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How to survive the real estate market

The latest property trends and what they mean for small business.

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If your business suffers from real estate blues brought on by plummeting prices, it may come as little comfort to know that this trend was supposed to have ended by now. When the market began its downturn in early 2006, some of the smartest economists in the country, as well as the CEOs of major home-builders and the National Association of Realtors, predicted that prices would rebound by mid-2007. Instead the experts have been humbled by the depth and breadth of the downturn - and the resulting sub-prime credit crisis has shaken financial markets around the world.



Expect tremors to keep shaking the real estate market along multiple fault lines in 2008. Here are the winners and losers in the housing, rental and commercial categories.

UP MARKETS: As a whole, the national housing market will finally hit bottom - and start bouncing back - at the end of 2008, says Celia Chen, director of housing economics at [Economy.com](#), a subsidiary of the financial rating agency [Moody's \(Charts\)](#). But more than a dozen major metro areas are already ahead of the curve, and enjoying modest but significant price appreciation.

Markets such as Atlanta, Austin and Dallas didn't draw enough speculators to skew prices during the housing boom. Yet they boast sufficient employment and income growth to increase demand for housing. Mobile, Ala., surprisingly, is poised to be a top performer in this group of metros: in recent years it's seen only a trickle of new housing but is currently booming thanks to billions of dollars worth of new mega-projects.

WHAT IT MEANS: Small business owners in these regions will still be able to tap home equity loans for funds, or won't face calls on existing loans from banks because of declining values.

DOWN MARKETS: The regions that will likely lag the national recovery are Phoenix, Las Vegas, south Florida and California's Central Valley. Although publicly-traded home builders packed these areas with inventory, prices soared beyond reason thanks to easy credit and an abundance of speculators who never intended to occupy the homes they bought.

In some cases the inventory glut will take years to clear, even at heavily discounted prices. Phoenix currently offers about 55,000 listings, the highest in the Arizona capital's history, in addition to an estimated 15,000 spec houses.

"Builders have now dropped new three-bedroom, single-family homes as low as \$130,000," says Frank Owens, a local real estate analyst and headhunter for the home-building industry. "That's unheard of. The lowest we'd see a year ago was \$200,000."

WHAT IT MEANS: In these cities, stagnation equals opportunity for entrepreneurs: Because a big slice of the local labor force was employed in the broader housing sector, the downturn has shaken loose many workers who are desperate for a new gig and not so picky about pay.

THE RENTAL MARKET: By some estimates, the clampdown on easy credit provoked by the subprime crisis will ultimately wipe out 25% of national demand for housing. That's good news for landlords, predicts Todd Sinai, an associate professor of real estate at the University of Pennsylvania's [Wharton School](#).

Look for two ingredients: a high concentration of sub-prime borrowers and average income levels near the

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national average, or lower. "One-time homebuyers will be relegated to renters because young households will have an even harder time amassing a down payment," says Sinai. Memphis and St. Louis, come on down!

WHAT IT MEANS: Commercial rents will remain stable in these areas, because the general economy is slowing and there won't be much new competition for office and retail space.

COMMERCIAL REAL ESTATE: Thanks to a white-hot tech sector and a renewed surge of VC funding for Internet start-ups, office rents in the Bay Area are testing records set during the dotcom bubble. But the trend is moving in the opposite in bellwether markets such as New York.

Having been the shining star of real estate for the past two years, the commercial market is due for a slump. A dramatic rise in commercial mortgage rates this year, and tougher bank lending standards have sidelined buyers. Many record-setting deals are falling apart. Prices for office buildings, hotels and shopping centers around the country may fall by double digits, commercial analysts now concede.

Perhaps the most telling indicator is legendary developer Sam Zell, once lord of the largest commercial real estate portfolio in history. A legendary market-timer, Zell sold his holdings to a private equity firm for \$39 billion last February.

WHAT IT MEANS: Because of tight credit and soft prices, cash-rich businesses will hold the upper hand when negotiating to buy their own property. ■

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