CPA Practice Advisor

Years or More

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Real estate investors are responding to higher prices by buying fewer properties in the next 12 months and holding their rental properties at least five years or longer, according to a national survey of real estate investors conducted by ORC International for MemphisInvest.com and Premier Property Management Group.

Investor purchasing intentions have changed significantly since ORC surveyed investors in August, when only 30 percent said they planned to buy fewer properties in the next 12 months than they did in the previous year. In the latest survey, the percentage of investors who said they plan to cut back on purchases in the coming year has risen to 48 percent. Only 20 percent of investors said they plan to increase purchases compared to 39 percent 10 months ago.

While they may be buying fewer new properties in the year to come, over half of investors who own rental properties plan to hold them for at least five years or more. One-third, 33 percent, of investors plan to keep them for 10 years or more.

"Higher prices are reducing returns on investment and investors are responding by cutting back on their purchasing plans until conditions sort out. Fewer foreclosures, rising property values and competition from hedge funds are making it tough to find good ideals on distress sales," said Chris Clothier, partner in MemphisInvest.com and Premier Property Management Group.

"On the other hand, investors are planning to hold onto their rental properties for at least eight to 10 years and realize the benefits of rising rents and low vacancy rates. Cash flow is much more important than appreciation," said Clothier.

Real estate investors play a major role in the national housing economy. Investors

Census Bureau.

More All Cash Sales
How those who do plan to make purchases will pay for them has also changed over the past 10 months. In August, nearly one out of four investors said they will use all cash on their next purchase and the balance would use some form of financing. Today the percentage has increased to 37 percent. Most investors today plan to use a commercial mortgage.

"Cash sales make sense when prices are rising. They lower investors' costs," said Clothier.

About half of investors said real estate investing is harder today than when large numbers of foreclosures started five years ago. The entry of institutional investors into residential real estate is often cited as a source of competition for properties and a reason foreclosure inventories are shrinking, but only 13 percent of investors in the survey said the large competitors have impacted their businesses while 54 percent said they have experienced no impact at all.

However, more than half of the investors participating in the survey said they believe that five years from now there will more real estate investors than there are today.

"The reasons people invest in real estate—cash flow, passive income for retirement, exceptional return–will be as important five years from now as they are today," Clothier said.

Survey Methodology
The study was conducted using ORC International's CARAVAN Omnibus survey using both landline and mobile telephones on May 2-5/9-12/16-19 2013 among 3020 adults; 1,507 men and 1,513 women 18 years of age and older, living in the continental

United States. Some 1,970 interviews were from the landline sample and 1,050