Great outcomes. Done well.

BAIRD

Flip or Flop? Investing in Today's Real Estate Market

Wealth Management Insights | June 2015

From overheated home prices in the early 2000s to the freefall of the Great Recession, real estate speculators have been on a roller coaster – and record-low interest rates have many of them lining up to take the ride again. But is now the right time to invest in rental properties or start "flipping" houses? June's Wealth Management Insights examines the trends influencing real estate, including how millennial lifestyle choices are impacting the market.

For more on what's driving real estate trends, check out the **Spring 2015 issue** of *Digest*.

What you should know:

1. It's a seller's market.

- January 2015 home prices were up by an average of 5.7% over the previous year nationwide. The higher price point is great if you're looking to sell, but likely a deterrent for those looking to acquire an investment.
- The number of available houses around the country, though on the rise, is below inventory levels from last year. The fewer houses available, the greater the demand for existing properties – which drives up the price.
- Residential properties are on the market for 4.6 months on average – significantly below the six-month turnover considered healthy in a stable real estate market. In the most active markets, such as areas in California, Colorado, Texas and New York, average turnover is below four months.

2. Even though it's a seller's market, house sellers need buyers, and millennials – the next generation of new home buyers – are slow to take the plunge.

- As a group, millennials are unemployed at higher rates, have worse credit scores and have taken on more student loan debt than non-millennial adults, making them less likely to afford a down payment or qualify for a loan.

- According to the U.S. Census Bureau, millennials are getting married and starting families later in life, reducing the most pressing need for home ownership.
- Many millennials prefer city living over the suburbs: According to The Nielsen Company, 62% prefer to live in metropolitan areas, close to shops, restaurants and offices.

3. Would-be real estate investors considering this space need to do their homework.

- An increasing number of people seem to prefer renting to buying. Since 2010, there have been 4 million more renter households in the U.S. but 1 million fewer homeowner households.
- While owning a rental property has the potential to generate steady, predictable returns, there are considerable upfront costs when purchasing a property in desirable markets as well as ongoing maintenance.
- Consider why you're investing in housing. For example, investors looking for income may benefit from bonds or dividend-paying stocks – while avoiding the hassle of deadbeat tenants.

What you should do now:

It's important for investors to remember they have options when it comes to accessing the real estate market – and some of them, like REITs, don't require a handyman's tool belt or sacrificing short-term liquidity. Your Baird Financial Advisor can help you weigh the pros and cons of investments in real estate against the backdrop of your broader financial goals. ■