TENANTS AND TOILETS: NEW IDEAS TO MINIMIZE PROBLEMS

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Abstract

Both authors are seasoned, income-producing property owners and investors.The first author has extensive experience in the rentals of single-family homesand as an income property consultant. The secondauthor's specialty is low-income rental properties: government-subsidized housing and mobile home park communities. In this article the authors reflect on various problems they have experienced and discuss their plans for maximizing profits in the current post-housing bubble/burst environment.

Key words: *income-producing property, tenants, housing sector, interest rate, forecast, short-term and long-term operating plans*

I. LEARNING FROM THE EXPERIENCES OF OTHERS

With 60 years of collective experience, the authors have successfully—and sometimes not so successfully—dealt with such tenant and toilet problems as:

1. Tenant murders (2)at different locations.
2. One or more units heavily damaged each year by motorists.
3. Drug deals gone bad.
4. Units destroyed by meth-amphetaminecooking explosion (1).
5. Numerous extortion attempts—some successful--by corrupt building inspectors and Section 8 Housing officials.
6. Materials stolen and funds embezzled by "trusted employees."
7. Employment of family members and friends: zero percent success rate.
8. Unsecured loans to family members and friends: "Do we need to tell you how 'successful' this has been?"
9. Habitually late-paying tenants with volatile personalities, if inflamed, would most certainly damage the units.

10. The amazing physicality of a forlorn ex-husband or scorned lover. As an example, a husband, suspecting his estranged wife of having an affair, lifted and body-slammed a refrigerator, breaking a 2” x 10” floor joist!
11. Illegal activities in units: drug dealing, drug manufacturing, and prostitution.

HOW TO BECOME YOUR COMMUNITY’S BEST BUSINESS NEIGHBOR

This question is best answered by referencing an experience of one of our friends. The family lives in a small town wherein their income producing property business (residential and commercial) is one of the town’s largest employers. Some townspeople make snide remarks that the business takes from the community but never gives back. These remarks are hurtful to the family, particularly their twin daughters in high school. “Our daughters want their mom and me to build a soccer complex for the town as proof that we are good business neighbors. Is this something we should do in order to become a better business neighbor?” our friend asked us in a telephone conversation. Our response in a letter is as follows:

“As a business owner your most important contribution to thetown is to increase the profits of your business. You most certainly will not be able to accomplish this if you donate the company’s money and/or provide compensated release time for your employees in support of this project or any non-profit activities.Only by increasing profits will you be able to keep the doors open to your business and the employee paychecks available every Friday afternoon. The ultimate ‘good business neighbor’ is a company that continues this year-after-year.In our telephone conversation, you remarked that the town owns the land but ‘requested’ that you furnish and install the necessary infrastructure, materials, and labor for an artificial turf soccer complex with restroom facilities, a refreshment stand, and ‘limited’ bleacher-type seating. Your cost estimate of $400,000 seems insufficient in our opinion. So you will not be surprised should you take on the project, we suggest you add $150,000 to your dollar-cost estimate. We know that $550,000seems very costly but in fact, **the ‘true costs’you will incur are much, much greater than $550,000!”**

ALWAYS KNOW YOUR “TRUE” COSTS

The $550,000 dollar costs can only be paid with “cash.” The suppliers will not accept the brick and mortar in your office building or your account’s receivables as payment for the materials and services they will provide. They only accept cash. Then where will you obtain the cash to meet the suppliers’ payment demands? In theory, cash can come from: (1) borrowing, (2) selling assets, or (3) profits. In reality, the amount you can borrow is ultimately limited for at some point lenders will refuse you any additional lending. The same limitability is true for assets. At some point the borrower will have no more assets to convert to cash. Therefore, cash must come from the profits of the business. We don’t know what your rate of profit per dollar of sales is but in general, for all businesses, large and small, the average profit per dollar of sales is ten percent. That is, for each dollar of sales, the business owner only gets to put ten cents in his pocket. And to make matters worse, the business owner must pay an income tax on the ten cents! The question we must answer for you is “how much additional rent (sales) must you collect—assuming your rate of profit per dollar of sales is 10%--in order to earn $550,000 of profit?” Hold on to your chair as we calculate how much additional rent you must collect in order to earn $550,000 in profits that you will, in turn, convert into cash to pay your debt of $550,000. We divide $550,000 by the profit rate of 10%: $550,000/0.10 = $5,500,000! That, our friend, is how you must calculate the true cost of every dollar you spend. For example, suppose the Boy Scouts ask you to donate $100 to help pay the cost for the troop to attend their national Scouting Jamboree. It’s only a request for $100; this is a no-brainer. No it isn’t a no-brainer. The “true cost” is $1,000. Now think of the many ways you could use $1,000 to benefit your business. Our charge for this advice is two steak dinners when we are together again!

