





# Should You Invest In Residential Real Estate In A Down Market?

Alex Doubet – January 2019

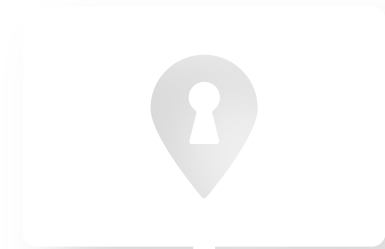




# Are We Headed For Another Recession?

# Take a Deep Breath, 2008 is NOT Coming Back

- Market conditions are different
  - High interest rates
  - Low wages
  - High housing prices
  - Long standing bull market



# Take a Deep Breath, 2008 is NOT Coming Back

- Market conditions are different
  - High interest rates
  - Low wages
  - High housing prices
  - Long standing bull market
- However, if a recession does happen – it's unlikely to be driven by the housing market.

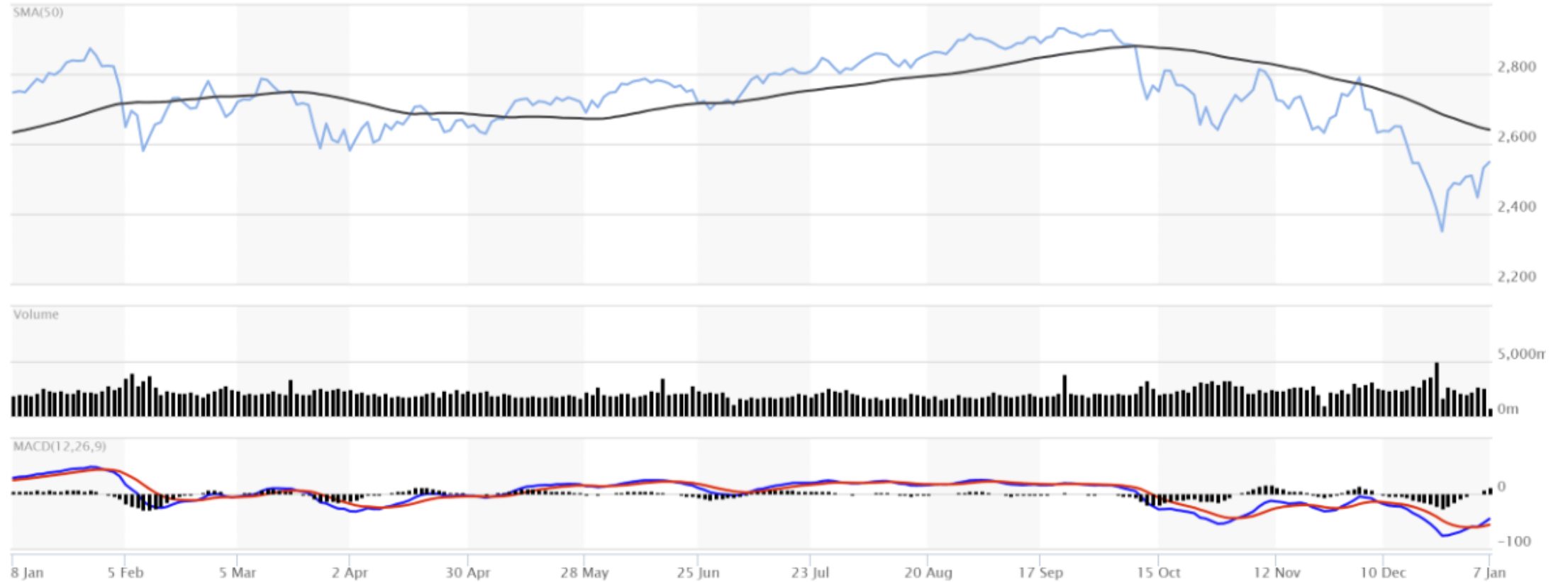


# Major Economic Indicators

- Stock markets
- Yield curve
- Interest rates
- Volatility index
- Housing market



