

Bubble, Schmubble!

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Is the Real Estate Boom going to BUST? Or Is the *concept* of owning/investing in Real Estate just coming into its own???

You can't pick up a magazine, turn on the TV or go to a party without hearing or reading about the present Real Estate BOOM or the impending BUST. Prognosticators abound as property prices move higher, sometimes (seemingly) without any rationality.

A friend of mine, who's a multimillionaire in real estate, told me the other day that he knew the market would turn down soon; so I asked, "Why"? He replied, "I flew into Las Vegas last week for a meeting and on the cab ride my driver told me he owned 5 rental houses and would be retiring from driving in three years. When cab drivers start giving me real estate advice, there are just too many people in the market!"

Hey, aren't you describing the American Dream?

But then again, what about a market like San Diego that boasts a \$500/sq.ft. condo at the end of the Airport runway, or Las Vegas reporting 2-5% monthly appreciation in some zip codes for two years running creating six-figure equity in less than one year.

Miami condo converters are creating multi million dollar profits for investors in less than 24 months. Riverside California has experienced 68% appreciation in three years and in Phoenix, an 1800 sq/ft. Arcadia district home built in the 1950's was purchased for \$240,000 last August, and after rehab sold for \$460,000 in April...they say this double digit annual growth CAN'T CONTINUE! Average people are making too much money! The Bubble has to Burst!

The concept of a "Bubble Bursting" in a multi-trillion dollar industry like real estate is quite frightening, as most of us would be directly or indirectly affected by a sudden and far-reaching correction. (It'll be pretty hard on the poor "bubble" too)

If the market came to a grinding halt we could suddenly lose billions in equity, people related to the market would lose their jobs, billions in commissions and fees earned on real estate transactions would evaporate. This could very well create a countrywide recession and (God forbid) many of us who make our living investing and adding value to real estate might have to go out and get a “real job”. I told you this would be frightening!

I'm sure there are investors reading today that bought stocks during the Dot-Com craze. Now that was a Bursting Bubble! In a few short months, billions in paper profits vanished! Retirement accounts dwindled, commercial property came vacant, real estate in the silicon valley saw dramatic declines in value and hundreds of 24 year olds had found themselves having to work for more than 3 years to have \$20 Million in their retirement accounts!

Could you imagine the RE market tanking like the Dot Bomb Phenomenon? No Way!
Why Not?

Because Real Estate has value! Simply put, it's where we live, work, shop, play, and eat.

Individuals and Institutions still think real estate across America is a good value! So mortgage investors have kept mortgage rates low, and qualifications fairly lenient. Fact is, even with the Fed raising interest rates, mortgage rates are still at historic lows (less than 5.5% as of this writing). Low interest rates, and more lenient underwriting mean we can purchase a more expensive home for a lower payment, and more people can qualify.

How do you invest in America without buying US Treasury Bills, Bonds or Dollars? Lend Americans money on their Real Estate! Savings conscious countries see a weaker dollar, and value priced real estate (compared to many other developed countries) so they lend money to mortgage banks at favorable rates, and they, in turn, lend it to us.

Baby Boomers are looking to retire, they are uncertain about the future of Social Security. They are uncertain about their company-controlled 401K's that are heavily invested in Wall Street. They are uneasy about their health benefits after retirement. There's no wonder that they are seeking safer, more predictable investments like real estate.

The Baby Boomers are investing for retirement security, lifestyle and diversification. They have cash to invest. Homeowners that have enjoyed trillions in increased home equity since 1999 and are cashing out and buying in other markets. More cash to invest. Mom and Dad have college age kids, they're buying income property around the campus.

Boomers know where they want to live, and the place probably doesn't have anything to do with shoveling snow! So they are buying more real estate, and usually in warm or temperate climates and college towns (creating Hot Markets).

Yep, there could be an abundance of "irrational exuberance" because some people are leveraging themselves to the hilt to buy property, thinking there won't be an end...and I do agree that prices can't grow at this pace forever.

So do I think there could be a CORRECTION in the market...ABSOLUTELY!

WHEN?

When the money slows down. Or stops.

That's when you have more sellers than buyers...

But why would money dry up now that Americans are enjoying so much prosperity? Why slow down the real estate market when it's driving a large segment of the economy? Doesn't make sense...

Money will slow down when the risk of lending becomes too high. Sooner or later, our DEBT could just get TOO HIGH. If debt continues to rise, but wages don't...

We will have a rise in FORECLOSURES and REO's.

Remember, Capital seeks Return...it goes where the return is the highest for its risk tolerance (and most smart money MINIMIZES risk).

Recently, up to 50% of mortgages have been "adjustable rate" and /or "interest only" so that we could afford more home for a lower payment. It's inevitable that interest rates will begin to rise on these mortgages, and if we aren't earning more money to pay for the increase, or the economy slows down and we lose our income...more houses will go into default.

