HCM Property Management Monthly Newsletter - January 2025

More good news continued to roll in last week to indicate that the economy and the housing market ended 2024 with a positive note. Newly constructed home sales continued to rise, for example, while business optimism reached its highest level since 2018 as policy uncertainty began to clear up. While California had a rough start to begin the year, we should see some improvement as the state gradually recovers from the devastating wildfires. With mortgage rates coming down from their recent high, demand in the housing market will also likely pick up as the market gears up towards its spring homebuying season.

New home sales rise for the second straight month in December: Sales of new single-family homes rose modestly on a month-to-month basis by 3.6% after a strong increase in November. The seasonally adjusted annual rate of 698k in December also marked a 6.7% rise from 654k recorded 12 months ago in December 2023. For the year as a whole, new home sales in 2024 inched up from the prior year by 2.3%. At the regional level, both the Northeast and the West increased solidly by double-digits from November, while sales in the Midwest and the South dipped slightly from the prior month. All regions improved in sales from 12 months ago. New housing inventories dipped for the second consecutive month to 8.5 months after reaching a recent high of 9.4 months in October. New for-sale units remained elevated though and climbed 1.2% from the prior month and 10% from the prior year to 494k. Despite ending the year with a solid note, new home sales will likely encounter some headwinds in the next couple of months as rates continue to stay near their 7-month high and the existing housing supply grows further.

Labor market stays on solid footing at the start of 2025: Jobless claims for the week ending January 18 climbed to 223,000, an increase of 6,000 from 217,000 recorded in the prior week, according to the latest data released by the Department of Labor. The wildfires in Los Angeles and the blizzards across parts of the U.S. are external factors that might have exerted a mild upward shift in the latest reading and resulted in a temporary increase in the number of people filing claims. Despite the rise in new applications for unemployment benefit last week, the increase was slight, and it suggested that the job market should remain stable. While fewer workers were being laid off, job openings for those seeking employment could be shrinking though as employers remain cautious about the current economic conditions. Continuing claims rose 46,000 to 1.899 million in the week ending January 11, reaching the highest level for insured unemployment since November 2021 when 1.974 million continuing claims were recorded.

U.S. single-family home rent growth slows to a 14-year low: U.S. single-family home rent prices went up 1.5% year over year in November, the lowest rate recorded in more than 14 years, according to the latest CoreLogic Single-Family Rent Index. Prices for detached rentals grew 1% year over year, while attached properties increased modestly by 1.7%. High-priced rental units grew faster, with an increase of 2% year over year, whereas low-priced rental units experienced a decline of 2.8% from a year ago. Of the metropolitan areas surveyed, Detroit (+6.1%), Washington D.C. (+5.5%), and Honolulu (+4.3%) had the highest growth rates in November. Six metros recorded negative year-over-year growth in November and San Diego (-0.3%) was one of them that posted an annual rental price loss. With the job market remaining healthy and the demand for rental expected to remain solid, rent growth in general could begin to bounce back in 2025.

Single-family construction continues to improve: U.S. residential construction surprised on the upside in December, but the increase was largely due to a bounce back in the hurricane-impact South region. Total housing starts surged 15.8% from a month ago but was down 4.4% from 12 months ago, according to the latest release from the Census Bureau. The monthly jump in overall housing starts last month was attributed primarily to a sharp increase in multifamily construction, as starts in the category surged 61.5% month over month. On a year-over-year basis, however, the overall pace of multifamily building remained muted with housing starts in December declining

8.4% from 12 months ago. Single-family starts continued to rise for the second straight month and were up in all regions except for the South. For the year as a whole, housing starts for the category increased 6.5% in 2024 compared to 2023. Single-family permits also increased solidly at the end of 2024, but the gain was primarily due to a surge in the hurricane-impacted area in the South. Whether construction activity can keep up its momentum in the coming months, however, is debatable. While interest rates remain elevated, builders could face some headwinds and may slow construction activity in the short term.