# S&P 500



# Treasury Yields

Both short-term and long-term yields are rising



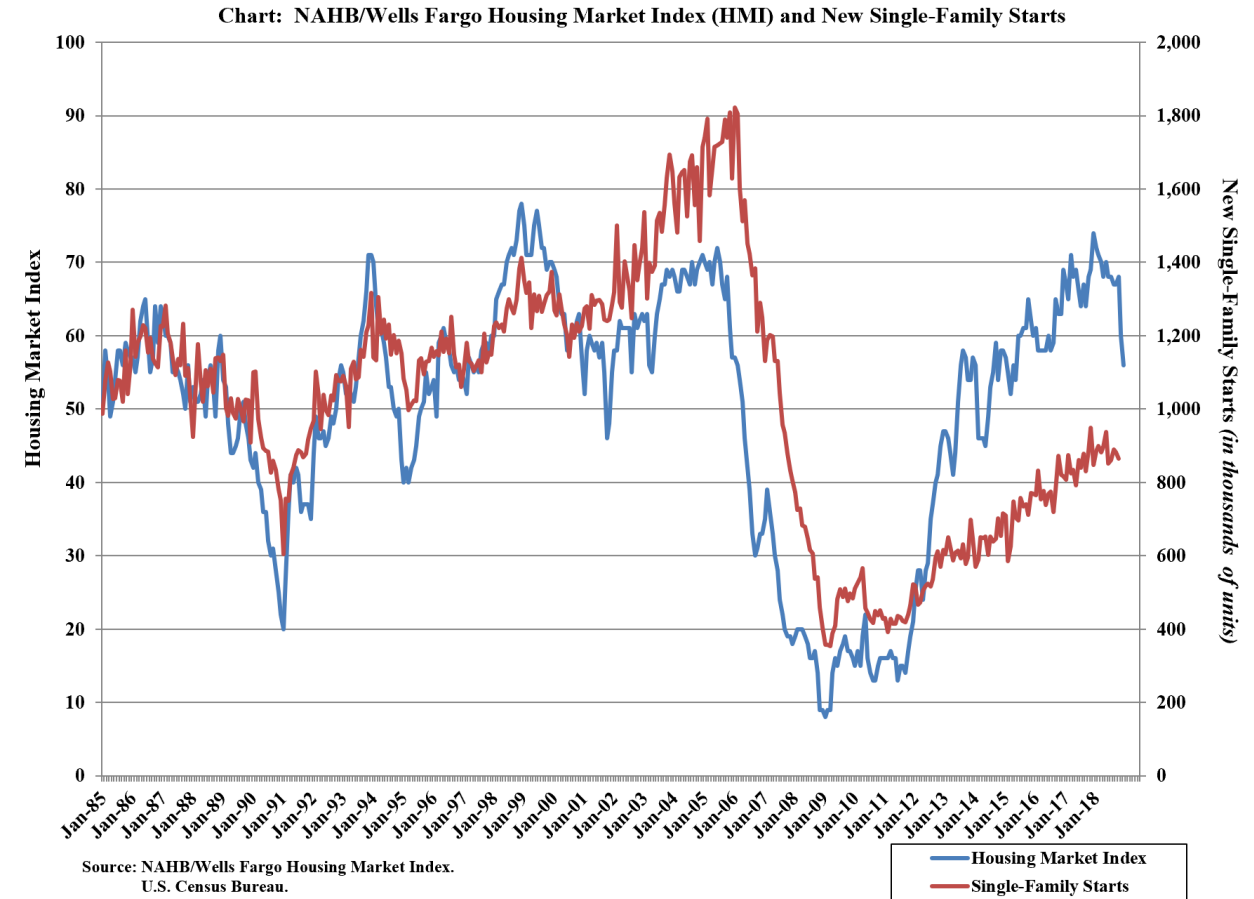
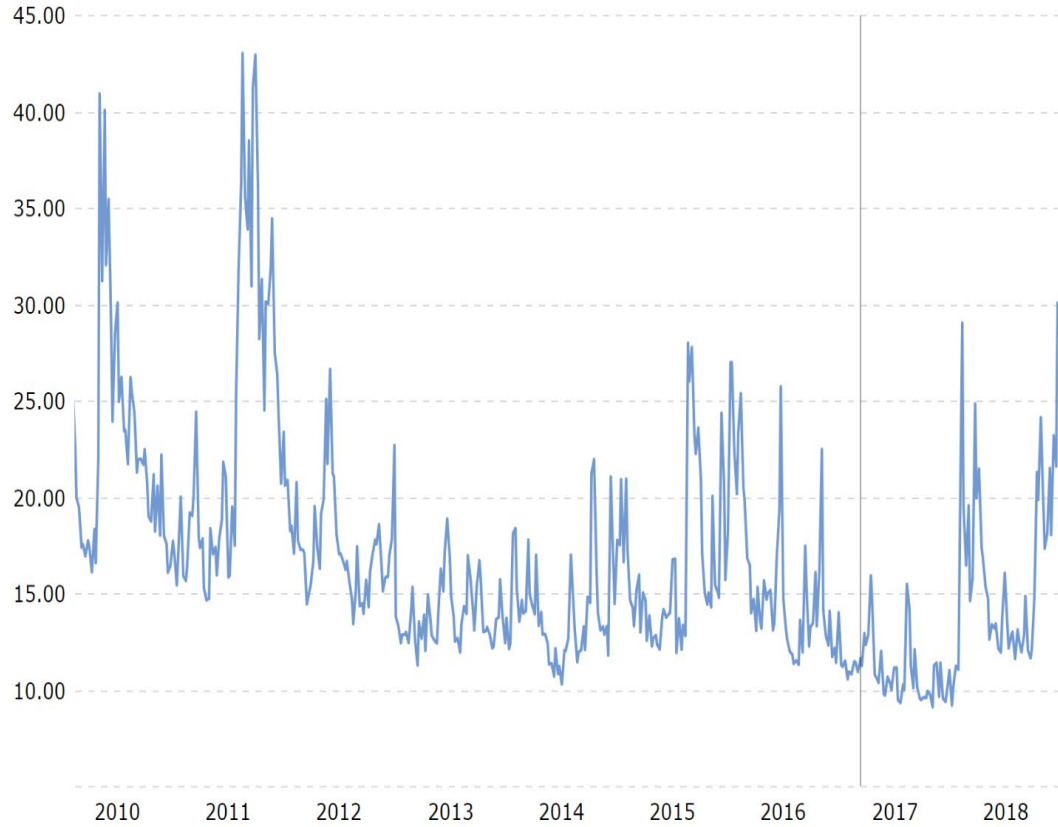


