KAHR NOTES

Editor's Note

Spring time brings many things, but for me, it means the end of another academic year at Columbia. We're about to pack and ship another crop of MS in Real Estate Development students, and I find myself asking what I do every year. Did we do a good job?

The good news is that this year, they don't appear as job-crazed as previous years were. Regardless of whether or not we did everything that we could, they're going to be OK.

While experts can debate as to whether or not we're in recovery, I have an easy way to measure where we are in the cycle. When the students aren't frantically emailing me regarding their job search en masse, we're in recovery.

OK... back to this issue of Kahr Notes....

Once More Unto the Breach, Dear Friends, Once More

Investments ideas never die; they just wait for their time to come around again.

A number of institutional investors have been buying up pools of single family homes with the explicit plan of recovering value not by selling them off to retail buyers, but rather by renting them out for a substantial period of time. The price/rent ratio is much better on single family homes than it is on buying apartment buildings, and if you focus on that one metric, it seems like a really good idea.

The problem is that it's very challenging to implement well. Management overhead can quickly become overwhelming. I have enough aggravation managing the process of roof replacement for a single 200 unit apartment building; to have to do that 200 times for 200 single family homes fills me with dread. It's not just a matter of writing checks; it's a matter of maintaining focus and effective oversight.

Regardless of whether or not it makes sense for the investor, Fannie Mae sees an opportunity to profit from this investment idea to execute on some of their overarching public policy goals. According to the Wall Street Journal, they're selling off 2,500 homes that already have renters in them as a way to clean up their books, and get some of the foreclosed homes back in the hands of the private sector. See below:

http://blogs.wsj.com/developments/2012/02/27/fannie-mae-begins-marketing-foreclosed-homes-as-rentals/

The weird part is that the plan would require the investors to hold them as rental investments; they would be unable to just flip the houses to owner-occupiers. Normally, this sort of limitation would chase off buyers, but not in this case as there are a number on institutional investors who have this exact investment plan.

Why would Fannie Mae do this? Housing prices continue to be depressed by the oversupply of foreclosed homes. Fannie Mae sees this as a painless way to reduce the overall supply, and that would assumedly raise housing prices for owner-occupiers. If you're Fannie Mae, that's a good thing. Their goal is to stabilize housing prices, and if you can do it with private sector money it's even better.

Stay tuned. Eventually the market will return to normal. People will own homes again, and the "single family homes as rental apartments" concept will pass. This is one more step in the recovery.

Classes

We still continue to offer Excel for Real Estate Analysis and Argus training classes every other month.

If you're interested in taking a class, the schedules and how to sign up online may be found here:

http://kahrrealestate.com/exceltraining.shtml

http://kahrrealestate.com/argustraining.shtml

By the way, we still have spaces open in our Argus class this weekend, so if you'd like to sign up, don't be shy. It's a great class and I continue to receive excellent feedback on it.

About the Publisher

"Kahr Notes" is the company newsletter of Kahr Real Estate Services LLC.