru 1883 Silver Trade Dollars in Proof 64 condition. No circulation strikes were available for those five years. Sometimes (not always) you can pick up these scarce proof coins for the price of the more common proofs, \$3,850 wholesale. They sold for \$7,000 and up a few years ago. The Trade Dollar is one of America's most misunderstood and also heaviest silver dollars. But after 1878, none were made for circulation, only a miniscule amount of proofs. For the 5 years mentioned, 1879-1883, total mintage was 8179, 1541; 1880, 1987; 1881, 960; 1882, 1097; 1883 979.

Scarcest proof Trade Dollars these five years are 1881, 1882, 1883. More available are 1879 and 1880. Sometimes it's worth paying \$200-\$300 more to get 1881, 1882, 1883. 2006 Guide Book doesn't list them in Proof 64, only in Proof 63 (page 210).

Want to wait another 1¼ centuries to get them? Put one or two away now Trade Dollars 1879-1883 in PR64 condition while available. Two or three decades down the road, your kids may not even be able to find them at the "common date" price as they can today. Caveat. Buy only in PCGS or NGC holders, not dealer holders; avoid black dogs/rust-colored proof Trade \$1s.

The eight recommendations could easily triple or quadruple long term, estimated risk 15% to 25% of current wholesale. Most have long since been melted, lost, destroyed; how many can remain today? Put away a few better silver bets from long ago. I think you'll be happy you did, and your heirs will thank you!

Monetary Indicators and Analysis

Shocking inflation figures were just released, Consumer Prices up 1.2% for September. What they didn't tell you: that 1.2% rate hike if annualized would be 14.4% inflation! Yet to come: new car prices hikes as September car stats had in all those discounts and rebates until October! 180-day T-bills are now discounted 3.95% annualized at the latest weekly government auction. That's nearly four times the discount low before the FOMC started hiking rates recently.

PREDICTION: Americans are embarked upon a "see no deficits; hear no advice; save no money; take no action" trend. None are so blind as those who choose not to see, none so deaf as those who choose not to hear. They save nothing. Experts concede that this kind of financial non-awareness is suicidal to one's wallet, one's assets. These are early warning signs of a potential cyclical change ahead, spelled "recession". Coming issues suggest how to take control of your assets, protect yourself from higher inflation amidst an impending downturn; save hard money instead of soft money; minimize cash outflow and multiply cash inflow. And have fun!

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.

Forecaster Money-Letter publishes confidential reports about the future to benefit you, and makes decisions easier. It helps you profit, sidestep losses, enhance lifestyle, creates financial independence.

Send for 10 issue trial. \$120 value. . . only \$59 when you mention the AOA. Mail check to: Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356; or phone (818) 345-4421 and put it on your credit card for immediate shipment if you wish.