# Interest Rates



SOURCE: TRADINGECONOMICS.COM | MORTGAGE BANKERS ASSOCIATION OF AMERICA

# Volatility Index Related to Housing Market Index





# Investing in Residential Real Estate

# Real Estate Pros

- General
  - Writing off depreciation
  - Tax deductions
  - 1031 Exchanges
  - Owning a physical asset
  - Cashflow
  - Asset Allocation
- During a Down Market
  - It's often a buyer's market
  - Motivated sellers

# Real Estate as Part of Your Asset Allocation

- What's your risk tolerance?
- Rebalancing your portfolio
- Diversification

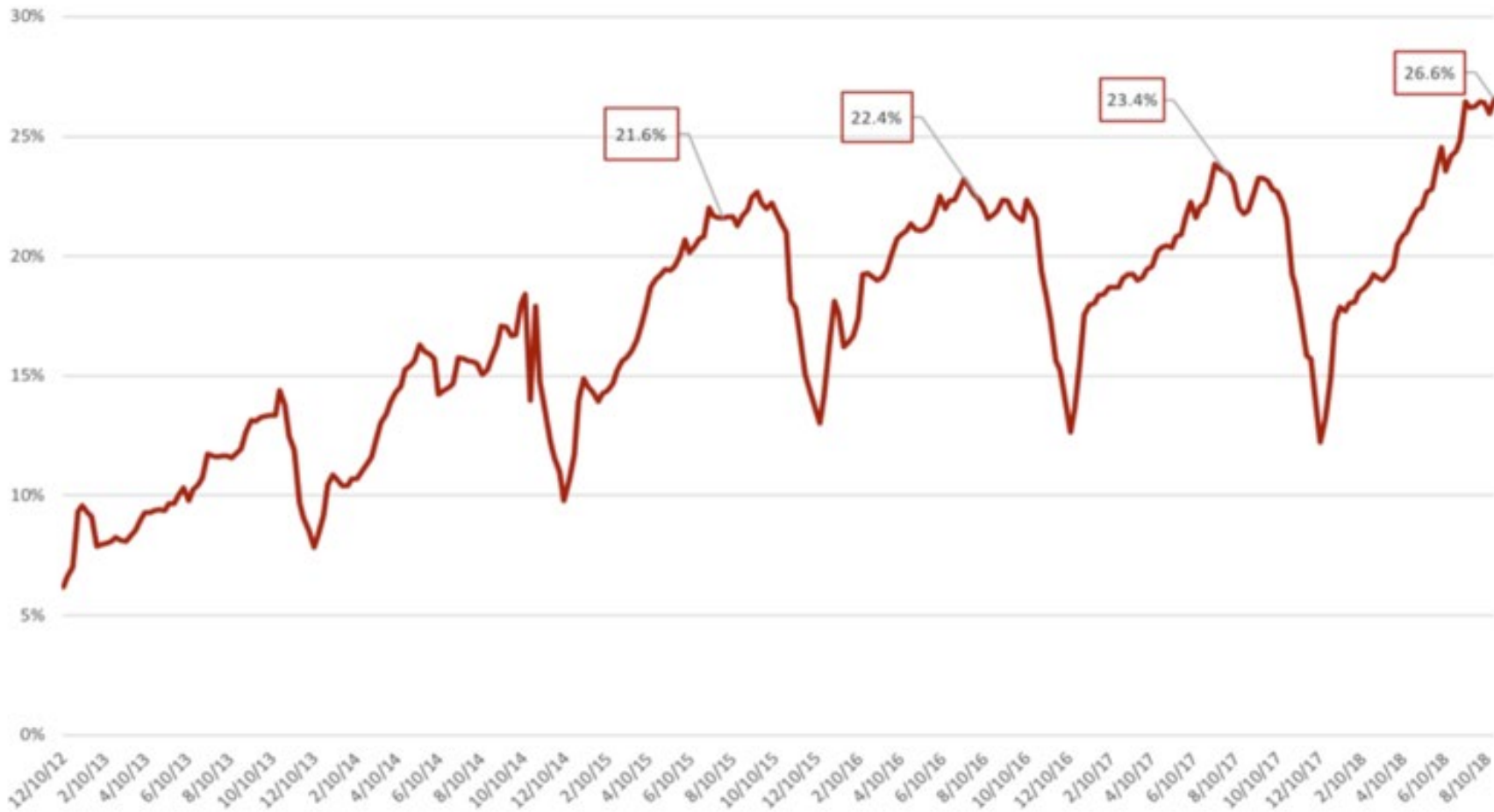


# Is This a Buyer's Market?

- About 14% of all homes listed for sale on Zillow saw a price cut in June
- However, interest rates and home prices that continue to rise, mitigate some of the purchasing power



# Share of Homes with Price Drops



*Annual January troughs are due to more homes coming onto the market after the first of the year*

# Real Estate Cons

- General
  - The most illiquid asset
  - Difficult to diversify (more on this later)
  - Risky since you're betting on one property
  - Closing costs and holding costs
- During a Down Market
  - Competition
  - Financing





# Real Estate Investment Options

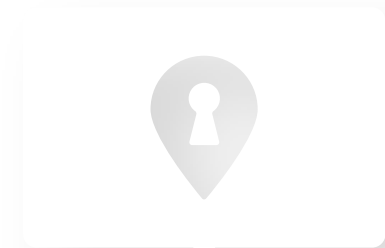
# Single Family & Condos

- Single family homes are always available but difficult to cash flow in this market
- Condos are the cheapest way to get started but also the slimmest margin real estate investments.



# Multi-Family

- Multi-family units are extremely difficult to come by in the DFW area (but not impossible).
- These are the most profitable investments from a cashflow perspective



# REITS

- Pros

- Can outperform markets depending on the bundles
- Less risky than buying a single rental property

- Cons

- Not as flexible as buying a single rental unit
- Performs more like traditional S&P 500 (5% - 10% gains)

# BRRR Overview

## Buy

- Purchase fixer-upper rental properties

## Rehab

- Repair the property

## Rent

- Lease the property to great tenants

## Refinance

- Refinance to get your money back and then repeat the process

# So Should You Invest in Real Estate in a Down Market?

## It depends....

Goals of the investor

Financial health of the investor

Risk tolerance of the investor



## Asset allocation

Long term investments might be best allocated in real estate

Short term investments might work best in stocks

As usual, a diversified blend of assets will be the best bet

# How Can Door Help?

- Gain back your purchasing power during a rising interest rate environment
- Don't give your equity away to a realtor when you sell your home