Business optimism reaches six-year high: Small business optimism continued to rise in December, as the NFIB headline index gained another 3.4 points to 105.1 after surging 8 points in November. Business owners got a boost in their sentiment as economic outlook remained solid while public policy has become more certain after the November election. The continued improvement in the index pushed the measure to the highest reading since October 2018. Optimism on the economic outlook was particularly noteworthy, as the net percent of owners who expect the economy to improve rose 16 points to reach the highest level since the fourth quarter of 1983. Sales expectations also increased strongly as the net percent of owners who expect higher sales volume jumped 8 points to reach the highest level since January 2020. With the election behind us, owners now have more clarity on what may happen to taxes and regulations. The coming year, however, will likely be a year with many distractions that could affect business optimism one way or the other.

HCMPM Featured Listings

24502 Copper Cliff Ct.
Lake Forest, CA 92630

Schedule Viewing

1312 Domador
San Clemente, CA 92673

Schedule Viewing

100 Almador #203
Irvine, CA 92614

Schedule Viewing

How Billionaires Keep Beating the Market—And How You Can Too

You can either resent successful people—or you can learn from them. Which mindset do you think will help you build wealth?

Despite the prevailing narrative about vapid heiresses and playboy heirs, 70% of billionaires are self-made, according to this year's Billionaire Ambitions Report by UBS. And when you look at garden-variety millionaires, that number jumps to 79%. Only 11% of millionaires inherited wealth.

But that's not the most interesting part of the UBS report. To me, the juicy part is how billionaires invest—and how their investments have performed for them.

Billionaire Investing Performance

Over the last decade, billionaires worldwide have grown their wealth by 121%, from $6.3 trillion to $14 trillion.

That handily beats the MSCI ACWI Index of global equities, which grew by 73%. That index represents the overwhelming majority of all equities worldwide, by the way. Over the same time period, the S&P 500 grew by 77%, in case you were curious.

Clearly, these rich people are doing something right. I think you know where this is going.

Billionaires Love Real Estate

You've heard it before: Wealthy investors love real estate and have much more of their net worth tied up in it.

In fact, the UBS study found that 43% of billionaires plan to increase their real estate investments over the next year, compared to 19% who plan to reduce it—another 39% plan to keep their real estate allocation roughly the same in the coming year.

Where do they plan to pull that money from? Many billionaires plan to reduce their investments in hedge funds (27%) and funds-of-funds (35%) in the coming year.

But how do the wealthy actually invest in real estate?

The Wealthy Invest Passively
Think billionaires are landlords who own duplexes directly and hassle with tenants, property managers, contractors, and city inspectors?

Hell no. They invest in real estate passively—through private partnerships, private equity syndications, equity funds, debt funds, and private notes.

Don't take my word for it. Alina Trigub, a former tax advisor and the founder of SAMO Financial, speaks from firsthand experience overseeing her clients' wealth.

This is how I personally invest in real estate nowadays. I put in my time mucking around with rental properties, renovations, and unreliable renters. I washed my hands of it years ago, and today, I invest while spending most of the year traveling overseas.

Fortunately, you don't have to be a billionaire (or even a millionaire) to invest passively in real estate. Our Co-Investing Club meets every month to vet a new deal from a different operator, and each member can invest with $5,000 or more if they like the deal. All deals allow non-accredited investors, and we aim for 15%+ returns in the investments we make.

And no, high returns don't necessarily mean high risk. Investments come with more dimensions than just risk and return—something the wealthy know well. Read up on these other facets of investing to start thinking more three-dimensionally, from liquidity to timeline and beyond.

Downside Risk Protection
Warren Buffett famously said, "The first rule of an investment is don't lose money. And the second rule of an investment is, don't forget the first rule. And that's all the rules there are."

Other billionaires agree, as do I. In our Co-Investing Club, that starts with diversification across geography, asset classes, operators, and investment timelines. I know better than to try to time the market or pick the next hot city or asset class. Every time I've tried to get "clever" or "cute" in my investments, I've lost money.

Instead, I practice dollar-cost averaging in my real estate investments—and recommend you do likewise, whether you join our investment club or not.

But diversification alone is just the starting point. As an investment club, we like to see some kind of extra downside risk protection when we vet deals together. That can come in many forms, from extraordinary cash flow to personal guarantees, from wealthy guarantors to tax partnerships with the local municipality. And there are a thousand other ways to protect against losses.

