

Connecting the Dotz

Real Estate economist Mark Dotzour offers the big picture

BY BRANDI SMITH

When he retired from the Real Estate Center at Texas A&M University in August 2015, former chief economist and director of research, Dr. Mark Dotzour, had no intention of leaving that career behind completely. He'd spent nearly two decades researching, writing and speaking about real estate.

"I just got tired and said, 'You know what? I think I'm going to step down and just do the research and the speaking only,'" says Dotzour. "Since I did, I've been out on the road making about 70 presentations a year."

Dotzour joined the Center in 1997. At the time, it was staffed with experts in land and agricultural land, but not commercial real estate. Seeing an opening, he says he decided to become an expert in the field. And so he did.

An investor himself, Dotzour says he has always had an interest in real estate. He says finding his role as a real estate economist just boiled down to the answers CRE professionals always want answered: "Are my buildings going to continue to fill up with tenants?" and "Are my buildings going to continue to go up in value?"

"Once I figured that out, I've spent the past 15 years just gathering information about things at the global level or the national level or the state or city level that might impact whether those buildings fill up or whether those values will continue to go up," says Dotzour. "It's funny. No matter what you do, if you do it for 18 years, you can suddenly become kind of an expert on it. If you've not, you should have quit years earlier."

When REDNews caught up with him, he'd just returned from a well-earned vacation from his "retirement," a busy lineup of speaking engagements all over the country. When he visits places like Las Vegas, Charleston, Miami or even Houston, Dotzour knows he's giving a presentation to the market's real estate experts.

"I realized that I need to be the 50,000-foot guy who sets the picture in terms of what the overall market condition looks like," he said.

Instead of focusing solely on a market's real estate landscape, Dotzour examines the global economy, explaining how it will trickle down to the national, state and city levels. He also keeps a close eye on interest rates, predicting what the central bank is going to do, whether we're going to have higher inflation.

"I follow the big, general pictures, but the difference between me and most every other economist I've ever met is that I analyze the same economic information that other economists do, but I translate that down to real estate decisions. That's all I do," Dotzour says with a kind of modesty.



Mark Dotzour,
Former Chief Economist and
Director of Research at Texas
A & M University

That analysis tells him that the overall picture for Texas looks "really solid."

"I've been doing this for 20 years now and I've never seen a situation that feels as good as this," says Dotzour.

The key, he adds, is job growth. Commercial real estate professionals want to know that their buildings are going to fill up with paying tenants, which is strongly connected to creating jobs.

"The U.S. economy as a whole continues to spew out new jobs every month, anywhere from 50,000 to 300,000," Dotzour says. "Here in Texas, we've outperformed the U.S. economy in terms of job growth virtually every year for the past 20 years."



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While that has been consistent, trends in the different sectors of the market have morphed considerably in the same amount of time. Dotzour points to industrial spaces as an example.

"How we buy products is changing and the fact that so many people are buying products over the internet means they have to be shipped by a truck," he says. "People expect to get delivery within a day or so, which means that all these suppliers need a warehouse pretty close by so they can deliver something to you on the same day or at least the day after."

As a result, online retailers have launched a massive search in communities all over the country that wouldn't traditionally see a lot of warehouse activity. It's also impacting what has historically been retail space.

"One of the biggest challenges is what to do with a shopping center that goes dark," says Dotzour. "Some of those, being in good urban locations, might turn out to be the next fulfillment center for internet shoppers and the boxes that bring the toys and goodies that they're ordering online."

The reason those shopping centers are doing dark is a one-two punch of internet influence and high-value

property. Large chains such as Toys R Us, Sears, Macy's and Foot Locker have blamed online competition as the reason they've shuttered stores. But some of the smaller retailers, such the hobby shops that used to fill space in malls, are being forced to move or go online due to increasing rent.

"They're not being run out of business by the internet. They're choosing to get out of their expensive retail space and just move into their home or to something a whole lot cheaper," Dotzour points out.

That shift from brick-and-mortar stores to online offerings from retailers has been one analysts predicted decades ago. Dotzour says he's learned a lot watching the movement slowly build momentum, then explode.

"When you're trying to extrapolate trends into the future is that things typically take a lot longer than you might think," he explains. "It's taken a lot of time for this to work its way through the system, but now, it's doing so in a big way."

Beyond retail and industrial, Dotzour says the internet is also impacting another sector: multi-family units.

Apartment complexes, inundated with packages ordered by tenants, are now being tasked with how to handle and store the shipments safely and securely.

"The internet really is transforming virtually every part of the business of real estate," says Dotzour.

Despite the minor hurdle of package management, he says the future looks bright for the multifamily sector.

"Some parts of our state have seen a lot of heavy building of luxury apartments, especially in the inner parts of the downtown areas in the big cities," Dotzour says. "That's put a little pressure on rents and values, but there's more to the multi-family market than just luxury properties."

He points to Class B and C apartments, which are experiencing a shortage and, he argues, no one is building brand new. That presents valuable investment possibilities, according to Dotzour.

That's the good news; if there's even a sliver of bad news to be found, Dotzour says it's the possibility that interest rates could go up too much.

"One of the byproducts of having a strong economy is that it tends to lead to higher interest rates, both for short-term business lending and also for long-term

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investment decisions,” he points out. “So the biggest threat here in 2018 and into 2019 would be that our economy overheats to the point that we get inflation, which leads to higher interest rates.”

The result would be higher borrowing costs for people who want to buy commercial real estate and higher cap rates for investors.

Dotzour’s analysis is something fellow real estate experts make an effort to hear, attending state and national conventions to get his take on the big picture. But, unlike so many who make a living off presentations, he says it’s just as well if you find one of his speeches on YouTube.

“When I was at the Center, our whole job was to provide information to help people make good business decisions,” says Dotzour.

After he retired, he says he kept that mindset and even offers up copies of his presentation to those who are attending.

“I tell people, ‘If you want to take my name off of it and put your name on it, you can give it at the local Rotary club,’” Dotzour chuckles. “I’ve said that for 20 years. Nobody’s taken me up on it, but they always laugh.”

He argues that he doesn’t have anything to sell, simply a perspective to share.

“I’m constantly looking at information, constantly trying to make heads or tails of what’s going on in the marketplace and then figure out how to communicate that in a simple way that people can understand,” says Dotzour. “For the past 20 years, all I’ve done is generate information that will help people make good business decisions.”

Here’s hoping he keeps providing his expert analysis for another 20! ■

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