TENANT'S PAYING LATE? EVICTION PROBLEMS? PERHAPS YOU NEED "DRUNKEN" DUNCAN!

These two perennial problems are constant reminders that you should have taken the job offer at the library instead of becoming a landlord! As you add additional rental units to your inventory there are no "economies of scale" that magically appear to reduce the number of trips you must make to small claims court and to reduce the number of deadbeat tenants you must conjoin each month in order to collect the rents.

Trips to small claims court forevictionhearings are always time consuming and often very costly. Yes, the court forces the tenant who fails to pay his rent to leave your unit but many times the tenant's departure follows "getting even" with you by damaging the property—stopping-up the sewer line, running the water faucets full blast for several days, grilling burgers and hotdogs on a charcoal grill that has been moved into the den, etc. One alternative that may reduce your problems is to pay the tenant to move!

Try to place yourself in the tenant's position. He may have lost his job or has had an unexpected medical expense that prevents him from paying his rent. And your collection attempts have only made matters worse for now you have conveniently become a whipping boy for his frustrations. Our experience tells us that not only are you not going to collect the rent but you are almost certain to suffer malicious damage to the unit before he leaves. Offer him $500 in cash if he will move out of the unit by the end of the month and also leave the unit in clean condition. Here is what you have accomplished: (1) You are no longer an ogre in his eyes; (2) He now has $500 to use toward renting a unit from someone else; and (3) You have cleverly saved quite possibly several thousand dollars in potential damages from an irate tenant.

A second alternative to incurring these two perennial problems comes about from an agreement we have with Duncan J. XXX, Esquire, an attorney who always seems to be close to disbarment by the state bar association. "Drunken Duncan," as we affectionately refer, is an alcoholic attorney who in his sober past was a "shooting star" among the galaxy of local attorneys.Before age 40, he had successfully argued three cases before the State Supreme Court and one case before the United States Supreme Court! But barrister Duncan was to become the protagonist in the fabledstory of the young man led astray by "wine, women, and song." And being the leading character in the play was to become Duncan's undoing. We provide Duncan one of our nicest rental units for his own use and in return, we have a retainer agreement whereby Duncan is responsible for dealing with all late paying tenants as well as representing our interests in court. In addition, we sometimes loan Duncan the use of one of our personal automobiles for a few days should he have a special "need" for a luxury automobile.

Generally, the misbehaving tenant's mindset can be rectified by a personal visit from Duncan but there isalways the "outlier" tenant who refuses to abide by our contractual agreement. At this point, Duncan's services become invaluable. "Drunken Duncan" has two "associates" who each have retainer agreement with him.The two men have avoided long prison sentences due to Duncan's courtroom performance when he is sober and "on his game". In addition, their loyalty to him is further strengthened by Duncan's files contain damning information that, if exposed, would result in long, long prison terms for each man!

"One-eye" Jack lost an eye from Clorox thrown in his face by a wife who resented being plummeted in the face from regular beatings by Jack. Jack's wife was to later die from eating poison mushrooms with which Jack had garnished her grilled steak. Duncan pled the charge down to third-degree manslaughter for which the punishment was "time served."

