

# US Residential Real Estate ...

- ... an opportunity of a life time?
- Ron Nawrocki
  - Don Mucha



# Outline

- Phoenix/Warsaw Contrast
- US Real Estate Market
- Phoenix Real Estate Market
- Risks & Impediments
- Opportunities
- Ideas for Poland

# City Contrast

| <b>Demographics</b>       | <b>Phoenix</b> | <b>Warsaw</b> |
|---------------------------|----------------|---------------|
| Land Mass (sq. miles)     | 475            | 199           |
| City Population '08 (mln) | 1.57           | 1.70          |
| Pop. Growth (vs '00)      | <b>5.7%</b>    | 3.0%          |
| Metro Population (mln)    | 4.3            | 2.0-2.8       |
| Median Age                | 30.7           | 37.3          |
| Female PerCent            | 49.1%          | ~51%          |
| Hispanic                  | 34.1%          | ~0%           |

# City Contrast

| <b>Climate &amp; Economic</b> | <b>Phoenix</b> | <b>Warsaw</b> |
|-------------------------------|----------------|---------------|
| Avg Temp Summer (C°)          | 29.5           | 11.0          |
| Avg Temp Winter (C°)          | 13.3           | 3.0           |
| Cost of Living                | 94.4           | ~100          |
| Cost of Living Rank (282)     | 175            | 129           |
| Median Income/cap.            | \$19,833       | \$19,368      |
| Unemployment Rate             | 9.0            | 12.0          |

# State/Country Contrast

| <b>Demographics</b>   | <b>Arizona</b> | <b>Poland</b> |
|-----------------------|----------------|---------------|
| Capital City          | Phoenix        | Warsaw        |
| Land Mass (sq. miles) | 113.6 k        | 120.7 k       |
| Population '08 (mln)  | 6.5            | 38.48         |
| Pop. Growth (vs '00)  | 26.7%          | -0.6%         |
| Median Age            | 34.2           | 37.9          |

# State/Country Contrast

| <b>Climate &amp; Economic</b> | <b>Arizona</b> | <b>Poland</b> |
|-------------------------------|----------------|---------------|
| Avg Temp Summer (C°)          | 29.5           | 9.0           |
| Avg Temp Winter (C°)          | 13.3           | 7.0           |
| Median Income/cap.            | \$20,275       | \$13,739      |
| Unemployment Rate             | 9.6            | 12.8          |

# US Real Estate Market

- NO SUCH THING !
- Residential slowed in '06 – bottomed early '09
- Commercial lags – may bottom '10 or '11
- Detroit & Buffalo have shrinking population – minimal development
- Phoenix & Las Vegas have boomed - overbuilt
- Hardest hit areas in FL, AZ, CA, NV will recover fastest – Demographics!
- Opportunities in Detroit as well as Las Vegas

# US Commercial Real Estate

- Remember when ... Cap rates  $> 7$  scarce
- Now ... cap rate  $< 10$  are boring
- Retail vacancy high ... stabilizing?
- Office market stagnant until employment grows
- Apartment complexes offering free rent
- Low hotel occupancy
- Even hospitals closing
- REIT's are buying now!

# US Commercial Real Estate

- Defer investment for at least 1 year
- ... some areas doing OK (NYC, Wash DC & capitol cities)
- Buy/Lease-back to US & State Govt.?
- NOTE: not my specialty ... yet

