

# The Birch Quarterly

B I R C H M A N A G E M E N T , I N C .

## ITEMS IN THIS ISSUE

- Welcome
- Foreclosures
- Service Announcements
- Employment Growth
- Apartment Statistics
- Average Sales Price
- Total Transactions/  
Days on Market

## Welcome

We are pleased to welcome two new members to our team this quarter, and welcome back one.

Tina Powers has joined our team as a Property Manager after almost a decade at Prudential Carolinas Realty. Ms. Power's depth of knowledge of our real estate market and High Point, in general, will be highly valued for our High Point office.

Jennifer Kiser has joined our team as a Resident Services Agent, after serving as a retail customer service manager.

Mary Watson Smith has returned after a brief time away, but unfortunately only on a temporary basis. Ms. Smith will be assisting in the resident services area and will be working primarily from our Greensboro office.

## Foreclosures

Last issue we discussed the topic, "Is It Getting Better", well yes it is. Based on the recently released multi-family statistics, the multi-family market did improve over the last reporting period. That is great news for our multi-family clients.

Well, what about our single family (Condos, Town Homes, and true single family) clients? Is it still getting better? That is a great question and one that is hard to answer as there is no data source for the single family rental market. We must rely on our statistics of the market to meet the goal of our clients, maximize return on investment.

While there is clear movement upward in the multi-family world, there is not such broad based positive movement in the single family world. The best explanation to this is the increasing amount of foreclosures.

Based on recently released foreclosure data by the State Home Foreclosure Prevention Project, foreclosures increased 8.7% from 2009 to 2010 on an annual basis. The number of foreclosures in Q1 2011 were up 6% over Q1 2010, with more expected throughout 2011 as most moratoriums have been lifted. The real impact of these formerly imposed moratoriums can be seen in a year over year comparison of February foreclosures. Forsyth

County saw a 32% increase while Guilford County saw an 11% increase. In all of 2010 there were 68,000 foreclosures in North Carolina and there are expected to be 70-80,000 in 2011.

Why do foreclosures impact my single family rental and don't more renters enter the market mean increased demand? The demand for rental housing has increased, but much of it is with risk. Virtually no one can survive a foreclosure without a bankruptcy. It is very risky to grant someone a leasehold interest in an investment property that is in bankruptcy or has an impending bankruptcy. By doing so you are at the mercy of the bankruptcy court as a creditor and may not ever collect any rental income for your asset. In accordance with our prospective resident guidelines, we do not accept residents deemed to be a high credit risk. So, yes the demand is increasing for rental housing, but there are credit quality concerns.

The economics of foreclosures are placing further downward pressure on rental rates, even with increased supply. It is apparent to most real estate agents involved with investment property sales that the largest buyer of foreclosures is the investor.

Banks are not in the business of owning real estate and when they must, they want to get it out of their portfolio as quickly as possible, typically

by offering deep discounts to liquidate the asset. Here are two scenarios that demonstrate how a reduced purchase price can impact rental rates. These calculations were done using the investment analysis tool on our website with the following assumptions (which are used for both scenarios): Mortgage rate of 5%, 30 year amortization, \$4,800 in annual expenses, 80% loan to value.

**Scenario #1:** A market rate investor acquires a \$100,000 investment property and rents it for \$1,000 per month. Based on this scenario, the investor would achieve a cash on cash return of 10.23%.

**Scenario #2:** A foreclosure investor purchases the same investment property from the holder of the Deed of Trust at a 30% discount, \$70,000. Renting this same unit for \$1,000 would yield a 25.66% cash on cash return. What is being done though, is that investors are deciding to drop the rent and get it rented quicker. If the same unit was rented for \$900, it would still yield a cash on cash return of 17.09%, a 67% increase in the return of scenario #1.

As demonstrated above, the reduced price of new product allows for the investor to achieve increased returns while reducing rents. We constantly monitor our market and make adjustments as necessary. Currently, we are suggesting a 2-3% increase on renewals when it appears possible the market will support.



# BIRCH MANAGEMENT

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**Our mission is to offer personalized and professional service to both our clients and customers by building strong relationships, utilizing the latest technology, implementing effective marketing strategies, following consistent systems all with honesty and integrity throughout every facet of our business.**

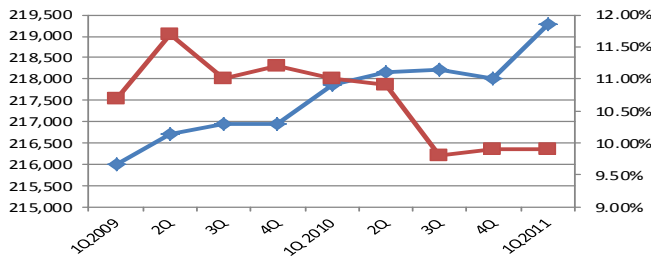
## SERVICE ANNOUNCEMENTS

- **Education:** We will be participating in a Fair Housing and service seminar on Wednesday May 11, 2011 and our office will be closed that day. Please plan accordingly.
- **Client Web Access:** Those who have taken advantage of our client web access have found it to be a very helpful source of information. This is the fastest way to find out the answers to most financial questions, please contact us if you do not have your log-in ID and password. This is yet another valuable tool provided for our valued clients.
- **New Eviction Process:** Effective with the February Summary Ejectment Filings we have begun to use an attorney to file and represent our clients in the Summary Ejectment process. This will allow for professional representation, thus reducing the liability even further for our clients. We have negotiated a much reduced rate of \$50 per filing, which is charged to the resident
- **Office Closing:** Our next scheduled office closing will be Memorial Day, Monday May 30, 2011, followed by Monday July 4, 2011. Our office hours are Monday to Thursday 8:30am-5:00pm and Friday's from 8:30am-4:00pm. Please note that we have a weekly team meeting every Wednesday until approximately 10:00am in our Greensboro office.

## TRIAD REAL ESTATE MARKET INDICATORS

### ECONOMIC INDICATORS

#### EMPLOYMENT STATISTICS



Source: NCESC      — Employed #      — Un-employment %

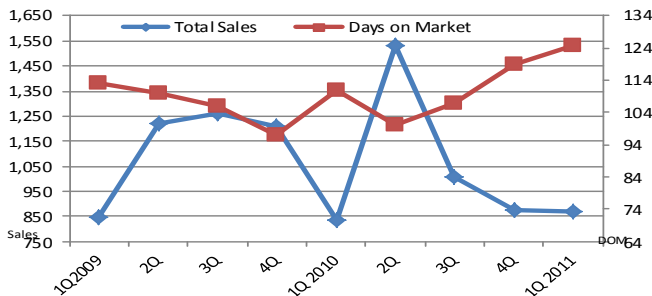
### RESIDENTIAL SALES

#### AVERAGE SALES PRICE



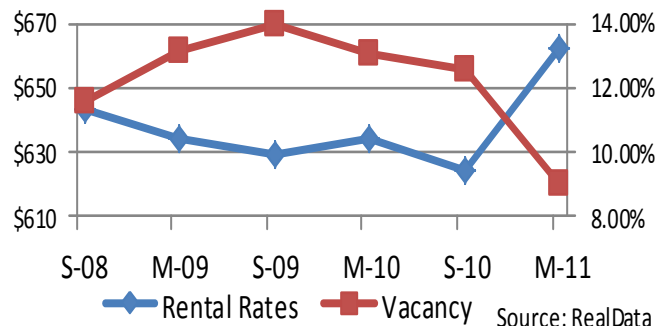
Source: Triad MLS

### APARTMENT STATISTICS



Source: Triad MLS

### TRANSACTIONS / DOM



Source: RealData