CIBA Real Estate

Commercial Newsletter

Monthly Newsletter for Owners and Tenants

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Business Seminars

Monrovia Business Seminar
June 14, 2017 11:30 AM
Katherine Barger
TBD

MADIA TECH LAUNCH
16016 Avenida Padilla. Irwindale
May 9, 2017, 6:30 to 8:30 p.m
Fiesta Parade Floats

Monrovia Kiwanis
Meets at the Monrovian Restaurant
Every Thursday 12-1:30 PM

Duarte Kiwanis
Meets at Westminster Gardens
Every Other Tuesday 12-1:30 PM

Quotes for the Month

"I never dreamed about success, I worked for it."

-- Estee Lauder

"The secret to success is to know something nobody else knows."

-- Aristotle Onassis

"Some people dream of success while others wake up and work."

-- Unknown

Why Today's Interest Rates Aren't Making Sense

In the early 1980s, we experienced the prime interest rate being above 20%. We were in an economic recession here in the U.S. back then, and people weren't too excited in knowing that if they purchased commercial real estate, they'd be asked to pay more than 20% in annual interest on their loans.

But in looking at today's interest rates, do these rates truly reflect what the real market interest rates should normally be? Over the years we've been told that interest rates should take into account the real level of inflation, and then the lending rates will be somewhere above this level, representing an amount of return above and beyond what the current level of inflation is.

However, in recent years the overall numbers haven't been making nearly as much sense to all of us. While we hear that the inflation rate is low, when we look at how much more we're spending these days on the price of food, and how much the cost of housing has gone up for so many people, there's something about the reported rate of inflation that just isn't making sense.
So when looking at Web sites like ShadowStats.com, a site that reports on how the calculation of our major indices dealing with both inflation and unemployment rates has been changing over the years, we find that today's inflation rate would now be 6% if it were still calculated the way that it was years ago. In addition, today's unemployment rate would be about 22.5% if it were still calculated the way that it was years ago, too. **See Page 3 Rates**

Fix Housing, Fix The Economy? How The Homeownership Crunch Cost The U.S. $300B

Samatha Sharf- Forbes

From 2006 to 2016, 7.5 million new households formed in the United States—but the number of homeowners fell by 1 million. The Census Bureau now pegs the homeownership rate at just 63.7%, near the lowest it has ever been. Meanwhile, a 2016 Mortgage Bankers Association report estimates that over the same period, 6 million would-be homeowners shifted to rentals and 5 million would-be renter households never formed, either living with parents or roommates.

The reasons for the shift in housing patterns are numerous, ranging from the demographic (delayed marriage) to the financial (fast rising home prices). Of course, the intervening years included the foreclosure crisis, which forced millions of owners to the sidelines and reminded Americans that home prices do not always go up. Now what? One opinion: As homeownership goes, so goes the nation, meaning those with a horse in this race (basically everyone) must act. That's the takeaway of a report out this week from the Rosen Consulting Group, which notes single-family housing construction is one of the only sectors that continues to lag the broader economy after seven years of recovery.

Since 1959, on average, housing-related spending—ranging from mortgage payments and rent to moving costs and furniture—has accounted for 18.9% of gross domestic product annually. That share has been declining since the mid-1980s, recently falling sharply. Last year housing expenditures hit a low of 15.6% of GDP. **See Page 2 Economy**

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The report also estimates that rates of homebuilding in line with the long term average would have added $300 billion to the U.S. economy last year, or a 1.8% increase in gross domestic product. The Bureau of Economic Analysis estimates real GDP gained just 1.6% in 2016.

Meanwhile, the decline has not been evenly distributed. The likelihood that you own a home varies depending on your race, your age and where you live. The homeownership rate for African-Americans is down 7.6% from the previous peak and is currently 30 percentage points lower than white households'. Households aged 70 to 74 are mostly likely to own a home (81.7%). Ownership rates decreased the most in the west and south regions of the country. The drop in homeownership was also more pronounced among single-parent families and one person households.

"The implications of this stunning decline in homeownership are far reaching. Ongoing weakness in the for-sale housing market not only undermines the ability of middle class households to accumulate wealth, but also represents a substantial hurdle for the recovering economy," note the authors, led by Kenneth Rosen, head of RCG and the Fisher Center for Real Estate and Urban Economics at University of California, Berkeley. "Bolstering homeownership in a safe and sound way is therefore not just about helping households to secure greater financial stability, but may in fact be the single most important key to returning the United States to a path of robust economic growth."

In mid-2016 the homeownership rate hit 62.9% the lowest level since 1965—the year the Census Bureau began measuring owner-occupied-housing as a share of households. Since the average homeownership rate has been 65.3%, but the trend line has not been straight.

Rates increased from the late-1960s through 1980, but then declined in the wake Federal Reserve interest rate hikes and the result jump in mortgage rates. Homeownership bottomed at 63.8% in 1986 and did not start rising meaningfully until 1994. In the subsequent decade, economic expansion, the dot-com boom, favorable lending policy and increasing home prices catapulted the rate to a high of 69.2% in 2004—approximately 11.3 million new owner households.

