Southbay Home Prices Soar:
Avoid Being House Rich, Investment Poor

SEIA
Signature Estate & Investment Advisors, LLC®
www.SEIA.com

By Eric C. Pritz, CFP®, CMFC | **Originally Published in Hill Section Life**

The current average listing price for a single-family home in Manhattan Beach stands at $2,657,309, with the average number of days a listing stays on the market plummeting from 120 at the start of the year to fewer than 50 today.[1] By all measures, despite the economic turmoil of the recent past, Southbay residents have done very well for themselves during the California real estate boom. So well, in fact, that many of you have also turned to real estate as a primary means of generating investment growth and income.

When I first sit down with a new client to review and discuss their investment portfolio, these days I often discover that an astronomically high percentage of their wealth is concentrated in real estate holdings – both the equity they've built in their primary and secondary residences as well as extensive holdings in REITs and other real estate investments. In many cases, between half and three-quarters of their total net worth is ultimately tied to the fortunes of the real estate market.

Too much of anything is a bad thing

California real estate has been such an outstanding investment over the last several decades that wealthy families continue to earmark the lion's share of their investment dollars towards this asset class. However, this large concentration in one investment type is a commonplace risk that no thoughtful financial advisor would ever counsel a client to assume. While there's nothing wrong with investing in property, having too much exposure to any one asset class creates unnecessary risks and can lead to "black swan" collapses or missing out on other investment opportunities in equities or alternatives.

What often goes unnoticed is that stocks, bonds, and alternative investments have also performed phenomenally over similar long-term periods. The S&P 500 was valued in the 300's in 1990 and is currently hitting all-time highs near 2000. Many investment

Registered Representative/Securities Offered Through Signator Investors, Inc., Member FINRA, SIPC, 2121 Avenue of the Stars, Suite 1600, Los Angeles, CA 90067 (310) 712-2323. SEIA, LLC and its investment advisory services are offered independent of Signator Investors, Inc., and any subsidiaries or affiliates.

professionals see similar long-term opportunities for investors in overseas and emerging markets, along with domestic growth sectors such as energy and technology.

What if you need your money?

Another key concern that should be factored into any decisions about investing in real estate is the inherent liquidity challenge. While property may seem like a valuable investment, many investors fail to realize that for value to be true, you must be able to access it. More often than not, generating liquidity from property investments tends to be more difficult than liquidating other investment options. At a time of crisis or emergency cash need, it's an important consideration. Lack of liquidity is a critical investment risk that's been the subject of extensive academic research. And real estate is clearly one of the most illiquid of all assets.

Depending on your investment goals, objectives and risk profile, a well-diversified portfolio that includes equities, fixed income, alternatives **AND** real estate will provide you with the best chance for long-term investment success. No one knows precisely what the future holds; so diversification is the only way to effectively protect yourself from the unknown. At the very least, try to avoid the mistake I'm seeing more and more frequently: wealthy Southbay residents who are house rich but investment poor.

Eric C. Pritz, CFP®, CMFC is a Partner at Signature Estate & Investment Advisors, LLC. Eric can be reached at (310) 712-2322 or epritz@seia.com.

---

[1] *Source: Altos Research, June 27, 2014*

Registered Representative/Securities Offered Through Signator Investors, Inc., Member FINRA, SIPC, 2121 Avenue of the Stars, Suite 1600, Los Angeles, CA 90067 (310) 712-2323. SEIA, LLC and its investment advisory services are offered independent of Signator Investors, Inc., and any subsidiaries or affiliates.