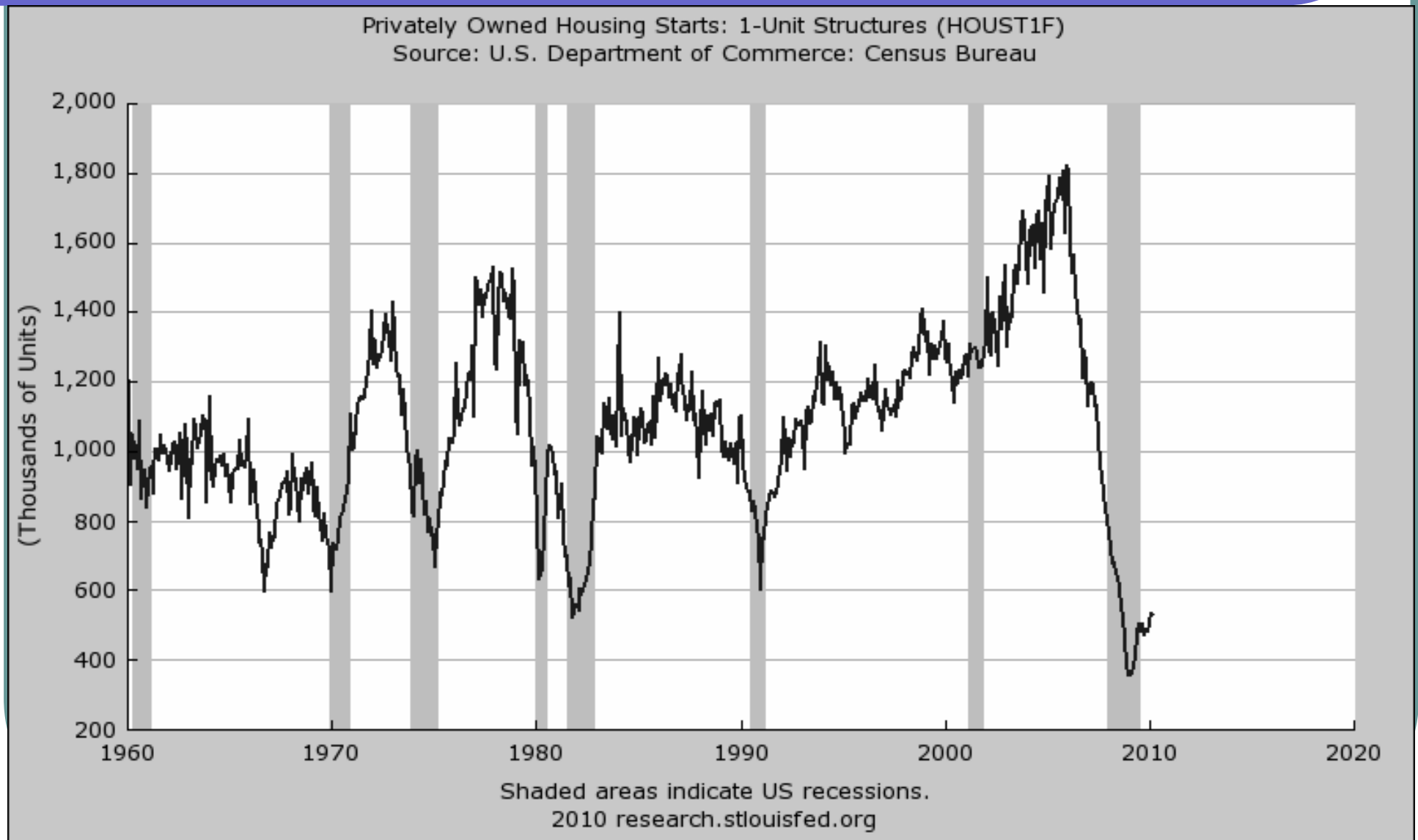
# US Residential Real Estate

- Growth where “gray hairs” will be moving
- Would you retire in Detroit or Phoenix?
- Major factor in AZ, FL, CA decline was immigrant hiring laws; recent focus on illegals
- How many decreases in RE prices nationally since 1909?
- Prices down 50-75% in hardest hit markets!
- Getting back to “normal market” (8 months inventory) due to buying frenzy
- Banks withholding “Shadow inventory”?

# US Existing Home Sales - March

- Single Family +7.3% from Feb. to 4.68 mln annual rate
  - Up from 4.36 mln in Feb
  - 13.3% over Mar. 2009
  - Median price of \$170,000, up 0.6% from Mar. 2009
- Housing Inventory +1.5% to 3.58 mln
  - 8.0 month supply
  - Down from 8.5 mos. in Feb.
- Distressed 35% of market
  - 1<sup>st</sup> time 44%
  - Investors 19% (self-reported)