By late-2007, however, overly lax lending standards that had juiced the rate caught up with the market. According to CoreLogic and the Joint Center for Housing Studies, between 2007 and 2015, 9.4 million households lost homes. The foreclosure crisis and recession destabilized the home buying market, household finances and confidence in homeownership as an institution. The homeownership crossed below the 50-year average in 2013, hit a low in the second quarter and finished last year at 63.7%.

Currently there are 75.6 million owner-occupied households—940,000 fewer than the 2006 peak. Many of the 7.5 million new households, as well as former homeowners, are moving to rentals. As of October 2016 there were 15.2 million renter-occupied single family homes in America, a 3.8 million increase from 2006. There were also 26.5 million renter-occupied apartments.

The growing popularity of renting has led some to argue that low homeownership is not the crisis some make it out to be. Their logic is that any household formation is good for the economy. However, there is also evidence that renters' financial stability has been on the decline.

Why aren't more households buying?

The report highlights five key reasons homeownership remains low despite an improving economy.

Income is not keeping pace with home prices. From 2012 to 2015 the median national home price increased by an average of 8.2% annually. Over the same period nominal median household income increased just 2.5% each year.

Life is expensive. Student loan debt totaled $1.3 trillion last year, more than four times the 2004 total. Both the percentage of young adults with student debt and the amount they owe has grown substantially. Meanwhile, the share of renters spending more than 30% of their income on housing—the top level considered sustainable—is at an all-time high and down payment requirements have increased. All of this makes it difficult to save enough to secure a mortgage.

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So what we're seeing are interest rates that don't make sense based upon the real, underlying numbers as we've known them, representing a subsidy to some people, and an additional expense to others. Keeping this in mind, real estate itself benefits tremendously from these interest rates that have been made artificially lower, as people can now own properties with lower monthly payments, which helps to maximize the upward pressure on today's property values, too. Businesses will benefit from this also, as they can now borrow money at these lower interest rates.

Some of the people who are taking a massive hit, though, are the people with retirement pensions, as the rates of return on their pension plans have been far below what the projections had been, because of these lower interest rates. So this all depends on which side of the subsidy you find yourself on, in terms of whether or not this may be working for you. The good news in commercial real estate, at least for now, is the fact that while The Fed has begun raising interest rates, they've begun doing this very slowly. This is very important, as we don't want to see any major disruptions within our commercial real estate market. So when taking all of this into consideration, while most of us in business and industry are opposed to government subsidies, if we're going to end up on one side or the other one, we'd most likely rather end up on the one side that benefits us.

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- **Credit is hard to come by.** According to the Federal Reserve Bank of New York, in 2006 the median credit score for conventional mortgages was 706. Today it's 760. CoreLogic data shows that since 2010 applicants with credit scores below 620 have rarely qualified mortgages.
- **Homes are hard to come by.** Last year construction began on 830,000 new homes (seasonally adjusted). By comparison, housing starts have averaged 1 million annually from 1986 to 2016. In the five years following the recession mobility—the share of the population that changes homes annually—declined from 6.3% to 4.1%. As a result, at the end of last year there was just a 3.6 month supply of homes for-sale, according to the National Association of Realtors. The long-term average is four to five months.
- **Life events tied to home buying happening later.** The median age for a man to marry is 29.5, for a woman it's 27.4. That's up from 26.1 and 23.9, respectively, in 1990. From 1985 to 2014, births per thousand women aged 20 to 29 fell 15.7% to 185 births. At the same time births to women 30 to 48 increased 68% to 163 per thousand.

Now what?

"Looking forward, RCG believe that many of the significant trends that contributed to the decline in homeownership during the past decade, will either stabilize or reverse in the coming years, supporting the for-sale housing market," write the authors. However, they note "hurdles" exist, making action from politicians and other stakeholders necessary.

During the campaign then candidate Donald Trump bemoaned the low level of homeownership. Tweeting, after the record low rate was announced: "WE will bring back the 'American Dream!'" with a chart showing the historic path of the rate. As president, Trump's rhetoric on the economy has not changed much. (He still thinks it's hugely bad.) The actions his administration has taken and promoted since inauguration day, however, do not on the whole suggest a strong commitment to boosting ownership.

CIBA Real Estate

Mixed Use for Sale

815 W. Foothill Blvd. and 108 McKinley, Monrovia, CA 91016

Alfredo Mejia
Broker Principal
626-841-0599
BRE License 01198019

Brian Deets
Principal
626-244-4743
BRE License 01800743

830 S. Myrtle Ave.
Monrovia, CA 91016
Ph 626.303.1818

DO NOT GO DIRECT
Shown by appointment only.
Please call listing office to schedule an appointment.

Commercial/Residential Property

Property Highlights

- Mixed use property for Sale
- Front unit is approximately 1,067 RSF
- Commercial/Office/Medical Space/Residential uses allowed
- Residential unit in the rear is approximately 1,800 SF
- Lot is approximately 9,257 SF
- Remodeled free standing building
- Perfect for Live / Work or Multi-Tenant
- Located near all amenities in Arcadia or Monrovia
- Priced at $1,100,000