

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /  
Or Sponsoring Organization Is Missing

3. Development Topics

u. "Financial Plan Versus Product-Housing",  
no date

## FINANCIAL PLAN VERSUS PRODUCT - *Housing*

- I. The housing cycle is traditionally seen as short term 3-4 years. Public sees housing as too expensive because of interest rates - a temporary phenomenon. It could be argued that housing being too expensive will be chronic:
  - A. Capital shy economy in which all major problems require capital intensive solutions
    1. Short fall in savings
    2. Selective credit assignments
    3. Continued high interests
  - B. Inflation since government investment may be a faster response, (deficit budgets), import-export deficit, deliberate tax on savers to transfer wealth to doers, necessity of funding pension and income stabilization
  - C. Deflation of consumer discretionary income through forced saving, higher food and shelter prices, and transition to energy efficient systems
  - D. Energy problems during transition to alternative
  - E. Shifting demographics to younger families and retirement families
  - F. Increasing and shifting tax machinery in terms of real estate tax, income tax, administrative fees and user fees will increase percentage of government take.
- II. Change in product to reduce cost will take the following forms:
  - A. Higher density per acre with town houses, zero lot lines, smaller apartments in the same building mass.
  - B. Much smaller floor areas per family unit (reflecting fewer persons per unit)
    1. Building smaller more versatile space
    2. Subdividing existing single-family homes
    3. Remodeling old apartment buildings
  - C. Reduced operating costs due to energy efficient heating and lighting and maintenance free materials, less gadgetry.
  - D. Better passive orientation to the climate - so that subdivision layouts favor southern exposure, equal solar access, equal protection of heat pumps and noise pollution.
  - E. More group ownership via coops and condominiums which require contributions of personal time and labor to replace profit center of management group
- III. In the real estate industry attitudes which are shared and profiles which are sketched by conventional wisdom soon lead to a rationale for investment which may or may not be well thought out.
  - A. The rationale for apartment investment is based on inflation
    1. Rising rents increase slower than inflation rate but only 50% of expenses are rising, debt service is fixed
    2. Rising construction costs, land costs, and interest costs mean a housing shortage or higher rents
    3. Tax favoritism to current income, opportunity for wealth transfer, and tax deferral

4. Higher selling price due to higher rents, higher gross rent multipliers, and lower investor income expectations in anticipation of capital gains.
  5. Opportunity to sell wholesale as an investment property or retail as a condominium.
- B. Dangers to implicit assumptions of apartment rationale
1. Rent increases will be unacceptable so income in value won't rise. Suitability for condominium conversions provides an escape.
  2. Inflation has wiped out or reduced real income of the average American family. Only the white-collar self-employed and major union in large industries have been able to protect themselves and therefore, you need to avoid building with blue-collar and elderly tenancies.
  3. Since many consumer items are competing with rent paying ability such as food, auto expense and medical expense, it is important to position the investment where shelter is in short supply and a high priority consumption item. Population growth areas in the South and West may meet these requirements where you have an immigration of white-collar younger groups.
  4. Long-term inflation causes rising interest rates, rising constants and therefore, lower prices and more equity. Lender must turn to variable rate mortgages, balloon payments, short-terms. Try to buy apartments with assumable mortgages, wrap-arounds, or pay slightly higher rates for fixed dollar mortgages.
  5. Run away inflation from loss of political will leads to short paybacks, exculpatory clauses and aggressive upgrading of rents for old and new tenants. The operating expense pass through provision has already appeared.