# US Housing Starts

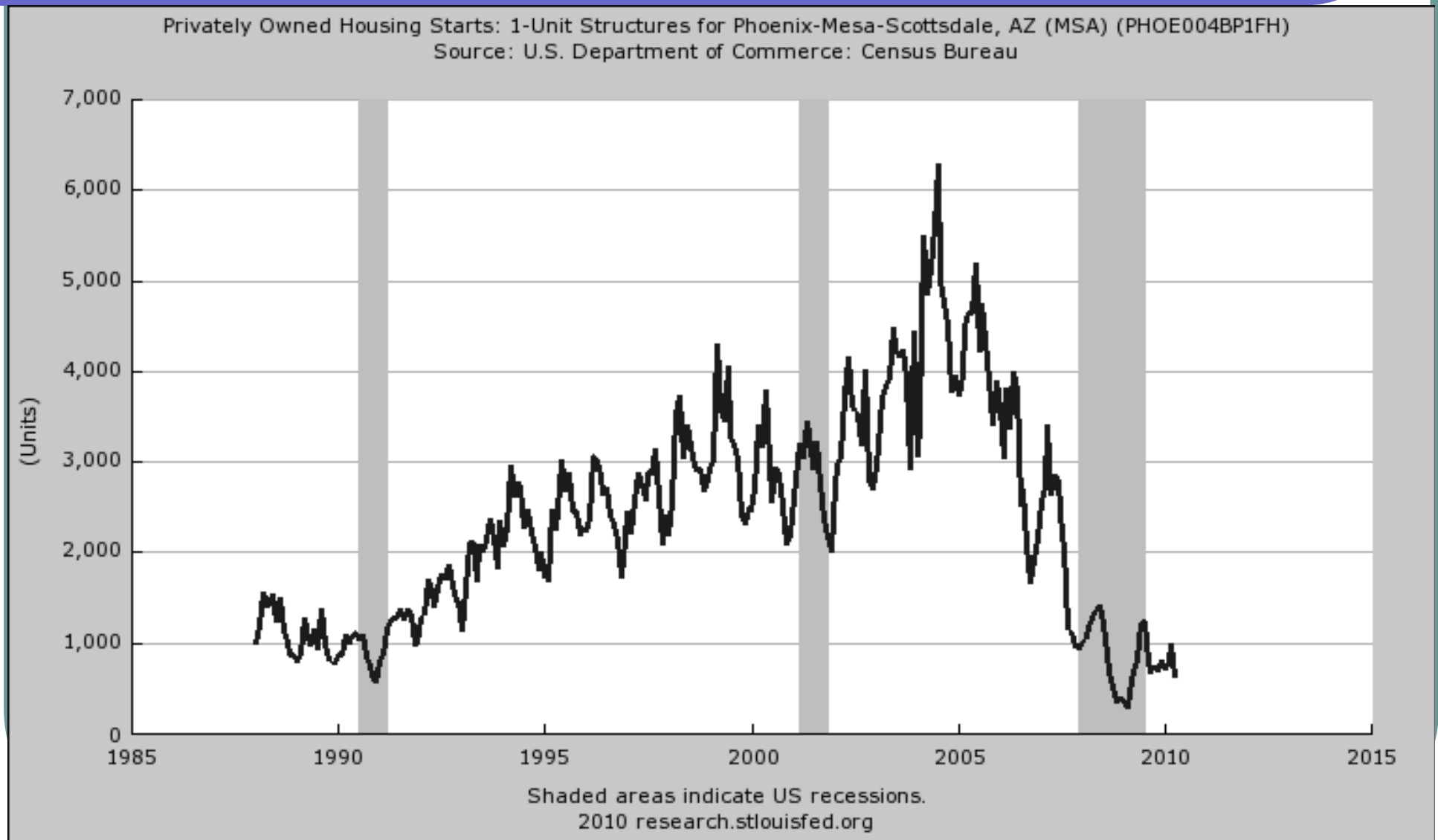


June 18, 2010

# Outline

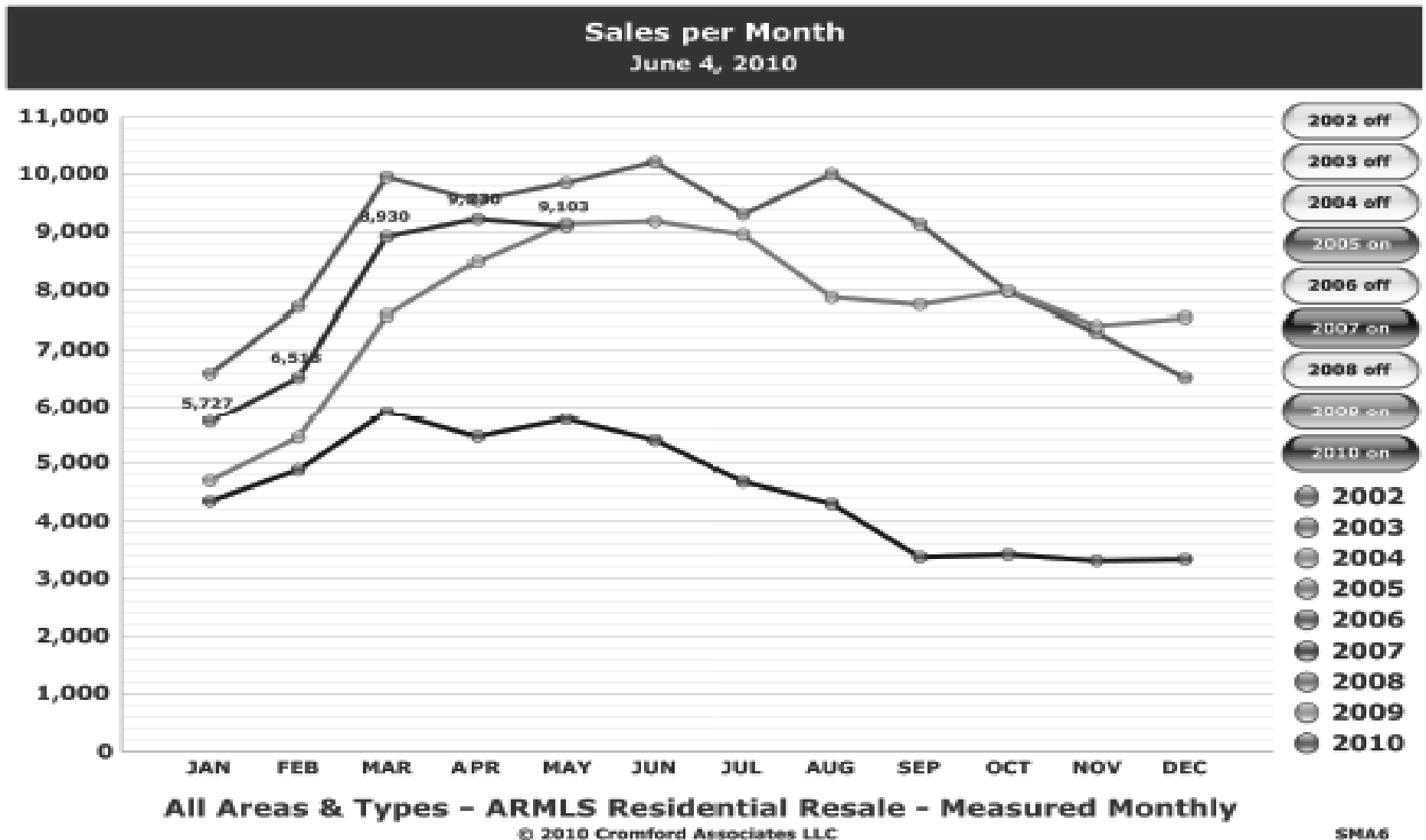
- Phoenix/Warsaw Contrast
- US Real Estate Market
- **Phoenix Real Estate Market**
- **Risks & Impediments**
- **Opportunities**
- **Ideas for Poland**

