

# MODELING SINGLE FAMILY INVESTOR BEHAVIOR: LAS VEGAS AND DETROIT

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# INVESTOR TYPOLOGY

CATEGORY	PRINCIPAL INVESTMENT GOAL	SECONDARY INVESTMENT GOAL	STRATEGY	TIME HORIZON
FLIPPER/ PREDATORY	APPRECIATION	None	Buy properties in poor condition and flip to buyers in as-is or similar condition often using unethical or illegal practices	Less than 1 year
FLIPPER/ MARKET EDGE		None	Buy properties in fair to good condition and flip to buyers with profit based on market information or access.	Less than 1 year
REHABBER		None	Buy properties in poor condition, rehabilitate them and sell them in good condition.	Less than 1 year
MILKER	CASH FLOW	None	Buy properties in poor condition for very low prices and rent them as-is with minimal maintenance, often to problem tenants. May abandon property after 2-4 years.	2 to 4 years
HOLDER/ SHORT TERM		Expectation of break-even sale or modest appreciation	Buy properties to rent out for short period for cash flow and resale	3 to 5 years
HOLDER/ MEDIUM- LONG TERM		Expectation of modest or greater appreciation	Buy properties to rent out for more extended period for cash flow and resale	5 to 10 years

# LAS VEGAS MID-RANGE RETURN

CATEGORY		Monthly	Annual
Purchase price, repairs and transaction costs	\$120,000		
Rent		\$1,100	\$13,200
Real estate taxes (1% of value)			( 1,200)
Insurance			( 450)
Repairs & maintenance (5% of rent)			( 660)
Management fee (10% of rent)			( 1,320)
Total cost			( 3,630)
Net annual cash flow	\$ 9,570		\$ 9,570
Net annual cash flow (% of investment)	8.0%		

# LAS VEGAS LOW-END RETURN

CATEGORY		Monthly	Annual
Purchase price, repairs and transaction costs	\$60,000		
Rent		\$800	\$9,600
Real estate taxes (1% of value)			( 600)
Insurance			( 350)
Repairs & maintenance (20% of rent)			( 1,920)
Management fee (10% of rent)			( 960)
Total cost			( 3,830)
Net annual cash flow	\$ 5,770		\$5,770
Net annual cash flow (% of investment)	9.6%		

# TYPICAL LOW-END PROPERTY IN LAS VEGAS



4317 Mayflower Lane  
Las Vegas, Nevada

Listed for \$48,800 on  
2.9.13

2012 Property taxes  
\$498

# INVESTOR ISSUES IN LAS VEGAS

- Strong presence of market edge flippers – from 2008 through 2010
- Dominated by short-term holders – from 2010 to present
  - Growing role of overseas investors
  - Moderate-high future expectations
- Community impact
  - What happens on resale?

# DETROIT MILKER RETURN

CATEGORY		Monthly	Annual
Purchase price, repairs and transaction costs	\$14,000		
Rent		\$750	\$9,000
Vacancy & collection loss (10%)			(\$ 900)
Real estate taxes paid			0
Insurance			(\$ 250)
Repairs & maintenance (20% of rent)			(\$ 600)
Management fee (10% of rent)			0
Total cost			(\$ 850)
Net annual cash flow	\$ 7,250		\$7,250)
Net annual cash flow (% of investment)	51.8%		

# LOW/MID-RANGE PROPERTY IN DETROIT



8291 Whitcomb Street  
Detroit, Michigan

Listed for \$10,000 on  
2.9.13

2011 Property taxes  
\$3370



## DETROIT MILKER RETURN WITH HOUSING CHOICE VOUCHER

CATEGORY		Monthly	Annual
Purchase price, repairs and transaction costs	\$16,000		
Rent		\$1,095	\$13,140
Vacancy & collection loss (5%)			(\$ 657)
Real estate taxes paid			0
Insurance			( 450)
Repairs & maintenance (\$100/month)			( 1,200)
Management fee (10% of rent)			0
Total cost			(\$ 2,307)
Net annual cash flow	\$10,833		\$ 10,833
Net annual cash flow (% of investment)	67.7%		

# INVESTOR ISSUES IN DETROIT

- **Market dominated by milkers**
- **Driving factors**
  - Property taxes
  - Tax foreclosure process
  - Housing Choice Vouchers
  - Low future expectations
- **Community Impact**
  - What happens to these properties?

# INVESTOR TYPOLOGY

CATEGORY	PRINCIPAL INVESTMENT GOAL	SECONDARY INVESTMENT GOAL	MAJOR MARKET PRESENCE	TIME HORIZON
FLIPPER/ PREDATORY	APPRECIATION	None		Less than 1 year
FLIPPER/ MARKET EDGE		None	<b>Major presence in Las Vegas market until 2010, not significant today</b>	Less than 1 year
REHABBER		None		Less than 1 year
MILKER	CASH FLOW	None	<b>Dominant presence in Detroit market today</b>	2 to 4 years
HOLDER/ SHORT TERM		Expectation of break-even sale or modest appreciation	<b>Dominant presence in Las Vegas market today</b>	3 to 5 years
HOLDER/ MEDIUM- LONG TERM		Expectation of modest or greater appreciation		>5 to 10 years

# POLICY IMPLICATIONS

**One size does NOT fit all: different market conditions demand different policy responses**

- **Las Vegas**

- Foster restoration of home ownership
- Track potential destabilization impacts

- **Detroit**

- Create stronger regulatory framework
- Enlist neighborhood associations, CDCs
- Reform property tax and tax foreclosure systems
- Focus on larger neighborhood stabilization challenge