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SiRuDoRealty, LLC

Quarterly Newsletter
June 2013

Welcome

Dear clients,

"Time flies when you have fun", the old adage says and that is certainly the case for us at SiRuDo Realty.
We have seen the successful implementation of electronic and comprehensive reporting as well as our ACH payment system in the past few months but we are not stopping there. Our Company has more innovations in store that we will roll out over the next quarter and will add more value to our service.
As always, we keep a close eye on the markets and foreseeable trends that may impact our clients.
In this latest newsletter, you will find our views and opinions about **Single-Family Home Rents**; **Buy, Sell or Hold Single-Family Homes** and **Tax Updates.**

Feel free to contact us at tdoms@sirudorealty.com or ndoms@sirudorealty.com if you have any questions or comments regarding the topics in this newsletter.

Best regards and happy reading.
Nick Doms

Single-Family Homes Rent Stagnates

Homeowners and investors expect rental income to keep pace with prevailing inflationary trends or even outpace them, but the current market conditions have changed as a result of the “housing bubble/bust” and segments of the rental market are not immune or isolated from the changed landscape.

Single-family homes in particular seem to lag in year-over-year rental increases and in some cases are even declining in comparison to townhouses, duplexes or quads.

According to the Trulia Rent Monitor, rents for single-family homes were up 0.1% year-over-year compared to a 2.9% increase for multi-family properties over the same period.

There are several factors that impact this income stagnation or deflation, all of which can be directly attributed to the steep decline in the housing market and the recovery methodology that ensued.

At the peak of the housing collapse, most single-family homes were purchased by investors at low prices, led by many short sales and foreclosures below Fair Market Value (FMV), and placed on the rental market instead of continuing to be owner-occupied.
In 2012, 4 million single-family homes were listed as rental property in addition to the existing inventory of 2005, a net increase of 33%.
Others were unsuccessfully offered for sale but given the price pressure and the negative equity, were instead turned towards the rental market, patiently awaiting a gradual value recovery.
We have seen a slight increase in FMV of single-family homes, although a price stabilization would be a more accurate and appropriate term, but not sufficient enough to entice landlords and/or investors to return to the housing market.

The current inventory of single-family rental property will remain unchanged, putting price pressure on expected rent income for the next few years, and we believe that rent increases will continue to lag the prevailing annual inflation rate of 2%.

So what are landlords and investors to do in such uncertain rent and housing market?

There is no easy answer to the question, but we will share our view of what we believe the landscapes will look like and change in the next five years. Read more below.

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Hold, Buy or Sell Single-Family Homes?

A simple question but with a complex answer that is even more complicated when we first look at the latest available date from March 2013.

Note: Asking Price/Rent=Year-over-Year
Occupancy (Rental/Owner)=2005 vs. 2012

	Asking Price	Asking Rent	Rental Occupancy	Owner Occupancy
Single-Family	7.20%	0.10%	32.40%	-0.10%
Multi-Family	5.90%	2.90%	14.10%	10.90%

We immediately notice a discrepancy between “asking price” and “asking rent” increase in both the single and multi-family market.

This large discrepancy is partially due to the artificial downward pressure on asking rent, caused by the large supply and stagnating demand.
In our opinion, this percentage should hover around 1% when we exclude rentals that are also for sale and reflects a more realistic image of the real single-family home rental market.

Secondly, we believe that the Y-o-Y asking price increase is inflated. When we take into consideration the effective sale price over the same period, then we notice a Y-o-Y price increase of 4.5%, which is more realistic and in line with current market trends and conditions.

Also note the large discrepancy in the single-family market between rental occupancy (+32.40%) and owner occupancy (-0.10%).

This is where the dilemma really begins when owners have to determine to hold on to the single-family homes and keep them on the rental market or whether it is time to sell at a slight increase in FMV.

Until this large gap starts to close, we believe the rental market is more attractive at least for another year or maybe two, after which we believe the tide will turn in favor of single-family home sales.

