

APARTMENT REPORTER

MARCH 2016

PARTY LIKE IT IS 2005 OR LATER (PART 1)

I'm experiencing déjà vu. My entire portfolio is doing well and I am sending out many checks to my investors. I exceeded my money raising goals for my last fund and successfully purchased properties in need of repositioning. The 2016 budgets are full of rent increases, and I expect to achieve record numbers in income at most of my properties. The news is positive about real estate; especially in the areas where I have investments. This feels like 2005!

I am taking advantage of the strong market and I'm reinvesting in my buildings: upgrading individual apartments and building exteriors. Upgrades enable me to raise rental rates and pay off the capital expenses in 2 – 3 years (with the now higher rent and an increase in value). For a number of my properties, I will be refinancing the expiring 10 year debt which is fixed at 6.02% to a much lower rate. These are the exciting decisions I get to make during this part of the cycle.

Is it time to raise money for another fund? And if so, how much money could be placed in the opportunistic investments I covet? An economic downturn in the United States is not an IF but a WHEN. While I am enjoying managing properties when there are more renters than available units, I know firsthand the pain when vacancies outnumber renters. The problem is that there isn't a clock on the wall letting everyone know when the game is over. The longer the game, the more distant the ugliness of the last downturn becomes. A feeling of indestructibility enters the picture, which drives prices to undesirable levels.

As Warren Buffett said, "be fearful when others are greedy and greedy when others are fearful." Much of my competition is feeling greedy and I am getting fearful. During times of economic expansion, we enjoy the winds at our back which often boosts returns past initial underwriting. I had this exact wonderful breeze in Atlanta right after the last recession and added a property just outside of Macon, Georgia along with some nice properties in Southern California.

During times of distress, real estate investors feel the headwind which can stress or sink even the most conservative predictions. When those stormy times come and owners are trudging through operational difficulties, I will be pondering new areas and asset classes. Those are the times where one has the best chance to enjoy future positive macro real estate winds plus much of the competition is paralyzed by fear which lowers purchase prices.

My view is that commercial property in the United States has enjoyed a nice run and may well continue on for some time. During the last bull market, I largely sat on the sidelines. As we are a world built on sovereign debt and confidence that this debt is "manageable," I think the next correction will be deeply painful as governments begin to deleverage.

I believe inflation is more likely than deflation, so I like hard assets in infill locations which need repositioning. Given that I don't like the macro picture, I will only invest my money in micro deals in my backyard of Southern California. Here, I am able to leverage my knowledge, excellent reputation and longstanding relationships with the brokers to find needles in haystacks which can be repositioned into a solid cash producing assets. If the numbers don't work then off to the sidelines I go...

In part 2 in April, I will share my global concerns along with the underlying data.



Kyle Kazan
Chief Economist
ContrarianOmics LLC.
www.contrarianomics.com



The opinions expressed in the Apartment Reporter are those of Kyle Kazan of ContrarianOmics and are not necessarily those of WASH Multifamily Laundry. Kyle is an independent contractor who is hired to provide commentary and views on the state of the apartment industry that may be of interest to our customers. Except in rare cases, WASH provides no input or editing in regards to the content and therefore assumes no liability for any loss or damage resulting from reliance upon Mr. Kazan's report.

WASH can be reached at 1-800-421-6897 or www.washlaundry.com

Reproduction without permission of WASH Multifamily Laundry Systems, LLC, is prohibited. ©WASH Multifamily Laundry Systems, LLC, 2015