



INVESTMENT REALTY CO. L.C.

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There is a great deal of talk about "Distressed Real Estate." Generally, that means that the owner can't meet his mortgage payments and is facing default, foreclosure, and perhaps even bankruptcy—an awful and truly distressing situation. Now, what I have described is not really distressed real estate, but a distressed owner of real estate. The property may be fine, but the owner is definitely up against it.

Distressed real estate versus distressed ownership means it is a poor location because of flood plain, environmental contamination, difficult street access, declining property values in the neighborhood, etc.

I suggest that what we have in San Antonio is a small amount of Distressed Real Estate and Real Estate Owners, but a whole lot of "Stressed Real Estate Owners!" A stressed owner is one who bought a property years ago for \$2.00 per square foot and could have sold it for \$5.00 per square foot a year and a half ago, but now he is not getting any interested Buyers. He is stressed over the lost opportunity to sell and get his money back with a big profit, but in actuality the owner and property are really doing fine. It's just a stressed mental attitude he has to deal with.

Another example: Stressed Real Estate is where a developer can't move forward on a project that he would really like to build, but he lacks pre-leasing and financing. Distressed Real Estate means the developer moved forward on a project with inadequate leasing and the financing lender is about to foreclose or restructure the deal.

I think that is where we are in San Antonio today. The volume of residential and commercial transactions has slowed up pretty dramatically, off 1/3 to 1/2 from levels of a year and a half ago. Much reduced transaction volume even caused one title company to take bankruptcy.

In June the City had 2,127 home sales, down almost 13% from the previous June. The inventory of unsold homes was at 7.6 months, at the high end of average but not in danger territory. Home starts are down 35% but sales are only down 26%, so builders are making up ground. And Texas is the bright star in the U.S., dominating *Forbes Magazine's* list of the Ten Best Cities to Buy a Home, nabbing four spots, with San Antonio placing fifth in the Nation.

Are we at the Bottom or will things get worse? I think we will see continued weakness in the real estate market through the rest of this year and into the early part of next year. Why?

1. This is an election year, one that lasted two years actually, with the greatest amount of uncertainty we have seen in a long time.
2. We have a housing and mortgage crisis we haven't seen in 20 years, scaring everybody.
3. Inflation is upon us, in possibly a big way.
4. The housing market still has excess inventory of home lots, enough for two more years.
5. Retail sales have slowed due to all of the above.
6. Many banks are scrambling to rebuild equity that took decades to build up. They are in no position to make loans for new construction.
7. The Media is losing market share to the Internet and in desperation to get people to tune back it searches for the "crisis" du jour to make us feel helpless and glued to the T.V.

It may be a shallow and extended bottom or dip extending into mid 2009, but the snap back in San Antonio should be very solid. There's a lot of money waiting for really cheap deals that may never come because someone else got there first. IRC is looking for those really good deals now.

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