Can You Be Too Late To A Real Estate Market? 10 Investors Weigh In

Forbes Real Estate Council CommunityVoice
Forbes Real Estate Council
Jul 13, 2018, 07:30am • 2,137 views • #IfIOnlyKnew

POST WRITTEN BY

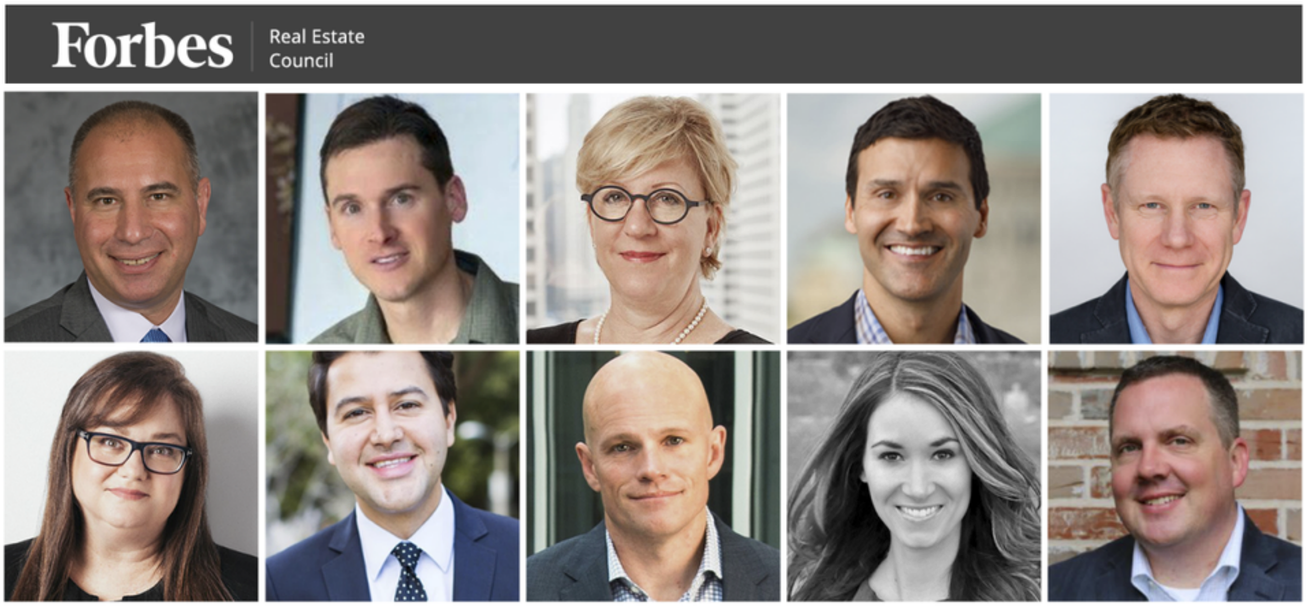
Forbes Real Estate Council

Successful executives in the real estate industry from Forbes Real Estate Council share firsthand tips & insights.

More and more first-time investors are looking to get their feet wet in the real estate industry and add to their investment portfolio. But, how do they know if the time is right?

While investing in property can be a beneficial way to increase your holdings, following the ebbs and flows of the market can make a difference if you get a deal or overpay for a property. A market may be hot now, but by the time you get your buying strategy together, you could miss out on a golden opportunity.

To help you understand when to strike on a property, 10 members of Forbes Real Estate Council share whether there is such a thing as being too late to a market as a real estate investor and what signs to keep an eye out for.



Members of the Forbes Real Estate Council share their take. ALL PHOTOS COURTESY OF FORBES COUNCILS MEMBERS.

1. Debt And Equity Capital Are Scarce

Very often, people refer to the idea that we are in the late innings of a real estate cycle, and to invest at such a time is unwise. While that may be the case on a macro basis, the best time to invest may be when nobody else is investing. Typically in the late innings, debt and equity capital are scarce, which allows for more opportunities on a micro basis for those flush with capital. - Mark Fogel, ACRES Capital

2. Property Generates Negative Cash Flow

If you're buying property hoping that it appreciates, that's speculation rather than investing. If a property does not provide positive cash flow with a 20% to 25% down payment, then you are speculating rather than investing. In an up market cycle, purchase prices rise faster than rent incomes. Negative cash flow with a small down payment indicates that you've arrived to the party too late. - Keith Weinhold, Get Rich Education

3. Rents Are Declining

Look at the development pipeline, compared to existing stock. What percentage is new development? If rents are declining and concessions are common, the market is past its prime for a short-term investor. Their investment parameters are heavily weighed on rent growth, capital expenditure needed for a value-add and number of units. While a market may be past its prime for a short-term investor, it may be just what a long-term holder is looking for. - Susan Tjarksen, KIG CRE LLC

4. Capital Chasing Assets

Speaking on a macro basis, it is not a good idea to buy in markets where capital is chasing assets. The optimal time to invest is when assets are chasing capital, and in normalized markets you will see both. The 2018 market remains normalized, but it seems as if we are moving toward more capital chasing assets. - Dave Scherer, Origin Investments

5. Capitalization Rate Changes

No, there is no such thing as missing a market. What does change, though, is the capitalization rate at which you should invest. Missing a trend window usually means less upside is available, so the investor should be more conservative underwriting a capitalization rate. - Lee Kiser, Kiser Group

6. Short Hold Times And No Value-Add Strategy

You can absolutely be too late to a market if you have a short hold time and no value-add strategy. However, if you have a longer hold time (five to 10 years) or you can add value to a property, market timing is not that relevant to the real estate investor. Focus on liquidity in the market, access to jobs and strong rental yields and timing will not be the deciding factor. - Beth O'Brien, CoreVest Finance

7. Quick Resale Rates

In the residential market it's pretty simple: If the new-construction properties built in the earlier part of the cycle are being resold and constitute an outsized portion of the available inventory for sale, it's too late. This is an indicator that the homeowners of those properties are not confident about the near-term outlook of an area and are looking to cash out while there is still time. - Ari Afshar, Compass

8. It Isn't Always About The Market

There are going to be opportunities in most markets. How well you underwrite and how efficient you are in matching the rehab to the rent will many times define your success in single-family rental investing. So it isn't always about the market, but more about the investments within the market and how you choose. Be diligent, do your homework, and don't force deals. Look at the data and understand the submarket you are investing in. - Noel Christopher, Renters Warehouse

9. It Depends On Your Strategy

One always has to consider their investment goals when jumping into any real estate market. Some markets may make high yields and large margins for flipping much more difficult, whereas seeking a different market or a different time may be easier. Depending on your personal strategy, you can identify if any market is rich with opportunity or past its prime. Sometimes it's difficult to discern, but always study local economics, not national trends. - Tracy Royce, Royce of Real Estate

10. It Depends On How You Find Deals

If you buy your investment properties in the "retail" marketplace, then yes. The retail market in America is pretty efficient. If you learn the art of marketing directly to home sellers of distressed properties, and understand how to help them navigate through challenging situations, no. Real-life issues like death, divorce, problem rentals, etc., don't follow real estate market cycles. - Mike Hambright, FlipNerd.com

---

Forbes Real Estate Council is an invitation-only community for executives in the real estate industry. ***Do I qualify?***
