
Four more years, four more years

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By **REW Staff**

2:35 PM, AUGUST 6, 2014



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No I'm not talking about Obama or any politician, I'm talking about the market for what I refer to as "wholesome housing."

For those of you who have been reading my forecasts for the last few years, sorry to sound like a broken record, but my story remains pretty much the same. That's a good thing from my point of view and, more particularly, a good thing as relates to real estate in the 100 mile radius of New York City.

The continued and ever expanding turmoil throughout the world: Iraq, Ukraine, Syria, you name it. All of this continues to make the USA a safe haven, not just to invest money, but as a place to live. This will continue to support our housing market, and where our housing market goes, so goes the country's economy. Same goes for our stock market. While I think it's significantly overvalued, it just demonstrates that the world's wealth feels safest here even if it is overvalued.

So let me elaborate on what I see in the old crystal ball and my reading of the tea leaves.

Immigration, legally or illegally, will continue to support the lower end of the housing market. It seems every day a new civil war is popping up, there are so many that the old issues, like the Arab/Israeli conflict don't even make the news. Boko Haram, a hideous group, kidnapped 270 kids and no one hears about it anymore.

Ukraine dominated the news one month, the next it's Iraq. In general, anyone who can get out of these countries does, by any means. Anyone who's been in a New York City cab or a cab anywhere for that matter knows that these folks seem to get work immediately and have one, two, or three jobs.

It is sad to say that immigrants of all kinds work harder than second and third generation Americans, but then again, it's always been that way.

Just as it was when my grandfathers' emigrated from Italy, immigrants are not too picky about where they work. They just want to work and the good news is, when they work, they need a place to come home to and actually can pay for with money they earned. Unlike much of the country's population, millions of whom live off the government. I won't get into that or I'll just rant, but needless to say that government entitlements, which is a significant part of our deficit, is killing this country.

Yes, the tea leaves say keep an eye on the deficit, but there's not much we can do about it and we seem to be complacent enough to accept it and move on with our lives.

The influx of these hard working folks is a good thing because they eventually save enough to buy a house and that enables someone else to sell and move up (hopefully). This is why I believe that wholesome housing will continue to be stable.

I refrain specifically from using the word flourish because I don't want to see anything flourish like it did in the last cycle. When things are flourishing it usually means banks have loosened credit too much and all the exuberance is phony and short lived, which leads to my next point.

When you read the papers and listen to the results, the general economy is bumping along and housing and real estate, with the exception of Miami, New York City, and parts of California, are a little up and a little down with nothing spectacular happening.

Well, to me that's a good thing. Housing starts are at half the levels of 2004 and 2005 and I pray they stay that way; the median home price in America is now at 2004 levels.

While most of the foreclosure crisis is behind us, the problem and thus the opportunity still exists in most inner cities, which does not concern me because these units are being absorbed by much of the new immigrant working class or the new "developer" class, the young hustlers who actually fix buildings and fill them like I did 30 years ago.

The big story is housing starts, or lack thereof. Read the building sentiment reports and their biggest complaint is the lack of approved land, so that's the next hot commodity.

So we'll be keeping an eye on housing starts, hopefully they remain at current levels, but when they hit 2005 levels you can be sure the end is near. Hopefully our government doesn't let the banks and Wall Street run wild again, because that's what causes the oversupply and price run up. Median home prices and housing starts are the stat to watch.

As for our major "hot" cities: NYC, Miami, and LA, I think the price growth is unsustainable.

There are only so many people who can afford and are crazy enough to pay \$2 to \$3 million for a 1,000 s/f two bedroom and even less in the \$5 million and over market. So my opinion, keep in simple and basic, like one of my first mentors told me, "cater to the masses, you eat with the classes."

It's also a much more sustainable business model when turbulence occurs. He also said, "cater to the classes, you eat with the masses." While not always true, the classes tend to use leverage and are the first to retreat when markets crash.

So in general I think NYC, Brooklyn, and Harlem are getting way ahead of themselves in both pricing and housing starts. New Jersey's waterfront continues to be 75 percent less than Manhattan and 50 percent less than Williamsburg, Long Island City and even Harlem, so I think the Jersey gold coast still has room to grow.

Not very bullish on new shopping centers and retail. The country is over-retailed, so I'd stay away from that, although existing retail, which can be upgraded and re-positioned, is generally okay and should be at an acceptable basis as long as you buy it right.

Industrial and warehouses will continue to be in demand and should stay stable in years to come. Other sectors to watch are specialty real estate, charter schools, and mental health and drug rehabs which will all continue to be needed and are being run more and more by private companies who are hands on. Unfortunately those needs/demands are not going away.

In general, I think we have a safe four years ahead of us, particularly in the wholesome housing sector.

As always, people who pay too much, don't implement well and don't surround themselves with the right people, will never do well. So never forget real estate is an art and science and requires discipline and creativity, be careful who you do it with.

We always have to watch for black swans, Ponzi schemes, terrorist attacks and an unpredictable government. Don't forget mother nature is becoming more and more pissed off, so if a tornado has hit somewhere ten times it might not be a good place to invest.

So I hope we continue to slog along and nothing catches on fire, because fires always go out.

Keep in mind that when looking at the charts in 2002 sub-prime, borrowers were less than four percent of the new housing market and reached to over 50 percent by 2005, thus the overbuilding.