

THE BUSINESS OF BUILDING REDEFINED

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A photograph of a modern, single-story house at dusk. The house features large glass windows and doors, some of which are illuminated from within. A long, covered walkway runs along the side of the house, leading to a large, rectangular swimming pool. The pool is lit from below, creating a glowing effect. The sky is a deep blue, and mountains are visible in the background.

FORECAST 2010

WHAT THE EXPERTS SAY

GLENN J. AMSTER, LANE POWELL PC

**GLENN J. AMSTER,
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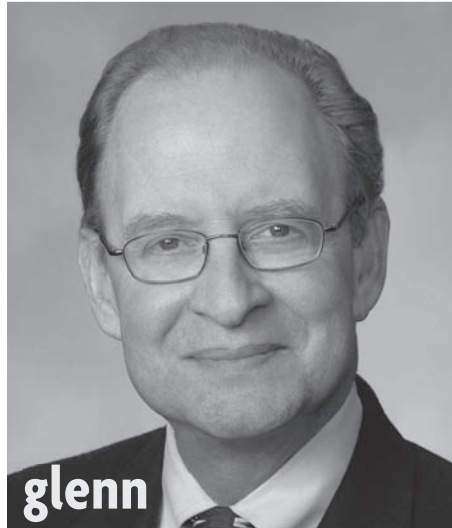
It's hard to conceive of an industry that has suffered more than real estate in the past 12 months. (OK, maybe automakers, but remember: no bailout here.) Between job losses, the scarcity of credit and, frankly, their own market miscalculation, those in the real estate industry have seen boom turn to bust in a hurry. Unfortunately, they may have to wait until 2011 to see the pendulum swing back in a favorable direction.

Housing prices will continue to decline as foreclosed properties flood the market and credit facilities lag in their return to normality. The wave of homeowners who took advantage of Option ARMs in 2005 to 2007 are going to need to refinance their homes, with the first wave coming in 2010. They will face some hurdles, including increasingly stringent underwriting and higher equity requirements.

Apartment owners experienced a reasonably stable 2009, as an increasing number of people were pushed out of the residential real estate market into rental housing. However, the market should trend toward homeownership because of low interest rates, oversupply of housing inventory, decreasing prices and federal tax incentives. The boom also saw apartments strategically converted to condos. We're now seeing those empty condos being converted back to apartments, contributing to increasing vacancy rates.

The condo market is not expected to return for some time, perhaps not until 2015 or later. But this forecast may be tempered as commute time, commute costs and greater focus on the value of personal time, drive occupancy decisions to denser, condo and

apartment-dominated neighborhoods. Look for state and local governments to encourage this migration towards transportation corridors to maximize infrastructure




investments and reduce the carbon footprint of the built environment.

Jobs and economic opportunity are the factors that drive housing markets. People want to live in communities where there are jobs. In today's economic climate, with job losses at near-record levels, you will not find any locale where housing demand exceeds supply. Instead, you will find the highest foreclosure rates in those areas with the highest unemployment. To return the real estate industry to its feet, federal, state and local governments need to focus on economic growth: more jobs translates into more housing demand, initially filling built-up vacancies and, ultimately, returning prices to a level that will stimulate new investment in residential real estate.

At the same time, some semblance of normality will need to return to the credit markets. Undoubtedly, developers and homeowners will need to "put more skin in the game", i.e., increase their equity stake in their new home or development project. But expectations should not be unrealistic. First-time home and trade-up buyers will be unable or unwilling to produce substantial equity when job security is at an all-time low and existing investments have lost substantial value.

Appraisers need to be given the latitude to weigh comparable sales. For example, though investors with cash are returning to the real estate market, most are looking for bargains rather than new, speculative projects. This will tend to skew comparable sales downward in the short term, but should not drive valuations for long-term loan purposes.

Regulators will need to tread carefully. The industry needs financial institutions to regain confidence in the real estate market. And while greater oversight of lending practices is inevitable and even wise, overzealous regulation could delay recovery for quite some time. 

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