# Phoenix Housing Starts

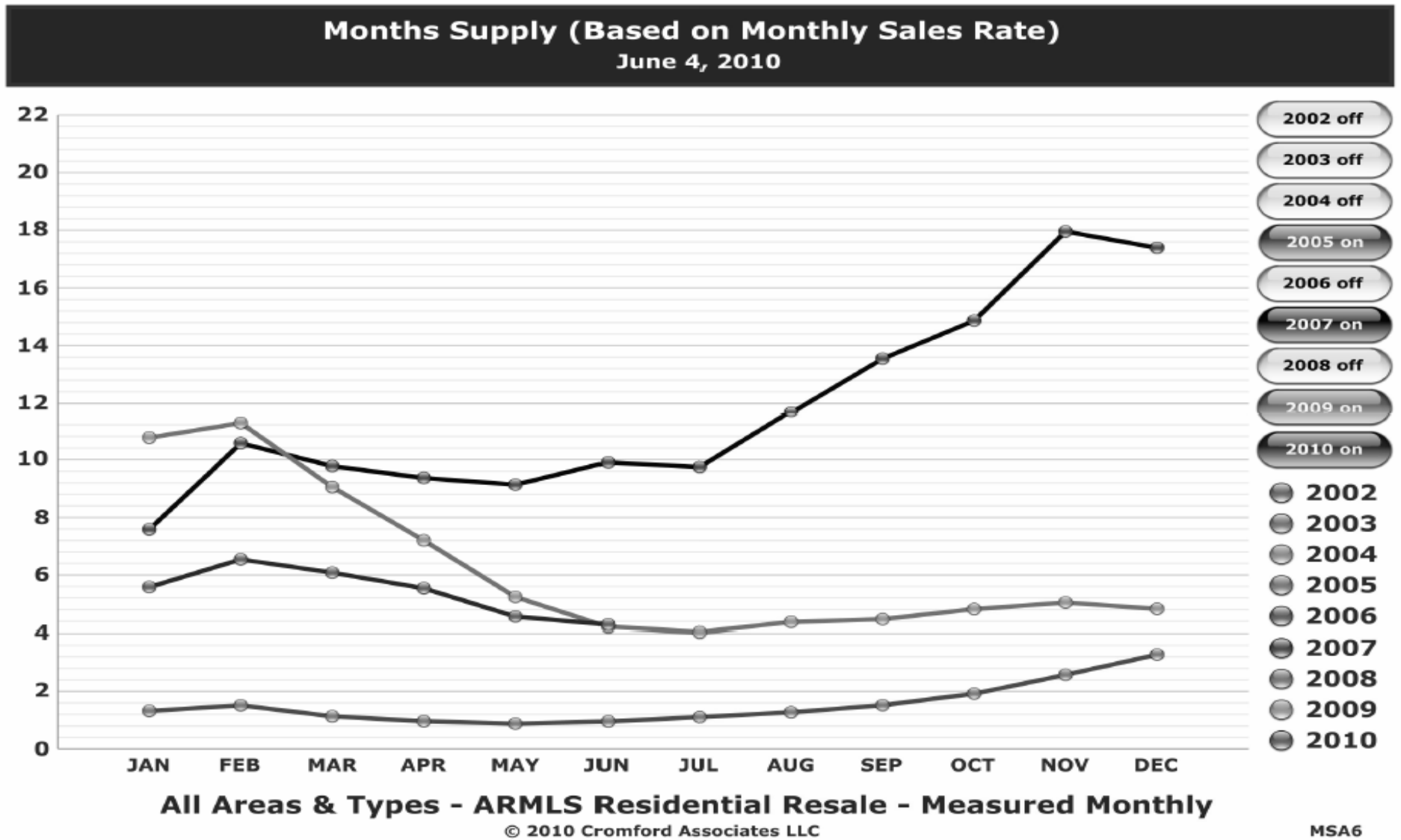


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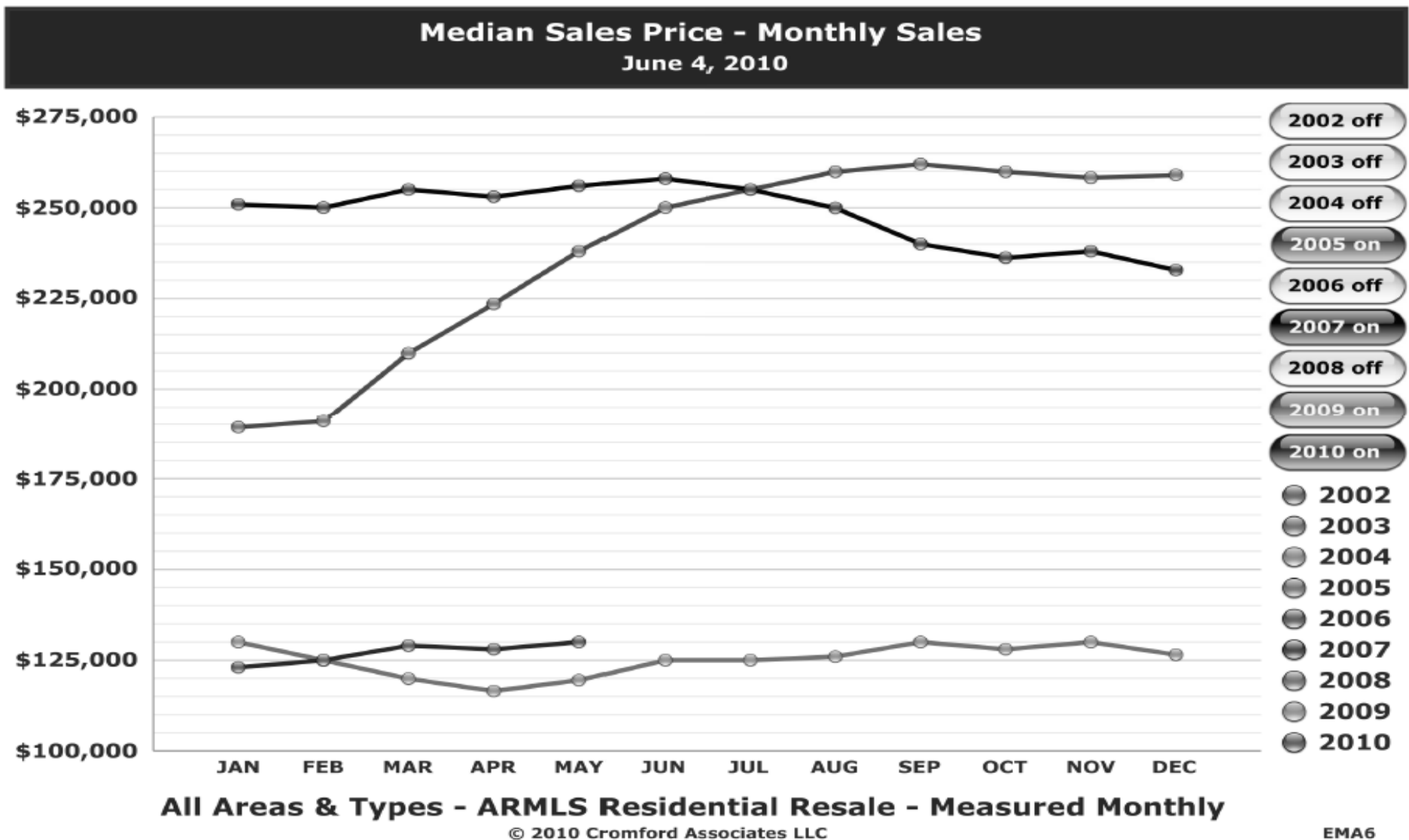
# Sales / Month ('05, '07, '09, '10)