Yes, every investment comes with risk. But you can still find investments offering asymmetric returns, as long as you're willing to "compromise" on other factors such as liquidity.

Billionaires Fear Inflation
I recently wrote about two of the risks I'm currently trying to protect against: inflation and sustained high interest rates. We intentionally screen for investments in our Co-Investing Club that can withstand both and still come out ahead.

It turns out I'm not the only one worried about those risks. Billionaires named inflation as their second-greatest worry at the moment, after geopolitical instability around the world.

Inflation remains stubbornly untamed and remains a risk under proposed policies from the federal government.

Where Are Billionaires Investing?
Good news for U.S. investors: The UBS study found billionaires most bullish on North America. The overwhelming majority of billionaires see the most opportunity in North America over the next 12 months (80%), and in the next five years (68%).

This is great because it's a lot easier to invest in U.S. real estate than properties abroad. That goes for both active and passive investments.

To date, our Co-Investing Club has only invested in U.S. real estate. We're not inherently opposed to overseas real estate—I myself spend 10 months of the year abroad. But we just haven't found any operators or passive real estate investments overseas that we are comfortable with from a risk standpoint.

The Bottom Line: You Can (and Should) Invest Like a Billionaire
You don't have to be rich to invest in private equity real estate, private notes, secured debt funds, or private partnerships.

I'm not rich. Depending on how you value my business, SparkRental, I'm not even an accredited investor. Yet I've invested in 40 passive investments over the last three years, many with $5,000 apiece (or less).

Beyond the benefits of diversification, investing every month gives you more practice and experience as an investor. Hopping on a call each month to grill an operator about their latest deal builds your expertise—and you get to hear dozens of other experienced investors ask smart questions, too.

Every deal I invest in makes me a sharper investor. I can spot risks today that I would have missed a year or two ago. And by vetting deals together with other investors, we all benefit from each other's experience.

Billionaires know the power of leaning on others' expertise to make good investment decisions. And while they might invest $5 million in the same deal I only invest $5,000 in, I still get access to the same returns and tax advantages they do.

It's an infinitely scalable investment strategy. Already, I've occasionally started investing $25,000 or $50,000 at a time. As I build wealth, I can simply ratchet up the amount, even as I continue investing exactly the same way.

Can you say that about single-family rental properties?

Assessing the housing damage in LA: Costliest fires ever?

Devastating wildfires sweeping through thousands of acres in Los Angeles County have killed at least five people and left nearly 180,000 people under evacuation orders in communities in and around California's most populous city and the heart of the entertainment industry.

'Costliest blaze in U.S. history'?
The Los Angeles Times reports that over 2,000 homes or other buildings have been damaged or destroyed, citing the L.A. County Fire Department. The destruction is nearly equally split between the Palisades fire and the Eaton fire, the L.A. Times noted. But the true extent of the damage won't

be known until the fires are contained, if not extinguished, and that could be days away.

Some experts told The Wall Street Journal the fires could become the costliest ever, with early estimates ranging from $20 billion to $50 billion. Northern California's 2018 Camp Fire previously claimed that title, with insured losses of around $12.5 billion, the WSJ reported.

The Hollywood perspective — and misinformation
Another fire — dubbed the Sunset fire — broke out yesterday evening in the Hollywood Hills. Celebrities and affluent homeowners in Malibu have been impacted by the spread of the wildfires and some shined a uniquely Hollywood spotlight on the heartbreaking situation.

"Most horrific fire since '93," wrote Mark Hamill, describing his last-minute escape from Malibu to more than six million followers on Instagram. According to the Associated Press, Paris Hilton, Billy Crystal, Mandy Moore and Cary Elwes have all reported either experiencing damage to or wholesale destruction of their homes.

