The Changing US Housing Landscape

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The following is the first of a four part series discussing the changes to the US housing market and how you as an investor can protect your investments. The failing US economy and difficulties within the financial markets continue to hamper new home loans slowing the growth of new home owners and those returning to the home market after foreclosure. This four parts series can be downloaded from www.homereplay.com and include:

1. Part 1 - Why US housing market is changing to a nation of renters
2. Part 2 - The make up of property management
3. Part 3 - Identification of issues investors have with property managers
4. Part 4 - Definition of a new business model property management

The Changing US Housing Market

The 20th Century saw a significant change in the US housing market brought about by new technologies, two world wars, and the computer age. It is almost impossible to find an area of our lives that has not been significantly impacted by these events.

We have seen our society change from an agrarian culture in 1900 where 41% of the people lived and worked on farms to an industrial/metropolitan culture in 2000, where only 1.9% of the US workforce is involved in agricultural careers. This has changed the landscape of the US housing market forever.

In addition, the rise of the computer age in the 1960's and 1970's brought a revolution to the workplace which made many life-long jobs obsolete. Many individuals were forced to retrain into other career fields to take advantage of new jobs in the computer field; all of which has changed the US housing market forever.

Rise of the Mobile Workforce

Two other crises impacted the US economy in the 1970's. The first was the energy crisis caused by difficulties with Iran and other OAPEC countries in the Middle East. The decreased production of US domestic products combined with the oil embargo from Middle East, severely limited the oil supply and gasoline prices skyrocketed forcing many businesses to close.

The second major event was the failure of Savings & Loan Institutions in the late 1970's and lasting until the early 1990's. Because of runaway inflation in the 1970's, deregulation of banking industry in 1980, and the buying of "junk bonds", nearly 1/3 of the Savings & Loans failed. Individuals who had placed their life savings in these institutions lost their not only their funds, but in some cases their homes when these institutions failed.

Impact to the US Housing Market

The combined effect of these crises caused large segments of the population to move for work. The relocation of these people, who had to leave town before their homes sold, eventually lost them to foreclosure. Realtors and government agencies such as HUD, Fannie Mae, and Freddie Mac ended up with huge inventories of unsold houses. The record number of vacant houses along with poor economic conditions in the US economy made it almost impossible for home owners to obtain new financing just adding to the problem.

The number of families that had to change jobs because of all of these events has been documented by the US Bureau of Labor statistics which reveals that the tenure of an employee, who used to work his whole career at one company as late as the 1950's, had fallen to only 3.5 years by the year 2000. Even though employee tenure has risen slightly to 4.6 years by 2012, we still have a highly transient workforce in the US. Now employees move frequently for work and the 'American Dream' of home ownership is a thing of the past.

Birth of Property Management Companies

The growing number of "unsold" houses were not only problems for realtors, banks and institutions holding the mortgages; but also for remaining home owners in the neighborhoods where these vacant houses were located. These vacant homes were depressing local real estate values, causing local market property values to plummet. This problem grew even worse when the 'Housing Bubble' burst in 2007 causing even more foreclosures. The sheer quantity of vacant houses forced these institutions to find a solution and what emerged was a whole new industry, known as *Property Management*.

Initially, realtors performed a "care-taking" service for clients whose houses did not sell when they moved. Based solely as a convenience for these clients, realtors provided a service designed to care for these properties, until they were sold or were rented. However, when the US economy failed to recover and the housing market still was going down, the need for these services became permanent.

Since a more structured approach was needed to solve this problem, realtors began setting up separate groups (Property Management) handle this volume of new business. Realtors looked upon this as an added revenue stream and set about structuring this new business to maximize their profits at the expense of the owners.

Thus the current property management business model was developed by realtors and does not meet the needs of today's investor who wants to make a profit. The realtor's interests are satisfied when maintenance expenses and management fees are collected each month. The property managers manage to cover costs while the investor wants the property managed to make a profit. Two dramatically different business philosophies.

Today's Marketplace

The slow economic recovery continues to hurt individuals with IRA accounts and pension funds. In recent years they have been turning to real estate where cash flow yields of 8 - 10%, or higher are possible. These new investors are more sophisticated and demand a more active role in the management of their property. This is causing problems for property managers because they cannot meet the dynamic needs of these new investors. These new investors want the "Charles Schwab" look & feel to their investment portfolios where they can at any time get an up-to-date view of their investment just like they did when talking to their stock broker.

These new investors have brought along a whole set of new requirements which many property managers are finding hard to address. This includes having instant access to their accounts showing a variety of performance metrics on individual properties, quick response to their questions, and complete transparency on all monetary transactions. Just like the stock market day-trader, this investor is actively involved in the acquisition, renovation and maintenance of his property to drive down costs.

These new demands are hard for existing property managers to address. First, property managers have long had a free hand in managing their client's properties and don't like input from the owners. Second, they have out-dated management systems and cannot answer the questions this new investor is asking, let alone in real time. Finally, this investor is forcing them to change their way they do business. The new investor wants control over his invested capital and the collected rents, because after all - ***It is his money***.

AUTHOR'S COMMENT:

If this paper has stirred some thoughts you would like to share and become part of the campaign to change the property management business model to make it performance driven, please share your thoughts by emailing to: ***ggeist@homereplay.com***