The Mastodon is the actual, legal name of associate number two. Mr. TheMastodon is a former professional wrestler of the same name who now fancies himself as a primitive, mountain man living strictly "off the land" in a remote area of the Appalachian Mountains. However, The Mastodon considers "living off the land" to always be a joint living arrangement with a lady friend. With two previous convictions and short prison terms for "human captivity violations," The Mastodon is a "three strikes and you are out" candidate for life imprisonment should he be found guilty of a third felony infraction. "Drunken Duncan's" office files contain damning information about several reluctant “mountain women” who never re-surfaced in public once they went to the mountains to live with The Mastodon.

IS THERE AN ALTERNATIVE TO THE PROCESSES OF RENTING THE UNITS, OVERSEEING REPAIRS, CLEANING, LAWN MAINTENANCE, AND COLLECTING THE RENT EITHER BY USING EMPLOYEES OR RETAINING THE SERVICES OF A RENTAL AGENCY?

We have been experimenting with using an older, single tenant or a husband and wife team as overseers to be responsible for the above tasks in return for providing them with free rent.We have assigned ten units per overseer. We started this experiment six months ago and byobservation this seems to be more cost effective and preferable to hiring employees to be responsible for the work or retaining the services of a rental agency.

II. FOR GOOD OR BAD, THE FEDERAL GOVERNMENT DOMINATES THE HOUSING MARKET

From our many years of experience in the housing markets we have observed and verified two eternal truths:

A. *If the mortgage market interest rate rises above single digit, the quantity demanded of residential housing shrinks rapidly*.

In fact, should the interest rate rise to 15% or higher, there is little additional reduction in the quantity demanded of residential housing than is experienced when the interest rate first rises from single digit to 10%. And without government-sponsored housing subsidies to replace the evaporated quantity of housing demanded due to double digit interest rates, the effect,figuratively,is as if Thor smashed the U.S. economy with his giant hammer.

The housing sector is massive in terms of its direct and indirect employment and income effects. Millions of workers are directly employedas construction workers on job sites and millions more employees are job-dependent indirectly on current and forecasted demand conditions in the U.S. housing industry. When the demand for housing declines, millions of jobs and the resulting incomes are negatively affected in the: (a) primary materials and labor markets for home builders; (b) secondary markets--land development, logging, tools, equipment, paint, drywall, lighting, flooring, asphalt, roofing, etc.; and (c) tertiary markets-- financing, insurance, real estate services, marketing and advertising,legal services, consulting, etc.

B. *There are only three possibilities that can explain a dramatic increase in a nation’s home ownership rate: (a) a rapid increase in incomes;(b) a rapid decrease in housing construction costs; or (c) a rapid decrease in home mortgage lending standards.*

Home ownership has long been considered a worthy social goal. A society with a high percentage of its families owning their own homes tends to be more stable in terms of: general satisfaction with their individual and collective status; a positive outlook for the future for themselves and their families; political stability in therebeing no great sense of a seething distrust of government underlying the thoughts and actions of the people;hard work and preparation are believed to be the keys to success in life, that is, the “deck isn’t stacked” because of one’s heritage, sex, age, or lack of “connections;” and the terms of the social contract are “fair” and consistently enforced.

During the first term of Clinton’sPresidency, approximately sixty percent of American families were home owners. At that time this was the highest rate of home ownership in U.S. history and was also the highest rate among all thenations in the world. Not only is an increase in home ownership a worthy social goal it also is an adroit political tool. Following a rapid increase in home ownership we would certainly expectthe direct, secondary, and tertiary recipients to show their appreciation by voting*en masse*for the responsible political party.

Beginning with the two terms of the Bill Clinton presidential administration and continuing through the eight years of the George W. Bush presidential administration, there was an accelerated effort to rapidly increase home ownership. And as you might expect, of the three possibilities to make this happen, both administrations chose to reduce home mortgage lending standards. Translated:a family who previously was not qualified to receive a loan to purchase a home was now qualified. At the close of George W. Bush's second presidential administration, the home ownership rate for American families reachedalmost seventy percent!