# Months of Supply ('05, '07, '09, '10)

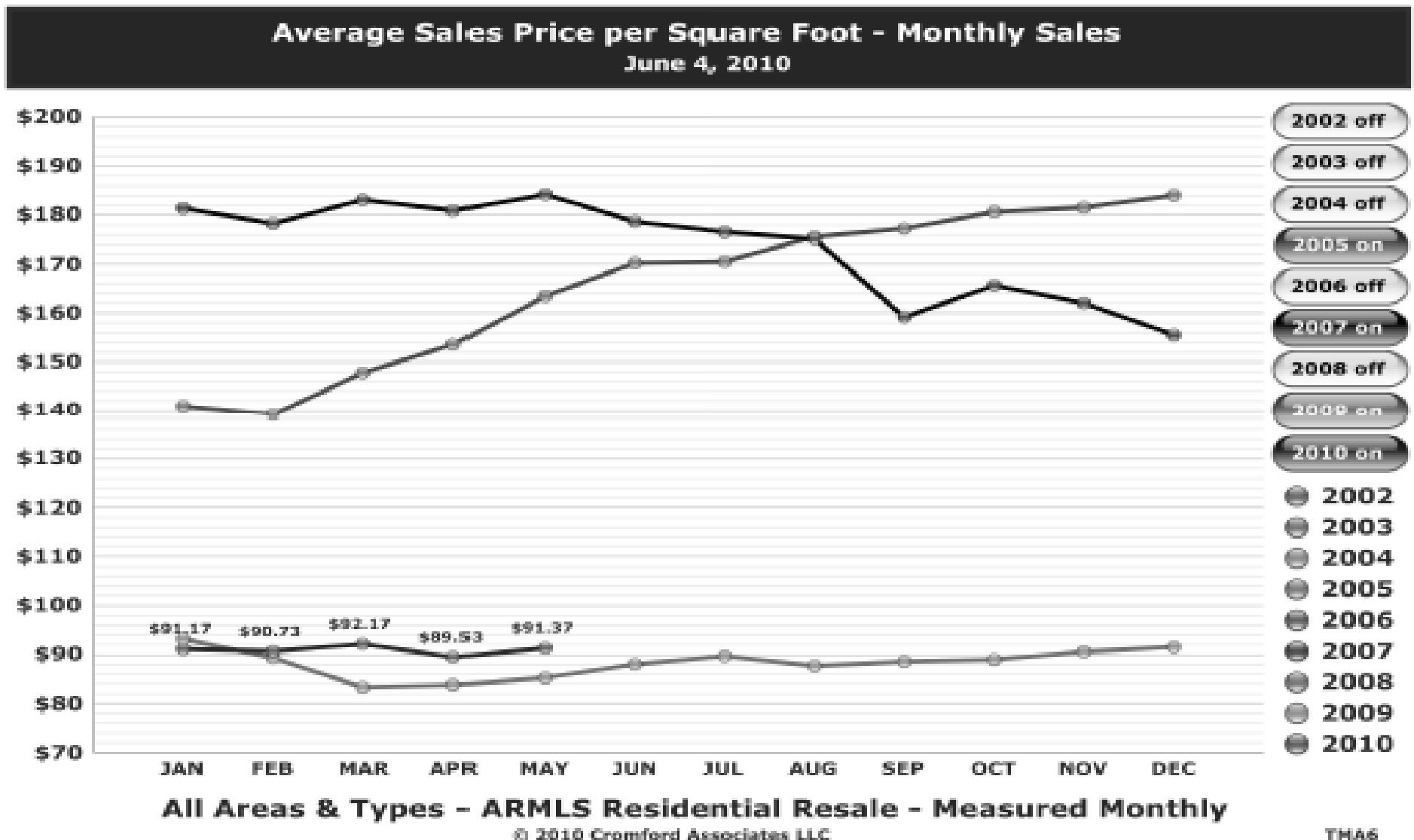


# Median Price ('05, '07, '09, '10)



EMA6

# \$/Sq.Ft. ('05, '07, '09, '10)



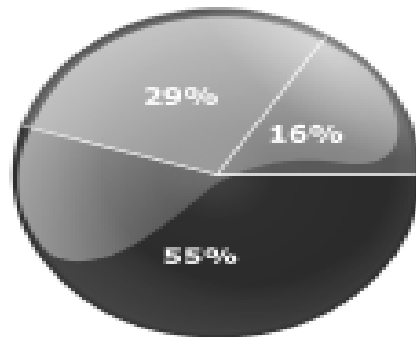
# Distress Chart – my area

Market Distress by ZIP Code  
June 1, 2010

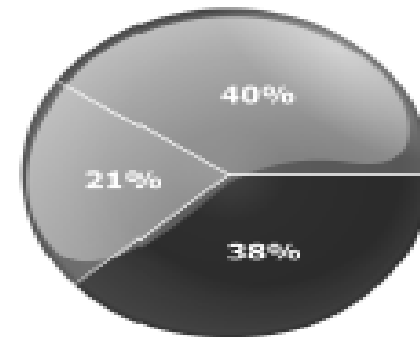
85396

■ Normal ■ Pre-Foreclosure ■ Lender-Owned

Active Listings



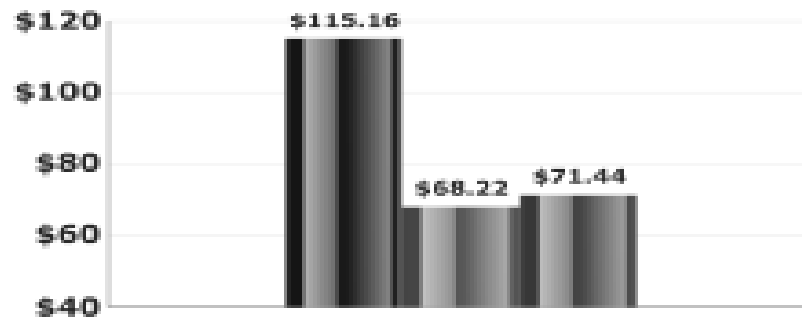
Monthly Sales



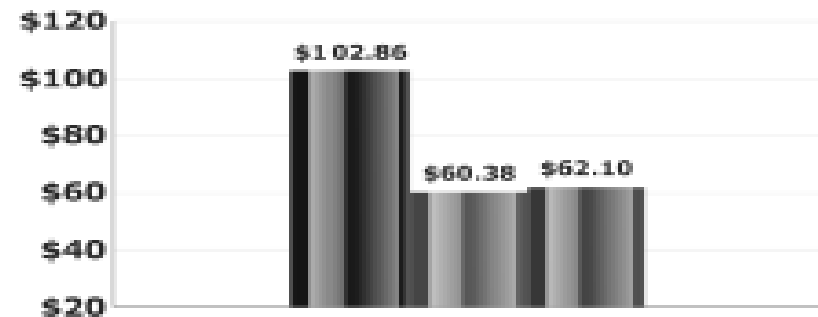
Distress Index



Average \$/SF - Active Listings



Average \$/SF - Monthly Sales



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MDZ1