At that point, the “shadow inventory” i.e. rented property with hidden desire to sell, will have diminished in favor of a more attractive selling price and a more uniform and stable pricing structure with a slight increase in demand.

The most important factor in our assessment is our medium-term view on interest rates, which some predict will cause another disruption in pricing and the supply-demand chain.
We do not believe that to be the case.
Given the delicate economic climate, unemployment, labor participation rate and the large amount of quantitative easing that the Federal Reserve will have to unload without causing a tsunami-effect on the financial markets, we strongly believe that low-interest loans will remain available until 2015 or longer.
That will give potential buyers the time to step back into the market of single-family homes, in lieu of investors, and to gradually create a natural flow of homeownership upgrades with solid financial backing.
It will also allow prices to appreciate at a foreseeable annual rate of 4 to 5% bringing FMVs slowly back in line with assessed tax values and outstanding principal balances on existing loans or original purchase prices, whichever may be the case.

Taking all this into account, there is one option that we believe is very attractive at this juncture and currently remains largely untapped or underutilized.

That is the Lease-to-Purchase option.

Landlords who are not sure how to move forward or how to bridge the next three years with rental property with the intention to sell can contact ndoms@sirudorealty.com for more information about legal contracts, obligations, risks and benefits.

Tax Updates

We reported in our March Newsletter that County and City tax increases were the talk of the town, at least behind closed doors and in executive session, and that is still the case today.
While the jury is still out on the exact millage rate increase, we do know that several County Departments have submitted proposals to the County Commission for consideration and approval.

Board of Education: currently facing an E-SPLOST shortfall of $16 million is asking for a millage rate increase of 0.5 pending the E-SPLOST II vote scheduled for November 2013.

Chatham Area Transit (CAT): recently terminated its management contract with Valeo (third-party management company) and is transitioning back to an in-house management model. Facing a capital shortfall of $7.8 million that has been covered by County-backed credit lines, CAT is seeking a tax increase of 0.75 to 1 pro mill.

Chatham County Jail Expansion: Built with SPLOST funds and ready to become operational, the annual operating cost amounts to $7.9 million that is not provisioned in the 2014 budget. The County Sheriff's Department has proposed a millage rate increase (to be determined) to fund the budget shortfall.

In total, and taking into consideration that all tax increase proposals are approved, we estimate that County taxes will rise by 1.25 to 1.5 pro mill either prior to November 2013 with an adjustment for taxable year 2013 or starting fiscal year 2014.

In addition, there are also several requests pending consideration and/or approval for City tax increases.

LOST shortfall: As we mentioned previously, the LOST tax debate between County and City was ongoing and has since been resolved by Court order.
The City will lose about $4 million annually in expected LOST revenue for the next 10 years. A 6 to 10% City tax increase is currently being proposed as part of the 2014 budget negotiations. A final outcome is not expected prior to September 2013 and before the final property tax bills are mailed out to homeowners.

SCMPD street drug unit: The new police unit was approved earlier this year but with a temporary and partial start-up funding of $300K. The annual operating budget of the unit is estimated to be $4 million for fiscal year 2014. Funding will come from a higher property value assessment, a millage rate increase or a combination of both.

In essence, both County and City property taxes will rise in the fourth quarter of 2013 and landlords should expect a value adjustment on the final 2013 property tax bill.

We are in the process of opening a constructive dialogue with members of City Council to alleviate a dramatic rise in both millage rates and property value assessments.
Our approach is to point towards the advantages of extending LOST, SPLOST and E-SPLOST penny taxes for another 10 years in exchange for a temporary freeze on property taxes.
We believe that the increase in County as well as City operating costs is better and more fairly distributed among residents and visitors through penny sales taxes than placing the increased burden on homeowners who already carry 70% of the existing operating costs in comparison to those who rent, lease or are tax exempt.

We will keep you informed as the debates continue and we get closer to budget deadlines.

NOTE: Please note that current discussions exclude the building and operating cost of the Cultural Arts Center and the new Arena (replacement of current Grayson Stadium in Daffin Park whose Lease Agreement with the Sands Gnats i.e. the Mets ends December 2014).