To avoid a lengthy discussion of how this rate was achieved, let us examine an actual California home loan that was made in the late fall of 2007. A young man seeking a home loan came to the office of a California mortgage lender. In short order that morning, the young man received approval for a $630,000 loan to purchase his first home. During this era of what is now known as "sub-prime lending,"lending standards become practically non-existent. The age-old screening requirement before the lender provided a home loan was the borrower firstsubmitting to the seller at the loan closing a cash down-payment of 20%of the purchase price of the home.Subsequently, the lender would issue payment to the seller for the remaining 80% of the purchase price of the home.At the time described above for the specific loan of $630,000 made to the borrower in California,the U.S. economy wasnear the point at which the housing bubble reached its zenith. The cash down-payment had not only been rapidly reduced from its historical required rate of 20% of the purchase price of the home, it was now zero. The second and third age-old screening requirements of verification of the borrower's "assets" and "income" had been major hurdlesthat ensured the borrower had sufficient assets and income to comfortably pay the monthly amortized mortgage payment. But beginning in 2007, the three hurdles that since the 1940s had enabled home loan mortgages to be characterized by a default rate of less than two percent were now benign. No longer was the lender required to verify the sufficiency of the borrower's assets and income. The lender need only ask the borrower two questions: (a) "What are your assets?" and given that a down-payment was no longer required, (b) "Is your monthly income 'sufficient'to enable you to pay the monthly amortized mortgage payment?"The borrower's response to (a) and (b) could be taken at face value; no verification was required!The housing bubble burst in December of 2007, and a few years afterwards, this specific California mortgage loan for $630,000 was just one of thousands of loans that were randomly chosen to be scrutinized. Upon investigation, the young borrower, buying his first home, was found to be a vegetable picker with an annual income of $14,000!

III. FAILURE OF THE STIMULUS PACKAGE

The bursting of the U.S. housing bubble and the resulting financial crisis was not limited to the United States. The negative effects quickly spread to Western Europe where they too experienced the worst economicrecession since the Great Depression of the 1930s. One would think that the polity that began its first presidential term in office in 2009 wouldbe hawkish in guarding against future housing bubbles. Unfortunately, The Obama Administration, as of this date (October 26, 2014), has not brought any legislation before Congress that wouldeliminate the possibility of a recurrence of such a financial disaster. In fact, the Administration has put back in place and/or has noteliminated many of the factors necessary for a housing bubble to form. For example, interest rates remain artificially low through the actions of the Federal Reserve. In fact, since the year 2000, the Federal Reserve has continuously intervened in the capital marketsby dramatically increasing the money supply in an effort to keep interest rates artificially low.

The Federal Reserve's rationale for this continuing policy of maintaining artificially low interest rates is the belief low interest rates will stimulate borrowing by both consumers and businesses.The Obama economic policy is predicated on the fervent belief in the sanctity of the Federal Reserve's rationale: ***Low interest rates will always be an inducement for***(a) consumers to increase their borrowing and purchase of“big ticket items”: homes, autos, appliances, and home furnishings,owing to the fact the interest rate is an over-riding factor in determining the amount of the monthly re-payment of the borrowed money, and (b) businesses will respond in a like manner as do consumers, to lower interest rates. Business borrowing and their subsequent spendingwill increase since the forecasted profitability of future investment plans: expansion of an existing business, opening additional locations, starting new business ventures, and purchasing expensive equipment—rises when market interest rates prove to be lower than expected.Investment projects that were formerly not profitablenow have the possibility ofbeing profitable as the lower rate of interest reduces the cost of the borrowed funds necessary to finance the project(s). The Obama Administration was confident the anticipated stimulus effect wouldautomatically come about as lower interest rates would bring aboutincreased borrowing, and, as a result,aggregate sales, output, and employment would quickly increase for the U.S. economy. This outcome would confirm the widely-held belief by liberals and many conservatives that it was possible for a stagnant economy--even the industrially-advanced and market-driven U.S. economy--to “spend” its way back to prosperity. But six years later and after at least $2 trillion of tax dollars and U.S. Treasury borrowingspent in the stimulation effort, the U.S. economy shows little if any improvement.

