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PSSST! Want a stock market tip? Look more to real estate

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What is the recent swoon in the market telling real estate?

Real estate investors are no different emotionally than stock market investors. They tend to buy when they should be selling and sell when they should be buying! If it feels safe, we reach for a little more risk. When it comes to human nature and investing, it is never different. Fear and greed, alarm and complacency dominate decision making when extreme markets appear. Everyone sees a bubble, but few leave the party. Although the more prudent may position themselves closer to the door, that door shrinks quickly when the stampede starts.

The supply or lack of money available for deals is immediate in the security markets - home equity lines have become 'call money' for the consumer. In contrast, the real estate market demands that investors actually qualify for financing. So, the longer lead times to acquire or liquidate real estate impose time for sober reflection and due diligence before investing. This slowness sometimes hides the market tops and bottoms, which are more obvious in a stock market where selling and buying occurs with a laptop keystroke.

What does this mean for commercial real estate?

Remember the 2000 tech bubble and its burst? Money poured out to stocks and into real estate, helped by the Federal Reserve dramatically lowering rates. Real estate became attractive with cheap financing. We had 10 cap returns and 4% rates. These are huge spreads. Then, 2-3 years later we were in the big real estate boom of the last 30 years. Today, not only is the FED forced to lower rates, but politicians are out bidding each other to give a huge one time tax cut to consumers! Since this is an election year, I expect that money wagon to gain more momentum.

"I'm from the government and I'm here to help you."

If history repeats, I believe that we will be booming again by election day. Even better, this will carry into 2009 and 2010. Furthermore, easier money will bring the threat of even more inflation. Real property is an inflation hedge! That includes long term leaseholds. Commercial real estate is not overbuilt in the northeast. Local governments made it too difficult to expand rapidly. Once the retailers start to feel the juice of Fed easing and tax cuts flowing through consumers wallets, confidence will return, and markets will move. As long as we can keep people employed, demand for both housing and commercial opportunities will continue and even grow. Don't fight the Fed! And, never underestimate the economic motivating power of the American dream!

I believe in it...do you?

Tom Duffy is the 2008 CIBOR president and the manager of the Commercial Division at Prudential Verani Realty in Londonderry,, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540