Real Estate Cycles Part 4: The local cycle

Analyzing by property type and region to avoid poor investment choices.

October 2, 2015 BY IAN IPPOLITO

In this Part 4 of a 4 part article, we'll talk about **where we are** today in the cycle, and **how you can use this information** to choose your investments.

- Part 1: The long commercial real estate financial cycle that drives prices.
- Part 2: The shorter physical cycle that drives rental income via vacancies and rent prices.
- Part 3: Warning signs that a recession is about to hit.
- Part 4: Where are we in the local real estate cycle?

Where are we in the cycle?

As we talked about in part one, if history repeats itself, then we are so **far away from the treacherous end of the financial cycle**, that it will have little impact on your current investments.

However, **the physical cycle** is a different story, and **is always a potential threat**. So where are we there?

There's **no single answer** to this question. The answer **depends, on which type of property** we are talking about. And then that is **further refined by local conditions**.

The analysis below uses charts from Dr. Glenn Mueller which **integrates**

About Ian Ippolito

Ian Ippolito is an investor and serial entrepreneur. He has been interviewed by the Wall Street Journal, Business Week, Forbes, TIME, Fast Company, TechCrunch, CBS News, FOX News and more.

Ian was impressed by the potential of real estate crowdfunding, but frustrated by the lack of quality site reviews and investment analysis. He created The Real Estate Crowdfunding Review to fill that gap.

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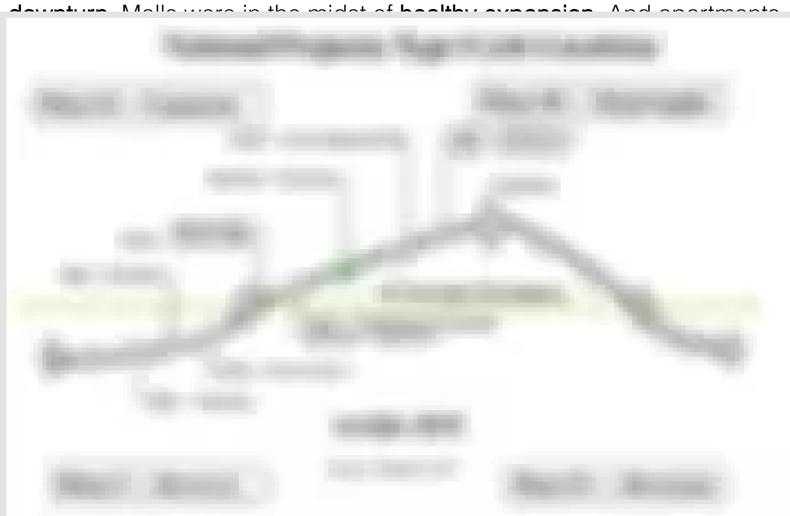
employment, vacancies, rent and new supply into it's cycle analysis. There are many similar charts available from many other sources In my opinion, none of them are perfect because all involve significant guessing or estimation on things no-one can know for sure, like:

1. How long and high/low the current cycle will run
2. Whether the market can absorb new supply succesfully or not

So I always take them with a grain of salt. But at the same time, I feel they still give useful information to help me plan whether it is probably smarter to be aggressive, cautious or somewhere in between.

State of the Nation

At the end of the first quarter of 2015, office properties in many markets were still not going super strong yet and in recovery from the previous downturn. Malls were in the midst of healthy expansion. And apartments

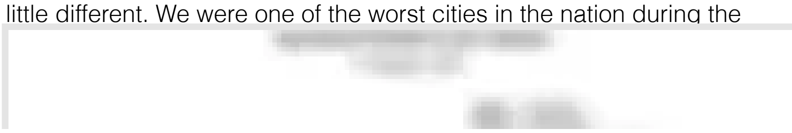


Going local

As we discussed earlier, looking at the nationwide picture is a good start, but not enough. All real estate investments depend heavily on local conditions. And those conditions can be substantially better or worse than the national average, which can either help or hurt your investment.

For example, if you look at the graph of the previous section, you'll see the apartments are at step number 11. This is right between expansion and hyper supply on a national level. That is a bit worrying, but if accurate, it's not yet so bad that it's complete red flag.

However, in my hometown of Tampa, Florida, the apartment situation is a little different. We were one of the worst cities in the nation during the



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Occupancies and rents could be challenged in Tampa as more and more apartments are built. Maybe demand will outpace supply and things will be okay. If so, the cycle could backtrack which would be good. But it might not, and nothing is certain. So **now might be a time for a conservative investor to be more cautious about investing in Tampa apartments (especially downtown** where new supply is high).

Where to get the info

The only way to know this is to look at the local area. There are many **sources for this information**, and it's prudent to look at more than one to double check your favorite source. For example, Marcus and Millichap produces many free reports which you can find here.

Conclusion

Understanding the different real estate cycles is **crucial** to **avoiding poor investments** that can cause **unnecessary losses**.

Once you've confirmed that the **timing in the cycles is right** for the property type and location, you can start to **look at** additional issues such as **strategy.**

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