Why did the economic theory developed at the tail-end of the Great Depression of the 1930s inwhich we have since placed so much confidence fail to deliver as promised?In an effort to assert itself as a “science,” economics moved away from its long-held belief that its foundational structure was an understanding of why consumers and businesses behave as they do. But as a “science,” mathematical expertise became the predominant focus of graduate training in economics at the expense of training in areas of study that bolstered one’s insight into the intricaciesof human behavior. Then why didn’t the U.S. economy respond to lower interest rates and trillions of dollars of extra spending by the federal government?

In regards to spending by both consumers and businesses, the pale of “uncertainty” always overpowers low interest rates as a determinant of economic activity. Since 2008, consumer spending has stagnated despitethe efforts of the Obama administration to jump-start the U.S. economy. Since the 1940s an increasing number of voters, politicians, and government advisors have adopted the belief that the federal government could “fine-tune” the economy by skillful changes in interest rates, the money supply, taxes, and government spending.However, it seems as if everyone knows someone who has: lost their job; are working only part-time even though they desire a full-time position; or have become so discouraged in failing to find a job they have quit looking.

The United States has fewer people employed today than we had in 2008. The labor force participation rate, a calculation that measures the percentage of people employed relative to the total number of people who are qualified to be working, is at the lowest rate in our history! With the threat of losing their jobs, consumers respond to the uncertainty by reducing their spending. As for American businesses, at present there isn’t a single businessthat knows for certain itsexpected 2015 income tax payment, employee health care costs,andwhat the federal minimum wage rate will be! This uncertainty is such that businesses are now holding “unproductive” cash in the estimated sum of $2 trillion in U.S. banks and off-shore accounts.Unfortunately,instead of being spent for new equipment, opening new locations, expanding existing locations, and hiring new workers, the money will remain there in limbo as long as the uncertainty remains.

IV. HAS THE U.S. ECONOMY AND THE HOUSING SECTOR FINALLY TURNED THE CORNER?

Our short run economic forecast for the economy and the new-housing sector is very bleak for the last half of 2014 and the year 2015. Yes, Wall Street may continue on its remarkable six-year profit run the likes of which are unprecedented in U.S. business history. But we must never forget that the equity market (stock market) and the economy are not synonymous. The driver for the stock market is corporate profits and the last six years has been the most profitable period in U.S. history for corporations and their stockholders. But how can this be? Supposedly, in 2009 the U.S. economy came out of the worst recession since the Great Depression of the 1930s. The key to understanding how mid-size and large corporations have experienced un-exampled profits over the last six years is found in the profit identity equation: *Total Profit = Total Revenues (Total Sales) – Total Costs (Total Expenses).*

INCREASE SALES OR REDUCE COSTS: WHICH IS THE QUICKEST WAY TO MAKE A PROFIT?

In popular usage, it is virtually tautological for one to discuss profits and sales in the same vein. However, contrary to common understanding, the quickest way for a business to make a profit is to reduce costs. For every dollar reduction in cost is transposed directly across the equality sign; a dollar reduction in cost is a dollar increase in profits. In contrast, an increase in sales by one dollar doesn't transpose directly across the equality sign as a full dollar increase in profits. Quite the contrary:only a portion of the dollar increase in sales makes the transposition. From the dollar increase in sales, one must subtract the following:

(a) The cost of raw materials used in producing the product or service;
(b) Production labor costs.
(c) Labor costs of sales.
(d) Salaries of management.
(e) Rent, lease, or mortgage payments.
(f) Insurance.
(g) Taxes and fees.
(h) Advertising costs.
(i) Utilities costs.
(j) Maintenance costs.
(k) Miscellaneous costs.

And since most businesses, large and small, earn gross profits of approximately 10% of sales, the net contribution of a one dollar increase in sales to Total Profits is only about $0.10. But it gets worse. The $0.10 profit per dollar of sales is an illusion; state and federal income taxes of approximately 39% leaves the business, on average, with spendable income of only about $0.06 per dollar of sales!

