FINANCIAL ADVISORY

Would You Buy Your Property Today for What You Could Sell it For?

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Low interest rates have sent real estate values soaring to new heights. If you haven't estimated the value of your properties since last year, you may be in for a treat! This month, I'm asking many of my clients "Would you buy your property for what it's worth today?" If their answer is "no, way!" my reply is; "If you think the value is too high, then why not sell?"

SKY HIGH PROPERTY VALUES

Real estate values nationwide have risen dramatically since the onset of the COVID-19 Pandemic. This rise in value cannot be explained by economic growth; especially when the economy was shut down for most of last year. Low interest rates are driving values higher for simple reasons: First, these lower rates mean that buyers can afford to borrow more for the same monthly payment. When they borrow more, they can afford to pay more. Second, the real estate market is seeing relatively low inventory of listed properties: Many properties changed hands during the boom of the last several years, and their owners aren't ready to sell yet.

My investors who own single family residences (SFRs) know that home prices could be rising even faster than commercial properties. According to the New York Times, the median home price in California in April of 2021 was $814,000. In May of 2020 the median price was $588,070. Californians aren't earning that much more income – we're not all in the hand sanitizer and face mask business!

Low inventory and high (possibly bubble?) prices could

Please turn to page 64

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Continued from page 63

make today a great time to sell. Should you consider selling some of your properties? Ask yourself these questions:

ARE CALIFORNIA REAL ESTATE VALUES AT A HIGH POINT?

Here in California, we have seen explosive growth over the last 30 years. Orange County, for example, was so named for the miles of orange groves spread throughout the area. Today, less than 100 acres of Orange Groves remain – all bulldozed in favor of housing and commercial developments. Orange County was once home to Two Marine bases, (Tustin and El Toro). Both bases were closed and are currently meeting the same fate as the orange groves.

I brought up all this new development in Orange County to point out what Los Angeles residents have known for years: we are running out of places to put everyone. Orange County's population quadrupled between 1960 and 2000 but has grown at an anemic 0.56% annually since then – less than the US national average. Los Angeles County's annual growth rate began to slow in 1990 and rose an anemic 0.20% annually since 2010 – one third the national average. California's other major metro areas have seen similar results; the counties in the San Francisco Bay Area have grown 0.74% annually since 2000 while San Diego has seen 0.79% annually in that same time period.

A fast-growing population can lead to rising property values: more residents equals more demand, sending prices higher. Can prices locally continue to skyrocket when our population growth slows?

WOULD I RATHER OWN IN OTHER AREAS OF THE COUNTRY?

I have written a lot about factors that lead to a healthy and growing apartment market. Where is the population growing and providing rising demand for our units? If this rising demand isn't here in California, maybe we can do better in other areas of the country – we can look for the "next Orange County."

The Atlanta metro area's population grew 1.42% annually between 2010 and 2020. Annual growth rates for some other metro areas are: Greater Houston, 1.98%, Metro Orlando, FL, 2.25%, Washington D.C., 1.23%, and Phoenix at 1.45%. These areas, expanding at least twice as fast as California's metro regions, could offer more growth and income potential to investors when compared to "staying at home."

HOW I INVEST OUT OF STATE

My regular readers know that, for the past 20 years, I have worked in the partial ownership field of real estate investments. I work with a select group of companies that I feel are the best at locating, buying and managing institutional-grade properties of behalf of my clients. Most of the companies I use have been in the business as long – or, in some cases even longer, than I have. These management firms have substantial track records of producing good income and growth for us.

Does selling at a potential high point of the market in California and reinvesting out of state for more income and growth potential sound appealing to you? If so, then perhaps partial interest properties are worth considering.

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