

2016 CCIM COMMERCIAL REAL ESTATE FORECAST COMPETITION

Speaker: MARK Dotzour, PhD

BY RAY HANKAMER
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- Super bullish about commercial real estate (CRE)
- What inning are we in now in current expansion cycle? – 8th or 9th but still some steam left, perhaps a year or two before down-cycle begins
- Still expecting no inflation
- Falling stock market often signals anticipation of weak economy but this time it is due to other factors such as huge margin debt
- Other countries' economies which are managed by tyrants, monarchs, and dictators are in a mess, but many Western European economies are good, and the best is the United States, which is the 'go-to' country for all investors
- CRE in the United States remains attractive to international investors, and Houston especially so, even though values are said to be somewhat inflated
- Economic cycles are part of capitalism and the smart investor does not over-leverage, but waits to pick up property at a discount from those who have over-leveraged
- The Fed is watching the stock market like a hawk and will be careful not to raise interest rates until it stabilizes
- We are in a 'hard ball game' with other countries whose economies are one-trick ponies dependent on selling only oil-those countries don't make any products which are desired in world trade, so they are in big trouble if oil prices stay low
- Our marginal cost to produce oil is low and getting lower, giving us an advantage over other countries-\$50 / barrel works well for us but not for many other countries
- There is lots of investment capital in the U.S. waiting to buy stressed assets in other countries at bargain basement price
- While oil is down, home building and car sales will buoy U.S. economy

O'CONNER & ASSOCIATES APARTMENT FORECAST

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Speaker: Matthew Phillips, National Apartment Advisors; Ed Nwokedi, Cushman and Wakefield February 24th

- Houston area population will continue to grow steadily, reaching 8.33 million by 2025 according to Greater Houston Partnership-we are currently 5th largest Metro area in the U.S.
- Medical, petro-chemical, hospitality & leisure, and other industries are strong, and many local submarkets have their own economic drivers
- Most of the current multi-family (M-F) projects are Class A or "luxury A+" and are between the CBD and the Post Oak Galleria area-about 50% of the new supply
- Many of them are podium mid-to high-rise and some have a retail component, all necessary due to high land costs; ability to live in them and walk to restaurants and other attractions create an exciting new life-style for Houstonians and people are ready to spend more to 'move up'
- For those who invested in M-F in 2008-09 there have been big profits; Class C values for example have doubled in ten years
- Concessions are coming in new Class A product but they should still lease up in two years, a slower rate than expected; some developers will encounter investor and lender pressure due to slower than projected lease-up
- Lenders are a little more hesitant now for Houston projects but they have a strong long-term opinion of our market
- Lots of international investment money coming to Houston M-F and other commercial real estate, especially from China and South America
- Occupancies may drift down from 92% to mid-to high 80s but this is not too unusual after a busy development cycle
- Construction boom has not been just in Class A but in "Luxury Class A+", something new for our market; however, these units are 'chasing' a shrinking demographic to some extent due to oil industry layoffs, so the absorption rate is slowing
- Post Oak/River Oaks/Midtown projects have the highest rents: \$2.70 SF, with CBD demanding \$2.30 SF: all record high rents
- Financing for today's projects was based on yesterday's projections, therefore some equity investors are getting antsy to get their capital returned
- There will be some good deals in Houston in coming months / years for buyers of M-F projects; current crunch will create buying opportunities

Offering Properties & Hotel Consulting

PROPERTIES AVAILABLE

- Hotel, Condo, Retail Site - Cruise Terminal - Galveston, TX
- Freeway Sites - I-20 - Monahans, TX
- 30 Acres Commercial/Rail Serviced - Tomball, TX
- 12 Acres Residential/Commercial - I-45 - Huntsville, TX
- Hotels - Statewide
- 37 Acres I-10 at Cane Island Pkwy - Katy, TX
- Knights Inn/100 Rooms - Victoria, TX
- Hotel Sites - Katy, TX

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