

APARTMENT REPORTER

AUGUST 2016

LESS NEEDLES AND MORE HAY

The question remains the same: “my cash is making no money and I don’t believe in the stock market so where should I invest?” I am lucky to be trusted enough to receive these questions from others; however, my personal risk profile is such that I’m quite concerned about the compression of capitalization rates (non-leveraged rate of return) to a point that I am not seeing deals which offer enough reward to make the purchase. The fallout from Brexit has caused interest rates in the US to drop, and so the squeeze remains between the spread in cap rates and the cost of borrowing.

Periodically, an intriguing deal comes across my desk that will involve heavy lifting for the investor to add value through re-positioning the property. A few years ago, there were many of these “needles in a haystack,” but today, the search is becoming amazingly difficult.



Sitting back and waiting for the next recession to come can be painful. There are many people who have been diligent savers their entire lives and planned on living off of money earned in the bank. Sadly, one is lucky if they can get 1% in a savings account or CD and I know of nobody who planned on this anemic rate.

Instead of letting the interest fund retirement, more and more people are depleting their savings so that they can cover their expenses.



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.



For those trying to save for their future retirement, whether individual or pension funds, they are searching for yield. As an example, the California Public Employee Retirement System (CalPERS) has budgeted their long term growth rate at 7.5% per annum. In the last fiscal year, the fund grew less than 1%. This is a disaster as they will need to grow the fund at a rate higher than 7.5% or hope that taxpayers in California can and will fund the shortfall. (A Stanford University project reported that the unfunded shortfall is over \$500,000,000,000 including California State Teachers Retirement System and the UC System Retirement.)

During the banking crisis, asset prices were saved from being crushed because the Federal Reserve dropped interest rates 5% giving investors (institutional and individual) incentive to invest. As the Fed has not been willing to raise interest rates, those incentives remain.

I mention this because when you are considering a purchase of an apartment property, be it hundreds of units or a duplex, this is your competition and they are becoming more and more desperate. The squeeze between the cap rate and borrowing rate is not only your profit but the cushion when vacancies and concessions go up in a downturn while rent levels go down.

I am 49 years old, and I’m still investing towards my retirement. If I don’t find the needle, I’d rather watch my cash lose nominal value (as I believe actual inflation is higher than savings rates) than struggle with the fallout of a risky investment in a downturn.

This is not an easy time for savers or investors. Patience and unemotional decision making is the key.

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



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