However, for the middle class and for small businesses it has been a faux recovery. In July, 2014, the following conditions existed:

- In the first quarter of 2014 (January, February, and March), U.S. economic growth on an annualized basis as measured by Gross Domestic Product, was -2.9%. A more understandable description of the severity of the above record of economic growth for the first quarter of 2014 is: "The U.S. economy shrank (contracted) by 2.9%. That is, if the economy continued for the next nine months to produce goods and services at the rate of production experienced during the first three months of 2014, the value of the total output of goods and services in 2014 would be 2.9% less than the total value of output of 2013!"
- The absolute number of Americans working in July of 2014 is less than the absolute number working in 2008.
- In calculating the absolute number employed, a part-time employee is counted as a full-time employee. The majority of the 288,000 new jobs "created" by the economy for the month of June, 20014, were part-time employees.
- The Bureau of Labor Statistics'validity as to the monthly unemployment rate for the U.S. economy is in question. Not only are part-time employees counted as full-time employees, workers who are employed in jobs below their skill set are also counted as full-time employees.

For example, a physician has a fruit cart and works 40 hours each week selling fruit from the cart. By the Bureau of Labor standards she is considered a full-time employee even though her current employment is well below her skill set. And perhaps the most egregious calculation is that of determining who qualifies as a member of the labor force. If an unemployed person hasn't looked for a job for the last 30 days, he is referred to as a "discouraged worker." But in calculating the unemployment rate, is the "discouraged worker" now considered as employed or unemployed? Neither. He doesn't exist. However, the effect on the unemployment rate is positive since the size of the labor force has been reduced by a magnitude of one worker who statistically no longer exists! The political ramifications of such sham calculations are staggering. A decline in full-time job opportunities in the U.S. economy is seen as positive since the net effect is a fall in the unemployment rate! The "true" unemployment rate in September, 2014 is at least 15% and not the faux rate of 5.9% as reported in the media.

- What we find true in the official unemployment rate we also find in the official inflation rate. The official inflation rate as calculated monthly is said to be increasingat less than 2%. The interpretation is that the average of the goods and services we are purchasing are increasing at an annualized rate of less than 2%. Surely no one who shops for staple items such as groceries, gasoline, clothing, housing, etc., believes that the overall average price level is increasing at an annual rate of less than 2%! The contradiction in what is reported in the media and what our intelligence allows us to decipher is easily explained. The Consumer Price Index (CPI) doesn't include grocery prices and gasoline prices in its'shopping bag' said to represent items purchased by an average urban family of four. Why the exclusion of groceries and gasoline from the shopping bag? The official justification for the exclusion is the belief "The prices of these two items are too 'volatile' and their inclusion would skew the actual movement in reported changes in consumer prices." The consensus of many professional economists however is that prices are rising at approximately 9% per year. The tragedy of such a high rate of inflation is that should prices continue to increase at a 9% annual rate, the average prices level will double in approximately eight years! To bring this fact home to the reader, as of July, 2014, the average American family of four was spending $13,000 per year on groceries. Therefore, if the 9% rate of increase in consumer prices continues, the family will spend approximately $26,000 for groceries in 2021. And since wages for the middle class have been stagnate for approximately 15 years and portend no observable changes, then one must expect the size of the middle class to decline significantly in the ensuing future.

New home starts in July, 2014 were 15% above the number of new home starts in June, 2014. In addition, new home starts in 2014 on an annual basis are up 30% over 2013. Equally encouraging, home prices are currently rising. However, this encouraging scenario is far-overshadowed by reality:

(1) The U.S. Censuses Current Population Survey data confirms that we are in the midst of the weakest post-war recession recovery ever. Until the present "recovery" all previous recession recoveries, by this date in the recovery process, had recorded an average increase in real per capita income of 14%. The current recovery has been a paltry 1.25%.
(2) New home starts constitute only 10% of the housing stock.
(3) The new home starts are projected for purchase by the upper 40% of income earners;
(4) The index that measures home affordability is at the lowest level in six years;
(5) If this is information is not by itself discouraging enough, then to this malaise we must add that the reported data for new home starts doesn't distinguish between construction of single family homes and multi-family homes. Unfortunately, new home starts in 2014 are largely the construction of multi-family apartment units. By itself, this fact is a strong indicator that the housing recovery has stalled;

