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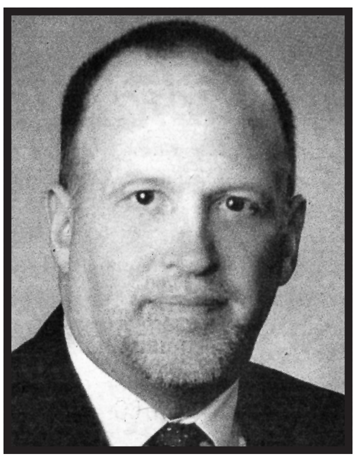
2009 Year In Review

Question of the Week

Will 2010 be better than 2009?



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Will the market be better in 2010 than 2009? Most people believe it couldn't possibly be any worse! In 2009, we saw 12 months of declining real estate fundamentals, record residential foreclosures, declining values, an impending fear of a tsunami of commercial foreclosures, almost no lending in the commercial markets, increasing unemployment, bank failures and corporate bankruptcies.

That being said, I believe there will be good things to come in 2010. Most economists are predicting that unemployment will peak in the first half of 2010, and the decline in property values will slow as the unemployment rate levels out and starts to improve.

Many people predict this will create the best buying opportunity in commercial real estate in decades. In 2009, the volume of commercial transactions was as low as it has been in more than a decade. A recent publication states that commercial sales are down due to market constraints and not due to lack of demand. I couldn't agree more. The amount of capital on the sidelines is growing every month through initial public offerings and private-equity placements. Lending was not dead in all asset classes in 2009; there were loans being made by local and regional banks on cash-flowing, well-managed properties. Multifamily properties were being financed through life companies, local and regional banks, and private debt sources that saw good returns and stability in well-located properties. Lenders doing U.S. Department of Housing and Urban Development-insured loans saw a record year in 2009. Most experts believe the hospitality and retail segments will be the last to recover as they are the most directly tied to consumer confidence. It is likely these two classes could provide the greatest opportunity over the next two to five years.

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Dollar General Stores is projecting 7,000 new store openings in 2010, creating opportunities for brokers and retail-property owners. Supply will be at an all-time high, but the money on the sidelines is looking for value. Everyone talks about distressed properties flooding the market and creating a feeding frenzy among buyers. We have not seen that yet, but what we have seen are more loan modifications and extensions, as well as a willingness among lenders to avoid taking back these assets.

Next year will be an improvement over 2009. Unemployment will stabilize. Lending, albeit with new guidelines and requirements, will increase across most asset groups. We have had to adjust before, and we will adjust again in this new lending environment. Transaction volumes will increase as capital on the sidelines enters the market. Real estate is and will continue to be one of the best long-term investments for individuals, as well as corporations. And all things considered, how could 2010 be any worse than 2009?