



INVESTMENT REALTY CO. L.C.

THE RAUB REPORT

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Recently, a professor at New York University, a leading housing market economist, said he expects millions of Americans to abandon homes with sinking values in an effort to cut losses on bad investments. "We may face a situation where millions of homeowners are going to walk out of their homes in the next couple of years." He estimated that somewhere between 10 million and 15 million homeowners will soon find that their houses are worth less than the value of their loans.

Now I ask you, assuming you can make your monthly payment, if you found your nice comfy homestead suddenly had a market value less than the mortgage, would you immediately move out, put your family in an apartment or live under a bridge? Or would you stay put, pay your mortgage, and go about living your life? This is the kind of nonsense that scares people.

I will say that the Banking Liquidity Crunch is becoming a larger problem in the commercial arena. Lately, a strong and savvy real estate investment trust, investing in the commercial loans, hit a big liquidity problem and is threatened with bankruptcy. That is scary. Lenders are requiring more equity in deals, and are much stricter with the creditworthiness of the borrower. This is slowing the investment market. Debt will likely continue to become more difficult to obtain as this year wears on. Wall Street is expecting the commercial market to sag over the next several years and is making adjustments now. Real estate is local, but debt is international. When Wall Street sneezes, Main Street gets sick.

A title company's commercial business unit told me they had a record 2007 in commercial closings. However, the company was off about 7% in January. It projects 2008 to be as good as or better than '06, but not as good as the record '07. Residential still was off 30% or more in starter homes, with foreclosures at a manageable and steady rate. Home starts and sales in the \$200,000 and up range are still relatively strong, very few spec homes being built and the lot supply is tight at only about 3 months.

Let's put this into prospective. Remember the RTC days? Back at the worst of the recession in late 1980's, housing starts dropped from about 4,000 a year down to 1,700. San Antonio saw 12,600 home starts in 2007, after a record 19,000 in 2006; but we may fall back to 12,000 this year, fifth best on record and 700% of the 1989 home starts.

Mark Dotzour, Real Estate Center at Texas A&M, noted that "home prices are still increasing in most Texas metro areas, foreclosure rates are much lower than the national trends, and the inventory of unsold homes in Texas is currently at 5.7 months, well below the national average of 10.1 months. . . (however) the rate of price increases in most Texas metros (is) getting smaller." And Texas is still seeing strong immigration from other states -- 141,000 people moved to the Lone Star State last year, near the top in the U.S.

On the commercial side, there is nearly two million square feet (SF) of new office buildings now under construction or planned along Loop 1604 from Stone Oak to UTSA: Tesoro Petroleum – 600,000 SF; Stream Realty on Lockhill Selma – 233,000 SF; Galo Properties at 1604 & IH-10 – 500,000 SF; Transwestern – 144,000 SF in The Rim; possibly a new building for KCI of about 250,000 SF; and several smaller buildings in Shavano Park and University Park near Prue Road. Class A rents for new buildings are above \$25 /SF (full service gross) and absorption is good.

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For retail, look for lots of new centers: Loop 1604 at IH-35 (Weitzman and HPI); Loop 1604 at Bulverde (Birnbaum and HPI); redevelopment of Terrell Plaza; and a large new center in Woodlake. San Antonio has the distinction of being one of the most active retail construction sites in the U.S., alongside Las Vegas and Phoenix. But I still continue to warn about unanchored strip centers being overbuilt.

While 2008 will be a year of adjustment and transition, we are still at the dawn of San Antonio's Golden Age.

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