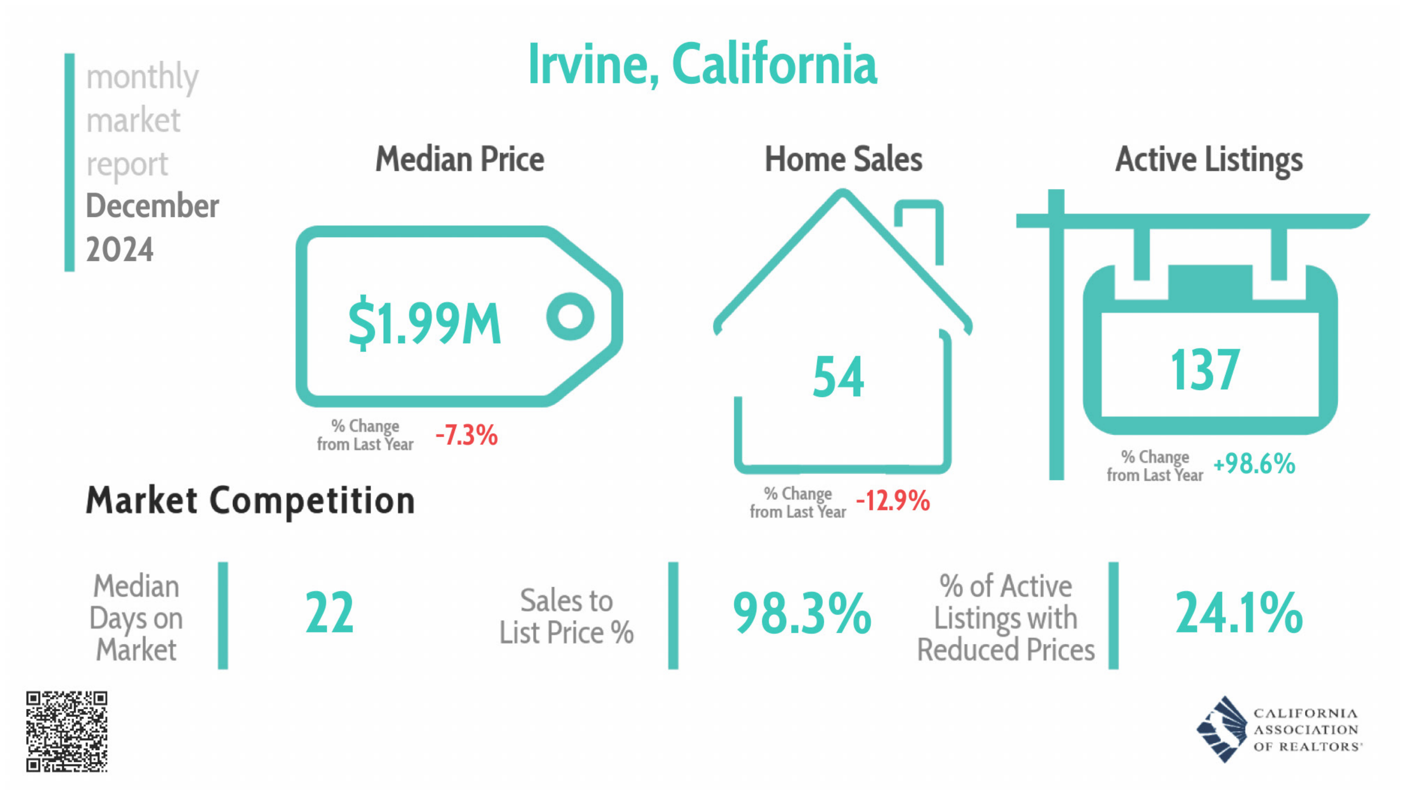
And as the wildfires occur in the age of AI, misinformation has become an issue. Despite some instances of social media users posting altered or AI-generated images, officials noted that LA's iconic Hollywood sign did not go up in flames.

What happens with home insurance?
California homeowners — including some in the areas affected by this week's wildfires — had already faced challenges with homeowners insurance. State Farm stopped issuing new policies in California in 2023, and then last summer said it would not renew the policies of more than 72,000 properties because of rising costs and "catastrophe exposure."

A New York Times headline refers to this week's wildfires as a "pivotal moment" for the insurance industry while a Bloomberg editorial says the fires "expose a $1 trillion hole" in American home insurance. Due to the issue of private insurers pulling out of the state or canceling policies, roughly 500,000 California homeowners have instead turned to the state's own FAIR Plan insurance program — which exposes the state to potentially tens or hundreds of billions in risk.

According to Realtor.com data, the median list price for the Pacific Palisades is a whopping $4.5 million while the media sale price for homes in the area is $3.5 million.

Irvine Market Report



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