The saving grace now is that people are choosing more fixed rate mortgages since the adjustables are almost the same payment as fixed. And this is driven by whom? The mortgage companies. They see the coming problem and are pricing the "riskier" mortgages higher, making fixed rates more attractive.

With all this, what's my best advice?

It's simple:

Stick to the Fundamentals. In any market, Up or Down, there are always Motivated Sellers and Great Deals. Today, money is still inexpensive and plentiful so take advantage of it.

Four Keys to Profitable investing:

1 Your Direction determines your Destination, so be careful the road you choose because it's leading you where you're destined to end up!

Determine your Overall Objective by deciding what you want to accomplish with your RE investment efforts...is it:

Capital appreciation,
Rental Income,
Quick money,
Interest income, or
Wealth?

Determine you resources:

FICO,
People,
Capital,
Time,
Temperament
And?

Then, get a Plan.

The cabbie had one.

He was going to buy 10 houses in three years for rental.

Let's see if that works. 10 houses at, say, \$175, 000 each is \$1.75 million. If he had 5% down on each, that would be \$87,500 in cash. Assume that each has positive cash flow (and we always recommend to buy with positive cash flow), he would have \$1.75 million in assets with a substantial deduction for depreciation and expenses each year (possibly offsetting most or all of his income) and the tenants would be paying his mortgage.

In 15 years (using the average annual appreciation of housing over the past 20 years of about 5%) his houses would be worth over \$3,500,000 with mortgages of, say \$1,000,000 **would make him a two and a half millionaire!**

#2 Get Knowledgeable

Invest in yourself, and profit from others' mistakes, successes and expertise.

Attend seminars and investing courses www.refortune.com,
Read books and listen to audios in your car,
Join your local investment club, and research on Internet websites for statistics and data like www.census.gov/econ/www/index.html

#3 Choose the Strategy and Property Type that fits your Objectives

REIT's allow you to have professionals invest and manage for you, they work like a mutual fund;

Fix and flip, buy a house fix it up and sell for a profit (we suggest you set your net-net profit at least \$15,000 per house);

Buy and flip, is a strategy used by investors who purchase home in new build tracts:

Buy and hold, purchase a property and fix to rent like the cabbie. If you use creative buying strategies like lease options, or "subject to" you may be able to control a large portfolio of real estate for little money out of pocket, and no strain on your credit report;

Lend money for interest and/or profit, find pro's that fix and flip and lend them the money to purchase properties at much higher than bank interest rates.

Buy Trust deeds, buy "mortgages" on real property directly.

Pick the Property Type that most interests you:

Residential new build (buy the day the trailer shows up),

Residential resale,

Multi-unit: Duplex, triplex or 4-plexes help you diversify your rent risk without having to invest big dollars, and since they are valued from comps (residentially) you can get favorable mortgage rates

or

Multi family, Apartment complexes are five units or more and have commercial valuation usually requiring a more substantial down payment;

Commercial and triple net, usually requires more cash to get started but can be quite attractive for cash flow and appreciation.

Raw land (many times you can acquire land for little, or no money down...but determine your "holding costs".

Land development, fun, profitable, but learn what you're doing first!

Then find sources of bargain priced properties:

Pre-foreclosures, This is potentially very high profit. Help people that are in trouble with their mortgage company bail out and start fresh.

www.buybankhomes.com

Auction properties, attend the auctions and bid on foreclosed or seized property.

REO's, buy properties that the bank had to repossess.

www.buybankhomes.com

Probate, heirs many times just want to clear up an estate quickly, and will let properties go at bargain prices; or

Tax liens, attend tax lien sales a buy back tax liability. In Arizona, you earn 16% on your money, and have a chance to own the property after three years.

#4 Build a Power Team. Your Net Worth is largely determined by your Network! Especially in Real Estate. Aside #1, this is equal in importance. If your road is wealth through real estate investing, doesn't it make sense to have others with you assisting you reach your destination?

Realtor, they work for commission, and if you buy property through them, they make a living;

Property sources, Internet sites like www.buybankhomes.com;

Tax advisor, 1031 exchanges, Roth IRA and other IRA investing can eliminate or defer taxes on your investing profits;

Lawyer, don't wait until you need one to establish a relationship here;

Title Agent, a great resource for property data and information;

Money sources, get an investor friendly mortgage broker, seek out asset based lenders, and don't be afraid to run deals by friends and family; and.

Construction trades, if you intend to fix and flip or buy and hold, and aren't a handyman...I can't say enough here.

#5 Take Action!

I suggest you buy locally first. Learn the trends for the geographical area and property type that you want to invest in.

If you purchase for rental, make your objective to have properties with positive cash flow, and

Look for what is *not seen* by others in the property...how you can create "value" not seen by others.

While I don't think someone will purposefully put a pin in the Balloon tomorrow, I do believe that it might slow, or even lose some air before the End of 2005.

ACTION is the Ultimate Key. You make money in real estate when you BUY, not sell. You can make money in any market, up or down. So stick with the key fundamentals and find a formula that works for you.

...and I wish you Successful Investing!