(6) In 2005, two-million new home starts were recorded; today, only one-million home starts are accruing although there are more potential home buyers than ten years ago.
(7) According to highly-respected housing analyst,Michael Solong, the middle income quintiles purchasing power has declined by 5.1%since 2008. Even worse, the bottom-two income quintiles have lost purchasing power every year since 2005. So much for the Administration's stated goal of increasing incomes for the middle class!

The oft-maligned "Millenniums"—the age group in the U.S. population that was born in the last decade of the First Millennium (1990-1999), seem very likely to be our nation's first generation since the Great Depression of the 1930s to have lower material expectations and less employment opportunities than previous generations. As the world's economic engine of growth, the U.S. economy must experience economic growth in excess of a 3% annual increase in "realGross Domestic Product" in order to create enough new jobs to accommodate new entrants into the labor force. A more translucent way of seeing this is to imagine that the economy must experience economic growth in excess of a 3% annual increase in real Gross Domestic Product in order that all graduating high school and college seniors can seamlessly enter the labor force and obtain jobs befitting their level of academic preparation and skill set. Unfortunately, the U.S. economy has failed to reach an annual average of a 3% annual increase in real GDP over the last six years. Thus, the current crop of graduates is forced to compete with unemployed graduates from the previous six years for an ever shrinking number of new jobs. The deleterious effects emanating from this situation are much more profound than all but a few economic researchers currently are aware.

V. OUR SHORT AND LONG TERM GOALS AND OPERATING PLANS

We hope that the above economic analysis, even though crucial to an understanding of the economic outlook, hasn't been too boring. But in order for any business to plan for the future this first step can't be minimized. Annually, a firm in any sector of the economy must set both short-term (one year) and long-term (five year) goals and configure the corresponding operating plans to achieve these objectives. Without such planning, not only is a firm's profitability unlikely but the firm's very survival is jeopardized. With this in mind, we now discuss our goals and operating plans for 2015 and 2016-2020.

SHORT-TERM FORECAST

Our economic expectations for the U.S. economy in general and the housing sector in particular for the remainder of 2014 and the year 2015 remains dismal. Even if the Republicans sweep the November 2014 Congressional elections and gain control of both the United States Senate and the House of Representatives, any new legislation that attempts to unwind the restrictions that have profoundly handicapped the economy from its all-important roles of encouraging entrepreneurial activity and generating new jobs will be two to three years in duration. Further complicating such a recovery will be the task of overcoming President Obama's expected vetoes of any conservative legislation designed to reign in the scale and scope of government and to reduce the income tax burden on both corporations and individuals.

Our short-term housing forecast is also bleak. Even though both housing prices and interest rates remain enticingly low, the continued stagnation in income growth for the middle and lower income quintiles places home ownership out-of-reach for most would-be-buyers. This environment is reflected in the reduction in single-family home construction while at the same time, multi-family home starts are booming across the nation.

An ominous harbinger of a possible second housing sector disaster is that once again government housing agencies are reducing the requirements for government-assisted home financing. In essence, the government is quietly making it possible for un-qualified borrowers to become homeowners.

LONG-TERM FORECAST

Assuming not just a Republican win in the Congressional election of 2014 but an overwhelming sweep of both chambers of Congress and the election in 2016 of a Republican president with broad appeal among all Americans and a strong working relationship with Congress, the economy will rebound much faster than many naysayers can even imagine. If the nation once again unites as we have in past times of stress, the magic of the marketplace will propel the American economy to a plateau that only the strongest believers in free markets and free people could have foreseen. Politicians will quickly be swept-up by a citizenry who now demand accountability. Obtuse fiefdoms at all levels of government will be under attack as will the insane deficit spending of the Bush and Obama administrations. American businesses who have eagerly awaited such a renaissance will put in play the $2 trillion they have held in abeyance since 2008. Successful businesses can only compose definitive plans for the future when they are reasonably sure that such major variables as tax rates and regulations pertaining to their contribution to employee health insurance are assured. As of today, October 26, 2014, there isn't an American business, large or small, that has this assurance. Hence, the $2 trillion parked on the sidelines.

