



INVESTMENT REALTY CO. L.C.

## THE RAUB REPORT

*Commercial Real Estate Newsletter for San Antonio*

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**News Flash – The new financial center of the United States has relocated from New York City to Washington, D.C.** The collapse of Bear Stearns, Lehman Bros. and AIG, big bank melt downs and layoffs of the former “masters of the universe”--all have taken a heavy toll on the financial services employment scene on Wall Street. Banking and workout analysts are moving to the nation’s capital. The “masters of the universe” now live in D.C. This came to my attention in an article on how the Washington area is experiencing a building boom in apartments, when there is a building drought in the rest of the country.

With untold ramifications, capitalism, capitalists, profits and entrepreneurs are now out of favor; and bureaucracy is the only real growth industry in America. With unemployment in some metro areas over 15% and the apparent failure of the massive Stimulus package to stimulate anything but deficits, it’s easy to see why those seeking jobs are looking to the federal government and not private enterprise. Security is foremost in everyone’s minds. Forget risk.

**In other News ---** The looming crisis in Commercial Real Estate will be focused on refinancing commercial property loans that will be coming due for renewal in the next year or two. The debt instruments known as Collateralized Mortgage Backed Securities (CMBS) provided the fuel that fed the boom in commercial real estate expansion since 2000. As of last Fall, the CMBS market all but closed, shrinking from \$237 billion per year in new loan originations in 2007 to just \$12 billion in originations last year. The problem? These loans are starting to come due, and there is no one to refinance them. Wall Street is essentially closed to creating new CMBS pools. Insurance companies, pension funds and real estate investment trusts all combined do not have that massive amount of money, probably \$250 billion per year for the next 3 to 5 years. Where will it come from? The Administration has directed Fannie Mae to address the issue, but it cannot meet that kind of refinancing demand; and they will only work with multifamily properties, not retail, office, industrial, or hospitality, etc. One writer recently said, ***“Industry observers are expecting the delinquency rate to double by the end of this year and go higher next year. Problems could be magnified if the credit drought continues and owners of even healthy properties are unable to refinance.”***

This is one of the major issues driving down prices on commercial properties. Capitalization rates are starting to approach 10%, when they were under 7% for many property types two years ago. That means a 30% decline in value, even if the cash flow has remained constant. And in many cases, that is not the case. There are Billions of dollars in opportunity funds on the sidelines waiting for distressed situations to surface so that an all-cash buyer can make a very attractive deal. Consequently, all of those buyers are not buying today, expecting prices to become more attractive. The very lack of buyers today makes this a self-fulfilling prophecy.

**News from San Antonio ---** the relative strength of our region’s economy should mean we will recover more rapidly and perform more strongly as the rebound takes hold. San Antonio has significant job creation in the pipeline, as I have noted before – San Antonio Military Medical Center, National Security Administration, and Medtronics – to name the most prominent. Home building has bottomed out and is expected to improve slowly over the next year. The Brookings Institute ranks San Antonio #1 in economic health in the U.S., ahead of Austin, Houston and Dallas, all in the Top 10.

I am often asked, when will it be the right time to buy? The answer is, if you have an investment before you that makes good sense, then do it. Waiting for “the bottom” doesn’t work. We can only see the bottom in hindsight, and it is made up of the opportunities that others took when things seemed uncertain. When Opportunity comes quietly knocking, it is not because it is timid or weak. Opportunity is heard by those who are listening and ready to open the door. It is missed by those who are too busy to listen or too timid to act.

*Stephen A. Raub, CCIM*

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