

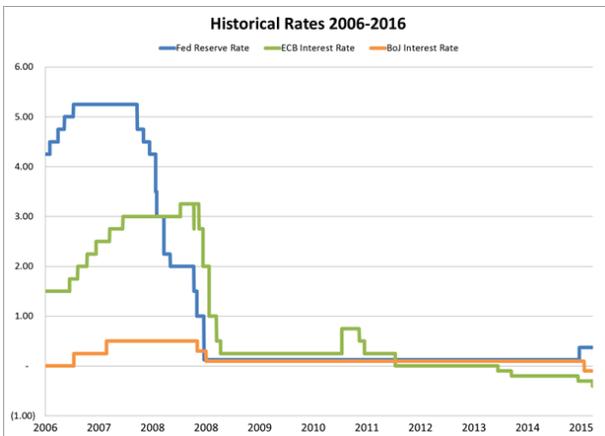
APARTMENT REPORTER

APRIL 2016

PARTY LIKE IT IS 2005 OR LATER (PART 2)

In Part 1 in March, I shared that I believe we are at least in the later innings of this strong market. During the recession, foreclosures (at least in single family homes) soared, construction ground to a halt and employers laid people off in mass. The Federal Reserve responded by taking interest rates from over 5% to almost 0% in short order. This was in conjunction with 3 rounds of Quantitative Easing (money printing).

In Figure 1 we see the actions of the Federal Reserve (US), the European Union Central Bank (ECB) and the Bank of Japan (BOJ) over the last 10 years. While the US economy continues to chug along and add jobs, the ECB and BOJ have resorted to negative interest rates.



SOURCE – Contrarianomics.com

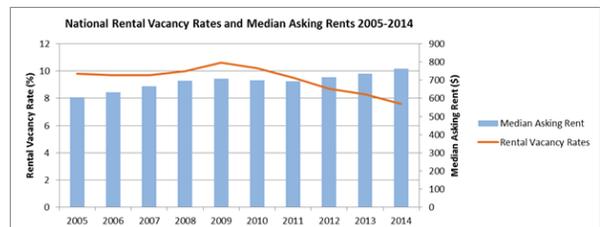
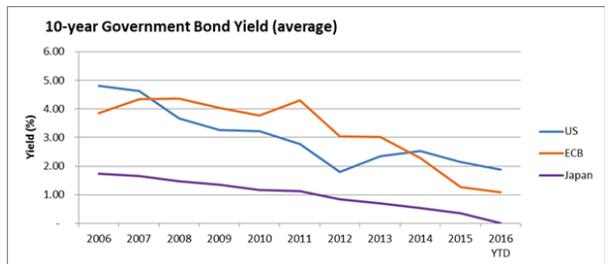
Figure 1

We are now in a race to the bottom where the central banks are not only trying to stave off deflation, but are hoping to drive GDP growth. The consequences of this (besides punishing savers) is to weaken their own currency with the hope that this will improve life for their country's (or in the ECB's case the Eurozone's) manufacturing and exports.

While I can't argue that the Federal Reserve's policies haven't kept individuals and companies from borrowing which has pushed asset values up. My view is that in many ways, the systemic issues haven't changed and instead of dealing with the problems during the financial crisis, we have expanded the balance sheet of the United States and lowered interest rates over 500 basis points.

The can has been kicked and the pain will be dealt with at a future time. Only this time, we might not have the luxury of massive deficit spending nor dropping interest rates over 5%.

In Figure 2, we can see the trends of bond yields dropping, vacancies shrinking and asking rents increasing.



SOURCE – Contrarianomics.com

Figure 2

All of this makes for roaring times for apartment owners and managers. The party may go on a while longer but it won't last forever. For every day this great run continues, we should be that much more cautious.



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