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# Risks

- Double-Dip Recession – 1<sup>st</sup> US Housing; 2<sup>nd</sup> European Economies
- Real Estate prices could decline again
  - Commercial real estate causes banks to collapse
  - Investors slow investment in Real Estate
- Property Valuation & Appraisals
- Cost & Time to resell or rent a property
- Rental rates could decline as investors buy-fix-rent more properties
- Govt. screw things up even more
- Banks do not start lending (TACT Program)

# Impediments

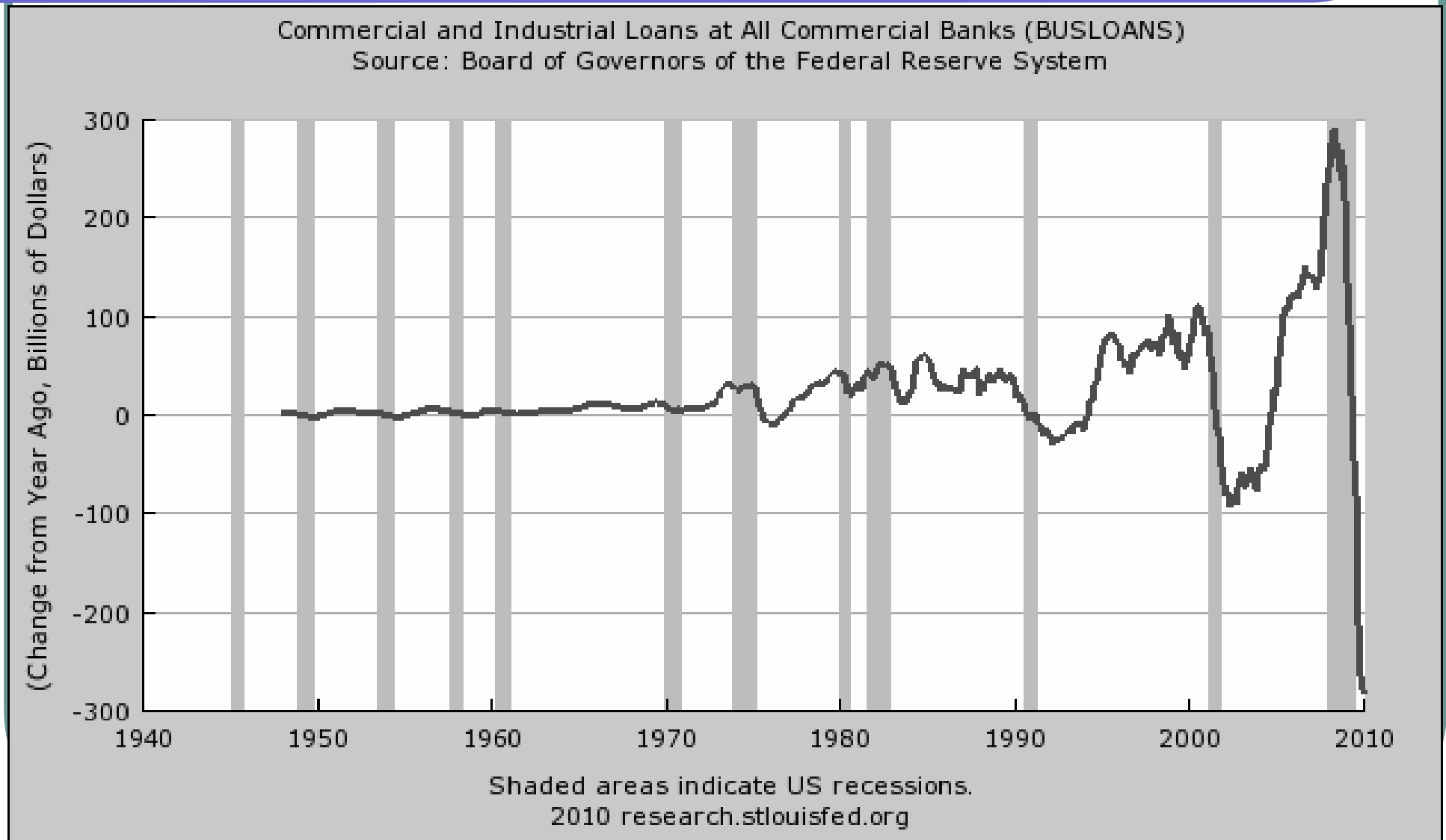
**Govt.** looking for ways to make things worse:

