Kahr Notes

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"Kahr Notes" is an electronic newsletter from Kahr Real Estate Services LLC that carries interviews, news, and original research.

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In "Kahr Notes" this month:

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1. Opening Shot

Welcome to another issue of Kahr Notes.

First off, I received some interesting comments in response to my last issue.

1. Multiple people expressed their surprise at how undervalued non- primary markets are. I'd put it another way; I'm consistently amazed that primary markets are so overvalued. For example, I recently looked at a small deal (under 10 units) in Union City, NJ where the ASKING price was 5.5 times gross rent roll. If that property was situated in Harlem, the deal wouldn't close for less than 7 or 8 times gross rent roll (and the ask would be 10 times gross rent roll). I know Harlem has more potential than Union City, NJ, but Harlem has a long way to go before today's prices can be justified.

2. My rent control article generated at least a little confusion. I guess if I upset at least a few people, I did my job. Just to be clear: I, like everybody else I know in this business, do not support rent control.

That said, the greater issue is not whether or not New York City retains or modifies its rent laws; the true issue is housing affordability. There is only one way to solve that problem and it is not rent control. We need more housing units.

According to NYC Rent Guidelines Board (the full report can be found at http://www.housingnyc.com/research/pdf_reports/hsr03.pdf), in the 1960's there were about 368,959 new units built in the City of New York. In comparison, in the 1990's there were only 82,467 new units delivered. At that low level of new construction, we are barely holding ground in the fight against obsolescence.

If you want solutions to the problem, read the report from the Furman Center at New York University on reducing the cost of construction in New York City (it's from 1999 but most of it is still relevant and timely). The Executive Summary can be read here: http://www.law.nyu.edu/realestatecenter/CostStudy_Summary.htm

Without reproducing the entire report, the main conclusion is that if we change the rules of the game that this city and industry operate under, the cost of construction would drop from 18.8% to 25.1%. That would radically change the affordability of the city.

Please take a moment to look at the executive summary... we know the answers; what we need now is a little good old-fashioned community outrage. The landlord vs. tenant battle over the rent laws is not going to solve the problem and it's a distraction from the real issues at hand. Only new construction will get us out of this mess.

As always, comments are appreciated on this or any other matter. Also, if you'd like me to reprint your letter, please let me know.

Regards,

Joshua Kahr
Editor/Publisher, Kahr Notes

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2. Good news?

If you work in real estate finance, investment, or brokerage, you've worked with a cash flow statement. For the rest of my readers, the concept is pretty simple... write down the income and expenses for a property, and try to understand whether or not the cash flow from the asset will go up or down in the future.

The consistent failing of cash flow projections is that most people make extremely primitive predictions of the future of the local real estate market. Most people either grow the rent level with inflation or they make an assumption that is backed up by little more than intuition.

This failing is, in my opinion, not one of a lack of tools, but rather a lack of access or training on the part of most real estate professionals in analytical tools that can help them predict the future of the local market.

Not one to simply complain about a problem, I have signed a book contract with a major book publisher to produce a textbook on real estate market analysis. Barring disaster, in about 18 months, I will have completed an accessible book written on a high level for real estate professionals who want to better understand how to analyze real estate markets.

I'm telling you this for two reasons:

1. I'm honored to have the opportunity to do this and I wanted to share. I must be doing it for the honor, because I can assure you, it's not for the pay.

2. I'd like to reach out to all of you that might have recently completed a market study or know a consultant that you believe does high quality work in this area. If so, let me know. I can't pay (see reason #1 above), but I can guarantee free exposure in a textbook that will be used in graduate programs across the country and purchased by many real estate professionals.

Finally, I'd be interested in hearing from all of you on your thoughts concerning this matter. Is market analysis a dead art? Does your company simply project that market rents and expenses will grow with inflation and hope for the best? If you assumed that rents will grow in the future, did you back up that assumption with anything (or was it simply an assumption that you made in order to get the deal to pencil out)?