The New Real Estate

By Joseph Still CIA, CCA, CPN, CFA, CCIM

I had the pleasure this weekend of training another group of real estate professionals in investment analysis. One of the things we talked about was the recent shifts in what I call the "new real estate".

If you remember back about 6 years ago, people didn't make bets on real estate investments going up the way they have in recent times. When most investors factored in appreciation, they factored in about 3-4 percent per year.

Not surprisingly, in about 2001-2002 when interest rates began to drop, values began to rise. The lowering of interest rates allowed people to borrow more money with the same payment (a concept referred to as "time value of money"). Additionally, looser loan underwriting guidelines allowed lower credit borrowers to qualify. In the investment markets, lower interest rates allowed rates of return to stay constant while cap rates decreased and prices went up. In both residential and investment markets, the affect was to put more pressure on demand until supply caught up.

In the last real estate cycle, the "buzz" of real estate was about appreciation. As any cycle bubble fills itself, the buying side works on a set of assumptions: that values would just keep going up and up and someone would always be there to take out a seller at a higher price than what they paid. It worked for a while, but no ladder goes up forever.

So the question today is this: should people be buying real estate, and if so what should they be looking for? The answer to this question is found in understanding the nature of "benefits". People don't buy real estate, people buy what they perceive to be <u>the benefits of real estate ownership</u>. Real estate (or any other investment) is merely a vehicle to deliver those benefits. Two financial benefits of investing in real estate are <u>appreciation</u> and <u>cash flow</u>. Now that the appreciation party is over, the new focus will be on cash flow. If a property doesn't go up in value, it needs to provide the benefit of cash flow.

As the investment markets continue to weed themselves out, the real estate professional's duty in the future will become much more focused on skills. One of those skills will be the ability to accurately measure the cash flow of a property. Knowing how to read Schedule E, verifying rents and expenses, and knowing how to calculate proper Net Operating Income, and Pre Tax Cash Flow will become much more important.

In the new real estate it won't be enough to say, "it's real estate therefore you should buy it". Instead, the practitioner will have to be able to say, "This property is a good deal and <u>this is why</u>".

Become the Expert

If you know what other people don't know you can profit from it. The training made available to you from www.thecorecourse.com can give you the training, tools and resources to help you become the expert so you and your clients profit from the amazing opportunities that now exist is the new real estate market.