



# Investor Report

One Call - One Solution from Get There First Realty

## SUB-PRIME BUST=RENTAL BOOM!!

Every publication you read these days attributes some blame for the current weak real estate sales on the fall out of sub prime mortgages. A sub prime mortgage (13.5% of mortgages in D/FW) is a loan made often at higher interest rate or adjustable term to a less than pristine applicant. Currently nearly 3 million sub prime loans are about to have interest rate increases and nearly 15% of these borrowers are behind in their payments. Americans are highly leveraged (lowest saving rates since the Great Depression), and the marketing of home ownership since the Clinton administration has strapped many families. For many of our newest tenants, the American dream quickly became the American nightmare. Estimates are that as many as 2.4 million Americans could lose their homes to foreclosure. **All of these negatives are very positive for the home rental business.** In the past 120 days I have witnessed a market turnaround unlike anything I have ever experienced. GTF's home inventories dropped by almost 50% and tenants were finally leasing homes that were 100% ready and priced right. Ironically, Apartment absorption is down, while our rental business is strong which indicates to me that the fallout of the sub prime market has put new emphasis on home occupancy.

The sales bubble that has burst has propelled home rentals, and we are finally seeing normalcy in our market. If your home is 100% perfect and priced right there should not be any need to give away free rent or discounted deposits. Job growth remains strong (+4.5%) in our area, and the only thing that has changed is that home loan requirements have become more stringent. It is about time that rental homes receive some interest. Finally, I do not feel like Rodney Dangerfield (I'm getting respect).

Activity Statistics Dallas/Ft. Worth Market		
Previously owned homes sold in D/ FW	Jan 2007	-4%
	Feb 2007	-8%
	Mar 2007	-7%
YTD sales trend		-7%
Median price trend		Flat
Average days -sell		80 days
Average to lease		61 days
1st Quarter Pending Leases Trend		UP 21%! This is very positive
Unsold New homes in D/FW		12,000! This is very positive Renters cannot buy
#1 US State for foreclosures		The Great State of Texas

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## 1st Quarter Stocks=Flat

It was a boring 1st Quarter with early gains in the equity markets taken away with the market adjustment from China and sub prime loan fallouts. It's amazing how the country is all a buzz about real estate softness; in Texas it's old news. The Dow was down .87% and the S & P 500 was up .18%. Natural resources like oil and gas continue to be good dividend yielding investments, and the demand for energy is not going away. Muni bond yields have continued to drop as investors continue to move money from stocks to bonds in hopes of stable returns. But the big news is that Kraft Foods is no longer Phillip Morris.



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## Get There First Updates

Sometime in April you will receive your tax statements with your estimated property valuation. Don't even look at it, just fight to have it lowered. I do this every year and only pay the company we recommend using if they are successful at saving me money. We pay them 50% of the first years savings so I have nothing to lose. The company is called John Hirschy & Associates at 972-304-0909. You can't lose.

New home builders are great marketers, and I anticipate they will convert many of their unsold homes to rentals if they cannot be sold. Nearly half of the new homes under contract never close because mortgage qualification standards have tightened. New home starts are 35% less than a year ago and that is great because anything that limits supply helps the landlord. I'm still concerned with the slowdown I have felt these past few weeks and although rental leasing is ahead 33% so far this year, we need to pray the momentum can continue.

GTF continues to experience problems with Homeowner Associations (HOA's). These necessary "referees" now appear in many single family subdivisions as well as condominium communities. It is very important for investors to know what the homeowner documents say before purchasing in that many associations now prevent rentals altogether or do not allow rental signs. This eliminates an investor's ability to even lease their home if they can't sell it.

Everyday we are in court trying to motivate tenants to prioritize their rental commitments with our owners. The courts are so backed up with foreclosure possession cases (30,000 in D/FW projected this year) and evictions. I encourage any owner that does not carry eviction protection to subscribe today (\$5/month). Delinquencies are on the rise as household budgets are strapped. Just today we received 13 NSF checks from your tenants!

If real estate was like astronomy, this past quarter has been an alignment like I have never seen before. Apartment leasing is off, new home sales off, pre owned home sales down and yet home rentals were stronger than ever. My fear as the is that the apartment and new homes marketers will figure out how to market to our renters and foreclosures will be bought

by investors and converted into rentals. We are aggressively marketing tenants to not buy and to renew their leases now. A great statistic is that you can get 5.4% on your money at Countrywide savings bank but home appreciation rose only 18% in the past 5 years (3.6%). And in fact most of Dallas last year was flat or in fact declined in value. So if we can continue to make your residents feel good about renewing and if the planets continue to align this could be the best year most of you will ever have as landlords.

For investors in the Park Cities near SMU the city council is now enforcing its policy of no more than two non related residents per household. A 3 bedroom can only have 2 roommates or a \$2000 fine.

## INDUSTRY TRENDS

*Dallas/Ft. Worth is certainly a market of "haves and have nots." Despite overall home sales being down over 6% this year, sales of homes priced over a million dollars are up 27%! This growing disparity more affects home investors more than home owners since most investors are not flipping million dollar homes. What happens in other states rarely has anything to do with Texas where I find the overabundance of land in many areas makes profitability in rentals difficult. Many of you just completed your tax returns so ask yourself, "did I make money on my rentals?" If you were close to break even this could be the year you make money since I feel stability has entered our market and let's hope it stays.*

*The effects of foreclosures to our market will undoubtedly add inventory and that is in my opinion the big unknown effect for the next few quarters. Just this month I had to foreclose on two homes I own after only having to foreclose one time in the past 10 years. Both homes will be put back into rental inventory so if the market does what I'm doing we may have oversupply. But there is nothing more beneficial to this market than to force more renters into the marketplace. The unraveling of the sub prime market will slow lenders to approve fewer tenants wanting homeownership and that is the best good thing for us.*

A handwritten signature in purple ink that reads "Mark H Kreditor".

Mark H. Kreditor, MPM  
Broker