Recovery 2013 ï Housing Will Lead Us Out
By: Billy Procida

After being in this business for 32 years I finally understand the basic themes that coincide with the repetition of a business cycle. As I predicted in my January 2006 forecast, called ñComing of the Half Builts,ò the vast amount of capital being thrown into real estate, combined with lax underwriting standardôs and sub-par developers, led to the industries demise. The exact same thing happened in the late 80ôs. So my prediction wasnôt actually a prediction, it was simply a review of history and in my eyes it was obvious. When people making $50,000 a year can suddenly afford to live in a million dollar home you have to ask yourself, ñDoes this make sense?ò

So where are we now? Where are we going? How will the New York Metro area be affected by the aftermath of Hurricane Sandy, the fiscal cliff, and all of the crazy things going on in the world?

Letôs start with the world at large. We are and will continue to be the worldôs tallest midget, or said differently ñin the land of the blind the one eyed man is king,ò and the United States is the one eyed man. Every time there is violence and turmoil in the world, real estate in the US and more specifically the New York Metro area, becomes more attractive and increases in value. It doesnôt matter whether you are rich or poor, if youôre living in the Middle East or Eastern Europe when turmoil erupts you would rather be here. Thatôs why United Statesô real estate will always rise in value. Any time it falls, itôs mainly because banks infuse too much money in the system and take it out too fast. Funny thing is that when the banks cause real estate prices to drop it is often foreigners that come in and take advantage of the cheap pricing that comes about as a result of an illiquid market. So from my point of view, every time a rocket gets launched, our values increase. Sad to say but I believe itôs true.

You also never know when some government is going under or a major scandal is going to be uncovered causing our stock market to drop. So again, the more financial crisis we have abroad (or here), the more it makes the real estate in the New York City area a safe haven.

This is why Iôm not paying too much attention to the ñfiscal cliffò propaganda.
One, the media blows everything out of proportion and two, if you want to live in the safest and most stable country in the world, itôs going to cost you. Thatôs just

how it is. I will say that the responsibility to pay taxes is our patriotic duty but wasting our tax payer dollars is treason. I am more concerned with the fiscal cliff our municipalities and states face. The downward valuations of homes and the property taxes that they bring in are putting a lot of pressure on our local governments. Hopefully with rising values and an improving economy this pressure will be released.

So yes, I think we will start to see rising values and an improving economy. Here are a few rationales to consider. As a country we have been down and out since early 2008. Fortunately, we no longer see the ñforeclosure crisisò in the news, no more robo signing, no more sheriffôs sales (which used to have a 100 homes a week are now down to a trickle), and ñthe half builtsò have mostly been snapped up and are completed. This is the natural progression. Our firm was financing inventory loans on condoôs 95 % complete in 2009 and 2010. Then we started financing partial builts that were 50% complete in late 2010 through 2011. Now we are financing conventional ground up. This is the natural progression. What will help us in 2013 is that there is a lot of consumer ñpent up demandò out there. We do have 90% of the population working; there is a natural ñprogression of life.ò Kids graduate college (hopefully), get married, have children and buy houses. The interruption of this cycle caused by the recession means that all those who should have bought homes from 2008-2010, will now start coming into the market. This will bode well for housing. Though I would underscore intelligent responsible housing. The era of the mcmansions and 3-story suburban townhomes with elevators will be replaced by good old fashion wholesome housing, or at least I hope so. All economic cycles start with first time home buyers at modest levels before the ñstep up buyersò start moving into more expensive housing. It makes perfect sense. If you have the money to step up, you must first sell your existing house.

In the New York and New Jersey region we also have the Sandy effect. Not only were there thousands of houses totally demolished, but also we will have $100 billion of federal money infused in the market, which will benefit the economy and thus support the housing market. I would look to the hardest hit areas, like the Rockaways and the Jersey shore, for real growth. ñThat which doesnôt kill you makes you stronger,ò and I think these areas will come back in a big way (just look at the gulf and what happened post Katrina and the BP oil spills). Also worth noting and watching is what will happen as the New Tappan Zee Bridge gets built. The estimated $5 billion project will create thousands of jobs. This will bode well for Rockland County which is still a great value play, Rocklandôs never seen this big of an infusion of outside stimulus. Fort Lee and Englewood Cliffs, NJ, now have over $3 billion of projects underway with the Fort Lee Town Centre and the new LG Headquarters being built in Englewood Cliffs. Look for those areas to change in a big way, as the surrounding middle class communities will benefit from the significant amount of long-term jobs created in addition to thousands of construction jobs. Of course there is the $5 billion Hudson Yards project that will completely upgrade New Yorkõs west side / convention center area.

In general the worst is clearly behind us. It will take a few more years until the banks reach a lending ñnorm.ò That will mean our recovery will be slow, but it will occur none the less because there are enough private lenders out there filling the void. Yes, it wonõt take long until the pendulum swings the other way and the banks infuse too much capital too fast and relax their underwriting causing the cycle to start all over again. The good news is that we have at least 6 to 8 years before the next crash.