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An Interview With John Maltz

The response of our readership was so positive from our last interview, we appreciate your having offered your time to share your thoughts regarding whether or not real estate is now in an over-extended valuation bubble much like the stock market was in 1999.

John: An Interesting topic.

Q: Do you believe in the bubble theory?

John: Yes and No. A better analogy for real estate would be whether or not the tide is in or out. The 2 asset classes, real estate and publicly traded securities, have fundamentally different liquidity and transactional characteristics.

Q:You mean that it is a manner of timing?

John: Exactly. A real estate market cycle takes years to develop and wind down while a stock market bubble can inflate and collapse within months. However, in both markets the fundamental cause is the markets' perception of intrinsic value, coupled with liquidity, which enables investors to act on their perceptions.

Q: Can you elaborate?

JOHN MALTZ
President, Greiner-Maltz

John: The stock market has often been described as a Rorshach test of public opinion. The investor, enmass, can act on a rumor or whim, and in a week drop the value of any company, whether it is a paper-thin Dot-Com or the likes of a GE or Johnson & Johnson; by up to 50%. When there are no buyers and only sellers, the results are published each day.

Q: And real estate is different?

John: The answer is a qualified yes. A substantial portion of the real estate market is made up of owner occupied properties whether they be commercial or residential. That ownership class perceives value very differently than on a day to day "market to market" basis. The balance of the real estate market is held as investments. As long as expenses are met, the sales market in such properties is orderly, and with the exception of a few properties from time to time, not subject to mass panic sales.

Q: So, real estate markets can never form a risky bubble?

John: Well, never is a dangerous word. Bubbles, in any market are generally product specific. By that I mean the stock market bubble affected a category of stocks, Dot-Coms, but left unscathed many other classes of securities. The real estate market, in this respect, may not be that different in as much as there are currently some "hot" submarkets which some commentators have characterized as faddish and over valued.

Q: Can you give an example of this?

John: A good example would be the South Florida condo market, primarily centered in Miami, Dade, and Broward counties. Per square foot prices are approaching and in many properties surpassing average Manhattan condo price levels. Anecdotal evidence suggests that over 30% of all sales are to investors whose sole exit strategy is to flip them for profit rather than occupy or rent them out for income.

Q: Doesn't this get back to your earlier statement regarding "intrinsic value"?

John: Exactly. If these purchasers are acting on either research or instinct that tells them that the wave is just now forming of highly liquid baby boomers beginning their Southern migration, coupled with a growing scarcity of available sites and a 2-year construction lag time, then the talk of a bubble will merely keep the uninformed out of this market.

Q: So who is right?

John: It may not matter. By that I mean unless there were to be a general collapse in the next few years, the tide may rise or recede, but to expect the ship to sink, in effect, for there to be a broad based market collapse where the buyers waiting on the sidelines can pickup condos at fire-sale prices, like buying Lucent at $1.25 per share, is highly unlikely. Unlike stock certificates which can be printed and create thereby an abundance of supply, land is a fixed asset and development takes years of coordinated efforts.

Q: So the Florida market often described as a bubble, you feel, is not one?

John: I'd have to say yes. More likely, the excess capital finding its way into the South Florida market is not "scared money" and will resist liquidation during any momentary market downturn. It's more likely that rental income will slowly increase to provide positive returns in those markets as the migrating baby boomers find they are priced out of the equity market and must settle for the second best rental market. Interestingly enough, a choice never offered to the investors in the Dot-Com bubble for those stocks had no hope of offering a dividend to motivate owners to stay for the long term.

Q: Thanks, once again for an interesting and informative interview.

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