- End of 1st time & repeat home buyers
- Investors: NO more than 10 mortgages
- NO secondary market for loans to entities
- Raise bank reserve reqts. on mortgage loans
- Appraisal rules - pick out-of-town appraisers
- Make Settlement Statement longer
- Add delays to closing process – protect buyer
- License all lenders - incl. private lenders

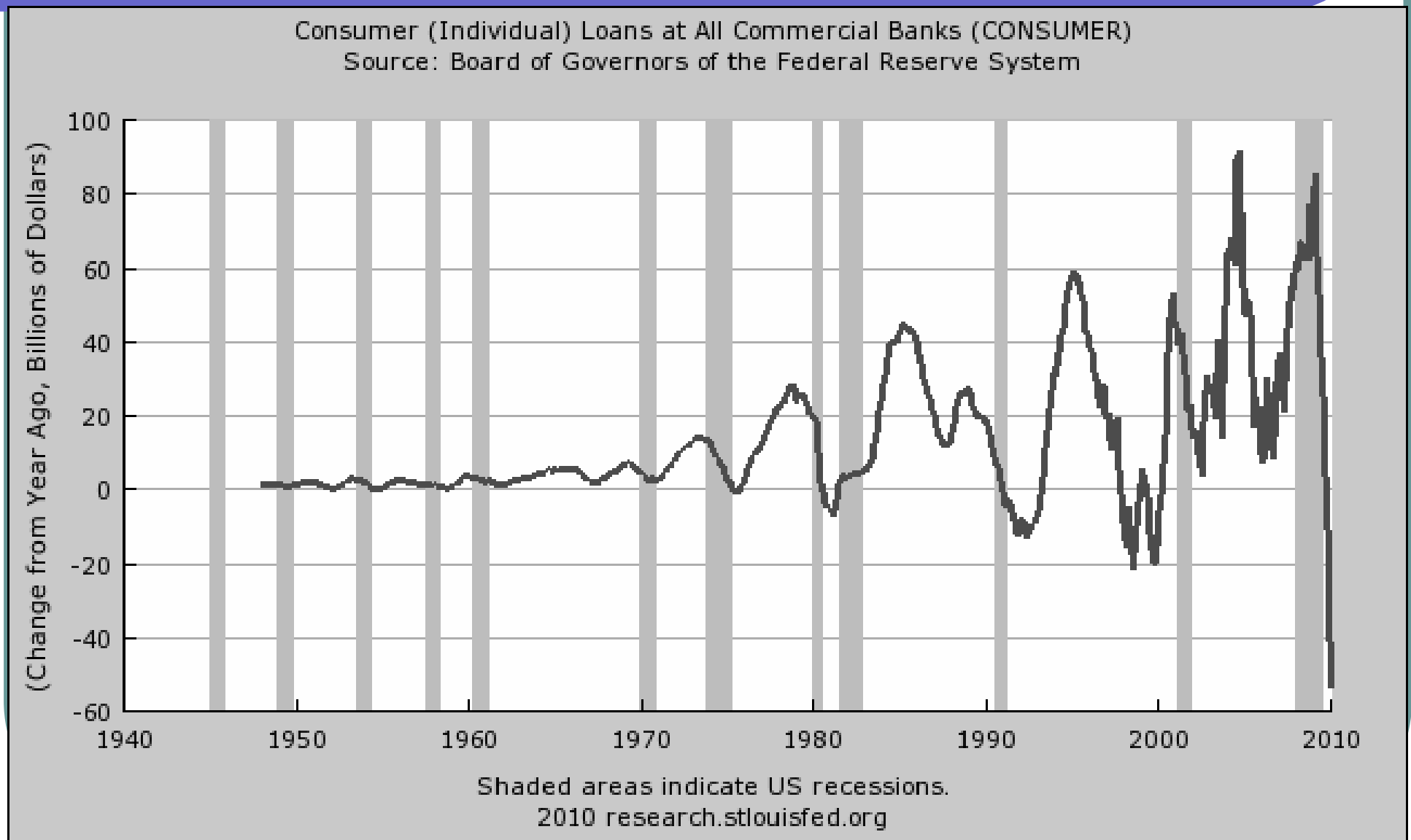
# Impediments

- Government
- **Bank Lending**
  - Bank balance sheets weak
  - Weighed down by REO & Non-performing loans
  - Tightened lending so they can't sell properties
  - Dumping properties below value
  - Execs meeting with Govt. rather than running business
- Govt. “encouraging” banks to lend to Govt. (growing deficit)
- Unemployment

