

# US: Economy: Not a Pretty Picture; Real Estate Investment Better than you Might Think

## State of the U.S. Economy:

- Economic growth is near zero.
- Consumer psychology is not so great and not getting any better.
- The jobs and employment situation is dismal.
- Home mortgage foreclosures are at record levels.
- Financial market failures continue.
- High commodity prices, especially oil.
- Fed interest rate policy is accommodative, but may not be enough.
- Inflation is beginning to creep upwards.
- Real wages are flat to falling since 1990.
- Home equity levels are down; the home as ATM is phasing out.
- Residential real estate, sales, starts and prices, will continue to weaken.
- Mortgage rates will rise.

## Why Buy Residential Real Estate and Why Do it Now?

- Whether the market is up or down, residential real estate is always a good investment if you are careful, methodical, and keep it simple. People always need a place to live. Land supply is finite. Real estate can always recover more quickly than the economy. Besides that, you can live in a house, and you can walk on the land.
- Houses are not complicated and not scary. Their performance is predictable. They produce income when rented. Housing prices have appreciated annually about 5% for as long as it has been measured, and rents have a history of increasing. There are blips up and down. Investing to “flip” on the “blip” is not what I’m talking about here, though I could.
- Apartments, duplexes, four-plexes, shopping centers and commercial buildings are work. Tenants come and go; properties need a lot of work; there is down time; you have to deal with lots of lawyers, accountants and good negotiators. Swings in value can be great. It’s not for the faint of heart.
- If prospects for the area are good, a short-term downturn in the market doesn’t have to be discouraging. It can be a buying opportunity. One can often buy 20%-30% below market value—that is 2-3 years of appreciation at the “get-go”. Residential prices of moderately priced houses, where “everyman” lives, are historically more stable than other kinds of property.
- You must know how to buy, why you are buying and where your profit is going to come from. You ought to be looking at long term investment; willing to learn the market you are in; being unemotional and patient. You are looking for good long term investments that you can put a little money into now and which can be free and clear in ten years to help pay for retirement or to put children, grandchildren or great-grandchildren through college.

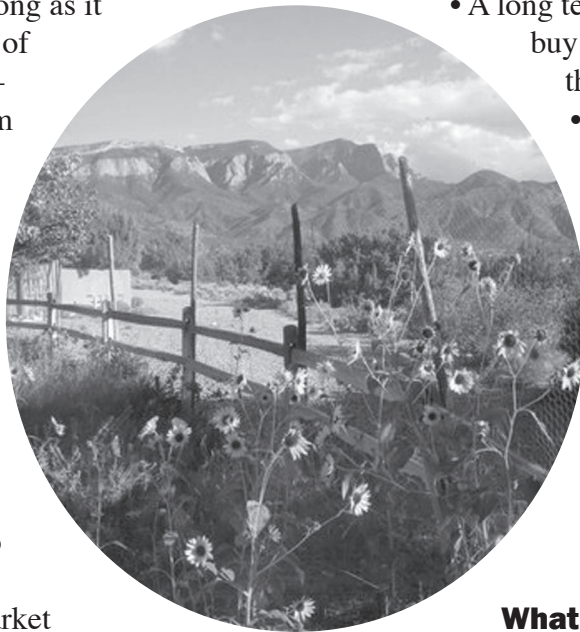
**Income:** There is plenty of potential for income while you own it and when you sell it.

**Depreciation:** There is a tax shelter available for a portion of the income, a \$ amount each year against income.

**Equity:** There is equity build-up—the difference between what you paid and what you can sell it for; you have to know when to hold and when to sell. And when to borrow against the property for further investment.

**Appreciation:** Timing here is critical; a well-located property that can attract good tenants that you buy at a good price is what you want, as it will hold steady and appreciate at a greater rate than an average property. You have to know, really know, your market.

**Leverage:** You can buy real estate and make money with other people’s money. This means that with a relatively small investment you can own multiple properties.



## Let’s Look at New Mexico in Terms of Real Estate Investment

- New Mexico and Albuquerque, in particular, are getting a lot of national coverage in regard to being a top-notch place to live and a favorable place for commercial growth and development.
- For better or worse, and we hope for better, and that it continues, there is a strong Federal Government component providing a strong base for our economy.
- Also for better or worse, our population is growing. Sandoval County is one of the fastest growing counties in the country.
- Housing prices are more attractive than in other places.

## How to Do it

- Select neighborhoods and get to know them; know who lives there.
- Choose areas where there is a mix of people—not all renters.
- Talk to people about their properties and who might want to sell.
- Know other landlords in the area; they may be ready to let something go on good terms. Are there other investors out there?
- Real estate brokers can help you with the research.
- Look at the statistics for the area—What sells for what? Rates of appreciation? Is the neighborhood keeping itself up? How are the schools?

## What about Investing in Land?

- A long term investment. A passive investment. You can buy it and just sit on it. You don’t have to do anything.
- Or better yet, you can buy land and add value to it. You can subdivide it; rezone; remediate; develop and resell it.
- Appreciation in land prices has been enormous over the last years and “deals” are still out there.
- Real estate brokers are available to help you with market research and to guide you to specific properties. If they know their stuff, they may know properties that are not presently on the market as well, as those that are listed for sale.

## What About Investing in Vacation Properties in Mexico?

While I can’t pretend to be an expert or even barely adequate in this area, I can connect you with those that are.

I’d like to thank Phil Messuri, our local financial analyst and planner, and my dear friend and financial caretaker, for the very interesting seminar he sponsored last week on real estate—“Everything you Ever Wanted to Know about Real Estate and Were Afraid to Ask.” It forced me to prepare a statement for the attendees about investing in residential real estate. Recently I also had the opportunity to listen and speak with John Tuccillo, a well known economist who has specialized for many years in the relationship between the economy and real estate, when he spoke to the Realtor Association of NM annual conference. Those opportunities, plus some interesting books I recommend (John Schaub, *Building Real Estate Wealth in a Changing Market*, and *Building Wealth one House at a Time*) and my own experience in the field (as well as tracking growth and appreciation in the greater Albuquerque area) resulted in this article.

It’s a magnificent fall day in New Mexico and

## A GREAT DAY FOR REAL ESTATE!



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