ENERGY AND THE ENVIRONMENT

In addition to the revolutionary change among the populace, the business sector, and the government, monumental changes will be quickly put in place and their impact will be felt almost immediately. Chief among these changes will be the unleashing of North America's vast energy resources. The energy underground is ours and it is in abundance. The trinity (Mexico, America, and Canada) have proven oil reserves greater than the combined proven oil reserves for the remaining countries of the world! From our vantage point, it is more than ludicrous; it borders on criminality for our three nations to fail to monetize our vast holdings of energy. Oil is not our only trump card. America not only has more proven oil reserves than Saudi Arabia, but also more coal than China, and more natural gas than any other nation.

More and more we believe that most Americansnow realize that the frenetic life they are living on the edge of insolvency isn't fated to them.The argument that we make to the declining though vocal minority who protest the capitalization of our vast energy reserves as a conspiracy to destroy the environment is that only wealthy countries can afford the opportunity cost of protecting the environment. China can't, India can't, nor can Pakistan. For these three nations as well as for most of the Less Developed Countries, the opportunity cost of a clean environment is tragically tooexpensive at this stage in their economic development.For a dollar spent on an environmental project is a dollarthat could have been used to feed a starving child.For those who fervently oppose any capitalization of energy resources as a plot to destroy the environment, we ask the thoughtful question, "What can't a nation have if it possesses inexpensive energy?"

HOUSING

Thus if the future unfolds as we believe, 2016 will be the beginning of a long bull market for housing. The rate of family home ownership has been about 65% in the United States for a long time but as we have seen it went up to 70% during the housing boom when credit standards were relaxed. It's crept back down to the norm and therefore, rents should continue to go up with inflation and increased household formation as the economy improves. Furthermore, you can borrow so cheaply (via U.S. government-backed debt), the multi-family sector is a solid asset class with not a lot of downside if you have patient capital. We have been actively looking for assets with debt insured by Housing and Urban Development (HUD). The particular program we have located is much like a home mortgage. The United States government subsidizes the rate which is locked for 30 to 40 years. You can also repay it without penalty after 10 years, and before that with penalties on the sliding scale which makes it similar to a swaption. This program will let you borrow up to 80% of a property's value at about 4.5% fixed for 30-40 years! The good news is that most of the borrowers are small guys like us; you don't have to be a big company or have a lot of net worth to qualify. The only downside is that HUD is a pain in the rear to deal with.

If we are correct, we plan to concentrate our efforts in finding in-fill city lots where we can construct duplex and triplex rental units. We wish to be among the first small developers to embrace 3D printing with distinctive, completely concrete units with small, private courtyards for each unit. We also want our brand to feature off-street parking for the residents. We also wish to buy old strip shopping centers that are located near public transportation and shopping. We will convert the strip shopping centers to multi-family housing centers that will feature a lot of green space with trees and shrubs to shield the units from the sight and sound of a busy urban environment. Our designs will feature non-continuous roof lines. The roof is the most distinctive feature of a home and it is amazing how the sameness of a strip shopping center can be changed just through varying the slope and shape of the roofs.

We are, of course, treading lightly as to the conversion of old retail strip shopping to apartments. The success or failure is largely determined by the demographics of the area. Apartment demand is all about job creation. We run demographic studies for 1, 3, and 5 mile radii and observe population trends and job growth. In growing areas, the land, if zoned for residential, could be worth more as residential than retail. However, the costs, buildable density, etc. are all part of the decision-making process.

VI. CONCLUDING REMARKS

We trust that our readers have garnered some fresh ideas from our experiences and forecasts. We encourage you to stay in contact with us. The interchange of ideas can benefit us all.