

REAL ESTATE

The Story Behind The Story

By John Maltz, SIOR President

We're pummeled by headlines which shout at us from newsstands, Web sites, and the TV incessantly. While it is easy to "turn off" and go on with our lives, behind some of these headlines are stories, which if interpreted correctly, can have a significant impact on our investments. For example:

"NEW YORK PROPERTY TAXES RISE TOO FAST"

Real estate property taxes will, more than interest rates, have the longest negative impact on general property appreciation in the New York City Metropolitan area. Further increases will be unstoppable as an ever-growing burden of pensions and retiree health benefits grab an increasing percentage of tax income. Limit real estate investments to those which allow real estate tax increase pass throughs.

"HURRICANE VICTIMS BATTLE BANKS"

While it "can't ever happen to you," if it ever does watch out! The banks and insurance companies will not be your friend if it comes to a region-wide casualty loss, such as an earthquake, hurricane, or tidal surge. They will hold up revenues, they will redefine policy clauses, and re-evaluate the fine print to either reduce claims, delay payment, or avoid payment altogether. More than insurance will be necessary to protect your nest egg.

"CHICAGO PROHIBITS FOIE GRAS"

Big deal! You don't eat Foie Gras anyway you say? First it was smoking, now dietary restrictions. The trend has begun for urban areas to restrict lifestyle choices. While well meant, policy makers are imposing health and moral judgments, which usually have unintended consequences.

"REPORT SHOWS GLOBAL REAL ESTATE INVESTMENT TOPS \$475 BILLION IN 2005"

Capital is flowing out of the U.S. financial markets into diversified off-shore real estate assets. This trend will continue as home-based returns are hurt by currency devaluation and an aging economic cycle. This capital flight will, along with rising interest rates, weigh down future property price appreciation.



"GE, BETTING ON THE FUTURE, FINANCES A SOLAR FARM IN PORTUGAL"

Without a national energy policy, it is up to private companies in the United States to develop alternate energy sources. The higher priced energy markets, such as found in Europe, will be the first beneficiary of this technology. However, as the United States absorbs higher energy prices, this technology should boost share prices of these forward looking companies.

"NEW YORK PURSUES BRIDGE, ROAD PRIVATIZATION"

Soon you will pay your toll money to large financial conglomerates in Europe and Asia. While many toll roads were to become "free" after their construction bonds were paid, we will soon have the opportunity to pay our tolls to foreign companies who have given our government "quick fix" money which will have been already spent.

"HONDA NET MORE THAN DOUBLES ON SOLID SALES OUTSIDE OF JAPAN"

The Asian car manufacturers have stuck to engineering while GM and Ford have let their accountants and investment bankers design cars. Future generations won't know how to build cars in this country, but most likely will know how to structure the financing to purchase them.

"IRAN THREATENS RETALIATION IF UNITED STATES ATTACKS"

Our foreign policy options are dwindling quickly so the world will most likely become a more dangerous place with heightened uncertainties. Financial markets will gyrate more violently sending a greater percentage of investors into more stable real estate investments and away from stocks and bonds.

"TREASURY PRICES DECLINE ON STRONG ECONOMIC DATA"

In other words, inflation will push up interest rates. Brace yourself for the 8% mortgage and a big hit to your fixed income investments. Inflation will be the scourge of most financial assets; however, leveraged, income producing real estate should continue to offer the best protection.

"GOLD ASSERTS AS INVESTOR HAVEN FROM GLOBAL WOES"

More and more assets will be locked away in non-productive investment vehicles. When capital is not put to productive work, economies stagnate. Look towards the price of gold as a future indicator for economic growth or stagnation.

"NIGERIA STRIKES AN ACCORD WITH CHINA TO PROVIDE OIL DRILLING LICENSES"

The United States' ability to control offshore oil sources will continue to be under pressure by growing world economies. Wars fought over oil field control should be expected to escalate, causing continued pricing gyrations. The cost of hedging future consumption will soon be built into the price of every barrel of oil consumed by manufacturers.

"ECONOMY'S SURGE STIRS QUESTIONS ABOUT WHEN SLOWDOWN MAY COME"

It seems everybody wants the party to end. Too much of a good thing is bad. However, don't expect this party to end anytime soon. The United States economy shows surprising strength late in an economic cycle and is phased well with foreign economies. The doomsayers will need a series of significant negative events to derail this train. Therefore, don't put off your investments or new business plans for fear of an immediate slowdown.

I welcome readers to contribute their "Story Behind the Story" when reading the daily headlines. John Maltz, SIOR, President of Greiner-Maltz can be reached at 718-786-5050, via email at jmaltz@greinerholtz.com, or at www.greinerholtz.com.