

Stack Your Bills, Maintain Income, and Be Patient.



Audience: First time home buyers and Real Estate Investors

Goal: Help buyers and investors avoid capital loss in real estate cycle downturns.

Once Upon a Time. ... We needed a place to live.



Everyone needs a place to live.

"You either rent the place, or you rent the money." -- Daniel Levin

And Every Day. ... We paid our taxes and rent or mortgage.



When we pay a mortgage some small portion of it goes towards principal reduction.

When we pay a mortgage we receive an interest tax credit, and property tax credit.

When we pay rent, unless we own our own business, and occupy the unit 40 miles from our “primary address” we can deduct nothing.

Until one day. ... We move, we pay off our mortgage, or we encounter an “unexpected” market or life event.



If we move or sell during a boom, we can do well financially.
Interestingly during booms, sometimes we rush into trying to get a mortgage / house.

And because of this. ... in a boom cycle, the last part of the cycle is manic, and fueled by buyer FOMO, seller or builder greed, and easy credit.

Buyers may be thinking: Sellers may be thinking:

Buyers may be thinking:

"I've got to stop being a renter."

“I want to be a homeowner.”

“Others are seeing their properties go up, I need to get in on it.”

“If I don’t get in now, things will just keep going up and I’ll be priced out.”



Sellers may be thinking:

“Let’s sell more mortgages.”

“Let’s sell 5% down mortgages.”

“Let’s sell 3% down mortgages.”

“Let’s sell no down mortgages.”

“Let’s sell interest only mortgages.”

“Let’s sell “stated income” mortgages.”

“Let’s build a lot of houses to sell since credit is readily available, and there is market momentum.”

And because of this. ... housing prices move into a credit and speculation fueled bubble, while at the same time over-building occurs, and affordability disconnects from economic reality.



The last 3 months have shown the fastest home price appreciation in history.

Home affordability is worse than it was at the peak of the last housing bubble.

Exotic loans, are in the housing market, including, “stated loans”, “3% down loans”, “interest only loans” and the like.

It’s worth noting that these bubbles can go on for a lot longer than we may think they could.

Until finally. ... Sellers rush for the exits, supply exceeds demand, while credit tightens, the bubble bursts.

Inventory floods the market.

Prices drop.

Foreclosures occur (pushing prices lower).

Owners are left servicing debt on assets that are underwater.

Because of lower prices, investors get less return on equity because they have paid inflated prices for assets that yield less cash flow.



This sometimes happens within an economic downturn, sometimes independent of the downturn, and of course, we are all familiar with the 2008, crash the fueled the downturn.

Wells fargo is cutting off consumer lines of credit.

The FED is discussing terminating mortgage backed bond purchases.

And ever since that day. ... We understood that there are cycles in the housing market.



In 2007, I sold my condo, which I had since 2001, I made a profit, but the buyer had to wait until 2017 just to break even. In 2012, I bought another condo, at a lower interest rate, for 40% less than what the owner had purchased it for in 2006. I rented for the 5 years from 2007 to 2012.

It's tempting to rush into a market when it looks like profits are all but assured, but patience, and an understanding of cycles, will prevent us from getting the timing wrong, and mis-allocating our capital.

Stack your bills, maintain income (and credit rating), and be patient.

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