

THE EMERGING REAL ESTATE MARKET

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The most common assumption I hear when people are discussing plans concerning real estate is something to the effect, "...when the market comes back...when things turn around...it will never come back..." In my view, the current state of affairs is your real estate market for the unforeseeable future.

As anyone involved in real estate ownership knows, values are cyclic, but steadily rising over the past century. However, the general population does not act as if this fact is common knowledge. *Working Class Americans* have become *Leveraged Class Americans*. When the appreciation trend in residential real estate value tipped toward depreciating value, sometime around the summer of 2005, our nation was caught off guard. Foreclosures signaled the beginning of the end of an unprecedented run up in real estate values. Foreclosures were soon followed by the preferred alternative of "short selling" personal residences.

With unemployment approaching all-time highs in many areas, and the commercial sector likely to exacerbate the economic nightmare, real estate values do not appear headed upward anytime soon. Although property values seem to have stabilized at the lower end of the market, more devaluation is surely to occur in the mid to high end residential housing sector. At this time, fewer potential buyers possess the borrowing ability necessary to absorb the existing inventory of available homes and residential investment properties.

The contrived and experimental process of consolidating the residential inventory into a stable, predictable, and sustainable market in which investors can have confidence cannot occur until the lending markets, which initially created the demand for housing, are restored. The establishment of mortgage markets emphasizing collateral (the property securing the debt) rather than borrower's qualifications (which can change with a divorce, loss of employment, or medical condition) will be necessary to absorb displaced homeowners whose credit has been compromised. Homes now flooding the market can be purchased for far less than what it would cost to build them today. Values being established during this consolidation process at the lower end of the market can be thought of as the *center of gravity* supporting the value trend in residential real estate for the indefinite future: this *is* your new real estate market.

For sure, this emerging real estate market promises to be far more complex than in the past. Government intervention in the form of unwieldy disclosures, underwriting guidelines, and a bureaucratic appraisal process are primary contributing factors influencing the ability of potential home buyers to borrow. The result of these measures is sure to arrest any significant appreciation in real estate values for several months, perhaps years.

There are a variety of investment opportunities which have emerged during this transitional period. Savvy investors are purchasing residential real estate below construction costs to produce income, as there is no shortage of renters. We are also seeing investors purchasing vacant land at deep discounts and turning these assets into income streams by re-selling and financing the parcels. Ownership and management of real estate assets in today's economic environment has created the need for highly specialized and skilled real estate professionals. Successfully navigating the complex and changing elements affecting your real estate investments will require innovative expertise.