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REAL ESTATE TRENDS FOR 2007

The National and Local real estate markets are made up primarily of 5 sectors which all overlap on their fringes. They are: Residential, Retail, Industrial, Commercial, and Investment. While it should be noted that the national trends can differ drastically from local trends, and that there are economic influences such as interest rates that affect all markets, overall, all sectors are currently healthy and will be getting healthier through 2007: Now let me tell you why, sector by sector.

RESIDENTIAL: The news you've been reading over the past year is either grossly overstated or just plain wrong. There has been no crash in real estate pricing and only in certain select markets has there been a bubble that has now mostly deflated. The strength of a residential market is dependent on financing rates, overall unemployment, and household formation. Market downturns are caused by excess supply or the fairly rapid increase of the first two factors mentioned. Specific markets such as luxury condominiums in Miami, Tucson and L.A., experienced supply and prices which overshot their targeted market, and those are the headlines we are being bombarded with. Interest rates remain in a very affordable sweet spot of between five to six-and-one-half percent, the unemployment rate is at an historical low of below 5 percent and normal household formation is being added to by an ever increasing flood of immigrants as well as the growing trend of empty nesters purchasing second homes. While there are bargains in the overbuilt condo markets in some cities, there has only been a leveling out of pricing for prime residential properties in most markets (except in areas like Michigan that are dependent on the shrinking auto industry.) So don't wait to make that bid thinking that prices will go much lower.

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RETAIL: The single two factors which will affect retail in 2007 will be the accelerating trend of leveraged buyouts as well as the changing youth demographics.

Private capital is opportunistic and tends to look to consolidate horizontally across an industry. This will result in a consolidation of retail outlets causing a higher vacancy factor. Overall, it should increase the health of the sector as brand duplication is significantly reduced and the surviving retailers have a base for future growth. The demographics we tend to watch feature the continued urbanization of young household formations which will create faster retail square footage growth in the city environment over the suburban and exurban areas.

INDUSTRIAL: Here the sinking dollar is the big story. Companies like Caterpillar, which are in the heavy equipment sector, and General Electric, which manufactures power generators and jet engines, will find their exported products highly competitive overseas. This will cause both employment and wage growth at home. Further, the sinking dollar provides motivation for offshore companies to relocate their manufacturing into the U.S. market, much like Toyota and Honda has done over the past decade. Further growth, independent of the exchange rates, will be based on power plant and electric grid construction, as well as the rebuilding of the country's roads and bridges infrastructure. We predict that manufacturing job levels will stabilize and industrial properties will maintain, in most areas of the country, high occupancy levels resulting in accelerating rental rates.

COMMERCIAL: Made up primarily of office buildings, this market has experienced increasing space absorption over the past three years as the sector of the economy made up of service industry increases. Like as in the retail sector, we see an increasing trend for urban areas to attract the greatest office building growth due to the synergy of convenient and inexpensive transportation, as well as the availability of labor as our nation's vibrant cities attract a growing majority of young college age professionals.

INVESTMENT: The real estate investment market is exhibiting unparalleled strength and a tide of dollars continues to flow into this inflation-protected sector. While the falling dollar will cause the nation's real estate to be more attractive to offshore investors, the big story here is the continuation of lowering cap rates as investors perceive that residual values at the end of a typical holding period should increase substantially due to land use changes. We are constantly asked, "Why did that property sell for so much money?" The answer is usually the investor was satisfied with a 4-5 percent going in cap rate for they were confident that their industrial building, parking lot, or office building would grow substantially in value based on growing population density, rezoning pressures, and continued gentrification trends.

SUMMARY: Without question, real estate is the sector of choice for 2007. A combination of stable rates, positive demographic trends, a falling dollar, as well as the double benefits of inflation protection and investment leverage will continue to cause it to be the nation's healthiest economic component.

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