



INVESTMENT REALTY CO. L.C.

THE RAUB REPORT *Commercial Real Estate Newsletter for San Antonio* October 2008

Since Labor Day, we have experienced the greatest trauma that we have seen in many years, maybe decades, in the marketplace. I won't recite for you what the T.V. and print media have already thrown at you in spades. Suffice to say, the past six weeks brought to light the dangers of the extremely overleveraged state of our economy.

We can only speculate on what this will all mean for our future. So, what do I see for San Antonio?

#1. This is not the late 1980's with the Resolution Trust Corporation. Our foreclosure rate is still very much in hand. IRC screens commercial foreclosures carefully, and there are few, frankly. I do think we will see an increase in commercial foreclosures in the next year. How much and how bad is impossible to say as the Brave New World of Banking is still unfolding before our eyes. We are checking with local banks and most are in good shape. Generally, they remember how bad things can get and have been fairly conservative in their lending practices. West Coast lenders, not so much. Those lending on land and single-family lot development could see some problems.

#2. The big problem is for businesses and for developers getting loans for new projects. Lenders who are in good shape are still making loans, but are qualifying borrowers very carefully and very slowly.

#3. We are about to become overbuilt in office space, retail space, and apartments. Not dramatically so, but with 1.4-million square feet of office space, over 2-million of retail and 6,000 apartment units, we will see new starts drop off considerably in 2009. So we will get more concessions to get projects leased up. Only poorly-located projects will really tank. So far, rent rates are holding steady. I don't expect increases, though. Job growth is key and while it has been very positive this year, we can expect a slowdown in the next year.

#4. With over-building on the one hand, and a lack of lending on the other, construction will tank. Volume-based business, like architecture, engineering, title companies, and real estate, will be under pressure until the market turns.

#5. There is a load of investment dollars on the sidelines. These are smart folks who sold into the rising prices and did not reinvest right away. For now, they are on the sidelines waiting for better buying opportunities next year. They will miss some, as each piece of real estate is unique and moves in its own cycle. No one rings a bell at the bottom. It's a process. We have to jump on the opportunities as they present themselves, not wait for a perfect moment which often passes us by. Yes, you make your money when you buy, but you don't make any money unless you buy. The market will turn quickly and strongly in San Antonio.

#6. Unlike the RTC days, Texas is the brightest spot in the U.S. economy. On the list of the 50 major U.S. metro areas, all Texas MSA's had less than a 10 percent chance of prices decreasing in the next two years, while San Antonio actually had a 4% price appreciation in second quarter 2008 (PMI Group Report). San Antonio also has been awarded an AAA rating by Standard & Poors.

#7. There may be a Silver Lining in the banking problems for San Antonio. Just as we benefited from the BRAC consolidation by picking up more military jobs, so we could see more jobs in the financial services sector, where we already have back offices for Bank of America, JPMorgan Chase (2,000), CitiGroup, WaMu (1,700), which has been bought by JPMorgan Chase, and Wachovia (4,000+), which has been bought by Wells Fargo. With our low cost of living and attractive lifestyle, San Antonio may hold these jobs and see more relocated here from other areas.

IRC is continuing to look for sound deals for investment, and using our time-tested prudence in analyzing risk and profit potential. Give me a call for more information.

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