# Impediment: Bank Lending (business)



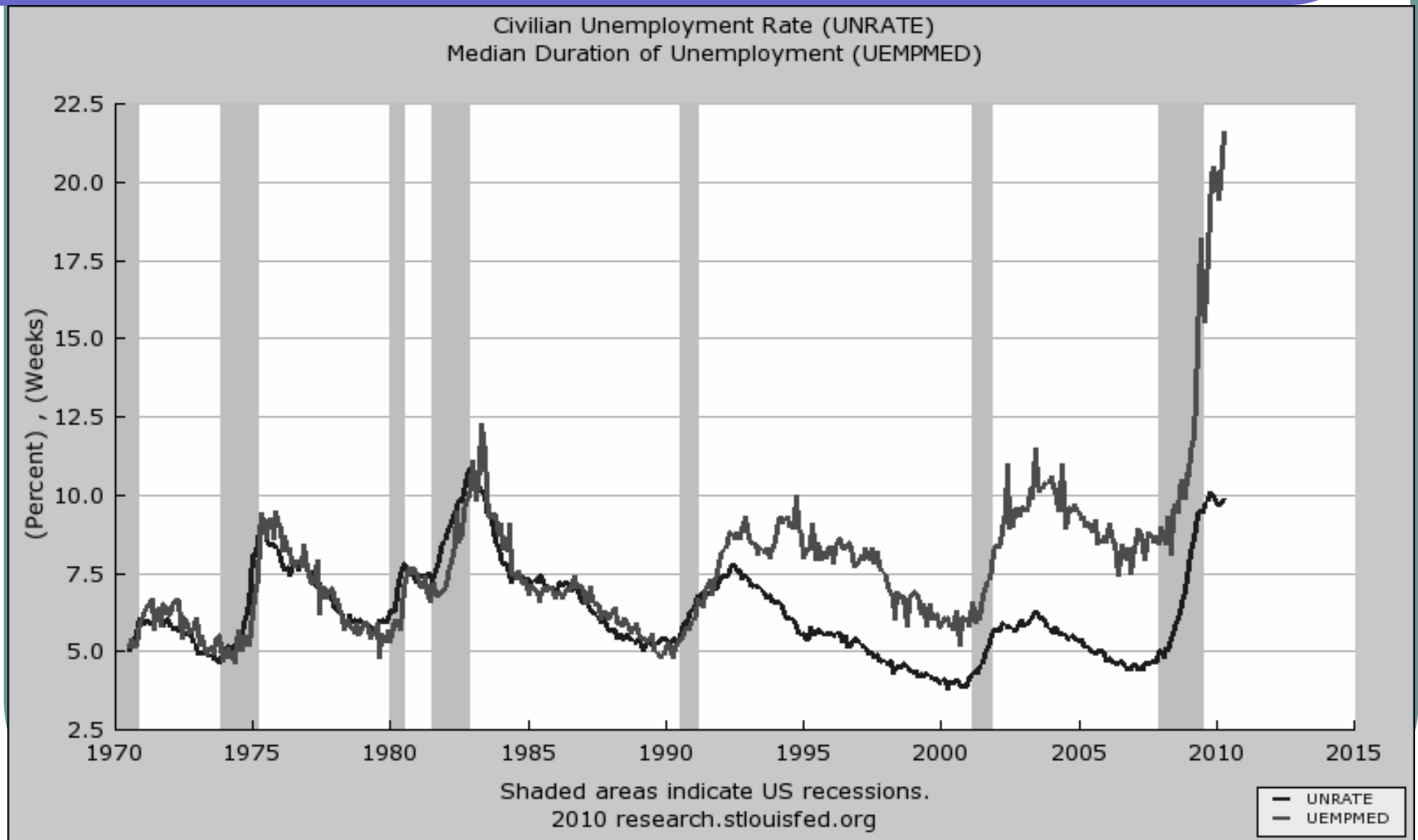
# Impediment: Bank Lending (consumer)



# Impediments

- Government
- **Bank Lending**
  - Bank balance sheets weak
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- **Unemployment**

# Unemployment – Great Recession



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# Opportunities

- Real Estate prices do NOT drop to \$0!
- Prices **far below** long-term trend
- Niches: depressed markets, Section 8 & handicapped, adult living ..
- Short-Sales ... 21<sup>st</sup> Century phenomenon
- Creative Financing to Buy & Sell
  - Lease-2-Own
  - Seller Financing -> **Bank Seller Financing (TACT)!**
  - Owner Financing – Wrap existing mortgage
  - Private Mortgage Loans – Bank alternative
- Cash is King

# Ideas for Poland

- Data – Similar data for Poland?
  - Safer to invest if data were available
  - What would impact be on the market?
- Polish Craig's List
- Financial Education students & adults
- Reverse Mortgage
- Fix & Flip investing?
- Owners Upside-down or In Default:
  - Mortgage Loan modification
  - Short Sales

# Ideas for Poland

- Are Banks lending?
  - Problem -> Opportunity
- Creative Financing (Selling & Buying)
  - Seller Financing
  - Owner Financing – Wrap existing mortgage (laws?)
  - Private Mortgage Loans – Bank alternative
  - Lease-2-Own Program (laws?)
- TACT Program
  - Toxic Asset Conversion & Transfer Program

# TACT Program

- Investors Lead
  - <http://tiny.cc/jfyyk>
- Simple Solution
  - <http://tiny.cc/0k41x>
- TACT Program
  - <http://tiny.cc/ov9zs>
- Banker Version
  - TBD
- Damn Investors
  - TBD

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