Kahr Notes

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"Kahr Notes" is an electronic newsletter from Kahr Real Estate Services LLC that carries interviews, news, and original research.
This month's issue is going to 624 readers.

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In "Kahr Notes" this month:

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1. Opening Shot

Welcome to another issue of Kahr Notes.

I'm proud to announce that in addition to the various hats I wear (i.e., consultant, teacher, dog owner), my real estate investment business is going well. This pleasant turn of events has, of course, caused me to ask why.

First, a little background: over the last 6 years, my father and I have been purchasing small investment properties in Burlington, New Jersey. Burlington is a town of about 10,000 people and it lies halfway between Trenton and Camden, New Jersey. It's on the edge of the Philadelphia suburbs. The town has been there since colonial times.

Whereas everyone I know in New York City talks about how they can't find a real estate deal that makes sense, we find lots of reasonable priced properties (or more accurately, the prices are reasonable after we bid low and they accept). Are we lucky? What gives?

The best answer I've come up with is that most people with capital to invest tend to be located in major cities. Hence, they cannot find properties for a reasonable price because of the competition. New York City, as an example, is filled with upper income professionals whose only investment strategy has been to buy stock. Stock, as we're all painfully aware, has not been performing as of late. The result of this is that miserable properties in New York are trading at prices that are unreasonably high. Cash has fled the stock market and flooded the real estate market.

On the other hand, towns like Burlington have assets that can be acquired for values that make sense. There is no flood of cash in small low to moderate income communities chasing real estate deals. Even the local wealthy people aren't that wealthy when compared with the big cities.

The result of this is that as of the writing of this newsletter, we own 18 properties. Half of these have been bought with outside investors from communities like New York City who are willing to travel in search of a good deal. What I find funny about this perception is that Burlington isn't that far away. It's only about 90 minutes by car and there is also a light rail system that is being constructed right now. When it's operational (which should be by the end of the year), it will connect the town to both Philadelphia and New York City via PATCO and NJ Transit. The way New Yorkers talk about Southern New Jersey, you'd think it was hundreds of miles away.

Finally, to give you an idea of the kind of property I'm talking about, I've posted a few photos of the next deal we're looking at. It's a good solid cash flow deal for a price that you couldn't find in a market like New York City. The web address for the photos is:

http://www.kahrrealestate.com/Portfolio.shtml

That's it for me. You'll hear from me again in the height of the summer. Keep cool and enjoy your holiday.

Regards,

Joshua Kahr
Editor/Publisher, Kahr Notes

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2. Rent Regulation in the News

For those of you who live in New York City, the big story was the renewal of the rent stabilization laws for another eight years with the vacancy decontrol provision and $2,000 rent threshold left intact. In plain English, what this means is that if you vacate your apartment, and the landlord can utilize the system that reimburses him for capital improvements to boost the legal rent to above $2,000, the apartment becomes deregulated and the landlord can charge whatever the market will bear.

That landlords would attempt to remove units from the rent regulation system is enough for a good political fight. However, my issue right now is not with the tenants or the landlords. My issue is with the abysmal coverage from the newspapers. Every article I read about this topic missed the key element of the rent renewal fight.

The bill that was just passed contained a provision that completely guts the system. The way the law now reads is that landlords do not have to charge $2,000 per month to decontrol vacant units. Rather, they only have to do sufficient work to boost the legal rent to above $2,000. At that point, regardless of the actual rent they are charging, the units are decontrolled upon vacancy.

The result is that every landlord now has eight years to rack up sufficient capital improvements to boost the legal rent to $2,000. At that point, when a tenant moves out, the unit leaves the rent regulation system regardless of what the new tenant pays. Therefore, given enough time and enough capital work that will need to be done anyway (i.e., new roof, new elevator, etc.), all units will be deregulated.

If you're interested, the actual text of the law can be found at:

http://www.housingnyc.com/resources/renewal2003.html

The New York City Rent Guidelines Board highlighted the changes in green. Read the changes and you'll see what I mean. Look for phrases like:

"This exclusion shall apply regardless of whether the next tenant in occupancy or any subsequent tenant in occupancy actually is charged or pays less than two thousand dollars a month. "

We're in a highly regulated business and it pays to understand the rules. In this case, the entire rent regulation system has been undermined and from what I can tell, no one noticed.

(On a side note, it should be pointed out that I do NOT live in a rent regulated apartment and therefore, this change will help me personally. My issue is more with the lack of accurate news coverage than it is with debating the merits of the system.)