

# Real Estate Journal

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## Into the looking glass: What to look for in 2009



Karen Shunick

Happy New Year to one and all! Unless someone named Bernie made off with all of your money, you are probably looking forward to 2009, albeit with some trepidation. Yes, we will all still be watching our pennies for some time, but there are reasons to be hopeful that things will indeed improve before year end. Here's why:

### 1. Recovery starts in New York

Bear Stearns is gone, absorbed by JP Morgan Chase. Merrill Lynch is gone, absorbed by Bank of America. Lehman Brothers is REALLY gone, its remaining viable organs are now being transplanted into other entities. And while other banking institutions are also departing (WaMu, Wachovia), and others well may, in many ways financial institutions have found a "bottom," even if there is much yet for them to work through. In many ways, this is attributable to two factors. Firstly, the "deleveraging" of assets from the convoluted world of CDOs, CMBOs and other acronymic creations of the past few years, while still not complete, is well underway. Deleveraging still threatens numerous entities, but has largely been factored into much of what has already happened, including the flight from hedge funds, and the plummet in financial stocks. So stability - even if it is a leaner, and somewhat hobbled state of existence - is returning to New York's most important market sector. Much of the shakeout (in terms of layoffs) has already occurred here - the rest of the nation has yet to feel the full impact.

Secondly, and of equal if not greater importance, is that the vast majority of Federal funds that were flooded into the economy under TARP have ended up in one place - New York. This cannot be discounted, as the organizations that received these funds expend them globally, yes, but locally primarily. Regardless of how you feel about how those taxpayer dollars emerged as executive bonuses, the fact is that most of that money is not being spent in Denver, or Dallas, but right here, where it was provided.

### 2. New York is still The Place To Be

Even though the economic slowdown has had an impact world-wide, New York continues to be the number one destination for travelers - indeed, in spite of the bleakness of the last quarter, 2008 was New York's biggest year ever for tourism. While we should anticipate a reduction in the level of expenditures this year over last, New York retains its cachet, with its incredible diversity in the arts, with museums and theater; history, with its signature buildings and settings; shopping; and dining. As well, New York remains one of the most readily accessible locations for foreign travelers. The combination, especially in light of the degradation of other economic opportunities world-wide, continues to reinforce New York's standing as destination of choice, both for tourists as well as investors.

In addition, regardless of the stagnation in job growth, New York maintains its status as a mecca for young people, with its manifold opportunities for employment in so many fields, and its vibrant neighborhoods, both those well-established and recently rejuvenated.

### 3. Housing is not dead!

Unlike other over-built markets, for many of the above reasons, New York's real estate market will continue to be viable. Yes, there is product out there waiting to be absorbed. Yes, certain locations in "pioneering" sections of the outer boroughs may not be able to perform, or even survive. But year-end values in New York were only down 11% over where they were at the end of 2007, compared to over 30% in markets like Miami and Las Vegas, and even worse in many locations in California. The stabilization of the financial sector, coupled with the continued influx of foreign capital and young workers, will continue to drive demand for housing, whether it is rental or condominium, in New York. There are still cranes on the skyline of Miami, completing buildings for which there is no demand, and no foreseeable future. Be glad you are here!

### 4. Things are changing

Even though credit remains tight, and both foreclosures and the attendant stress on the financial community remain high, banks are actually starting to behave like banks. Strong regional players with little exposure to the sub-prime mortgage sinkhole are actively working to place funds in appropriate settings. This is forcing the bigger players to get back in the game, or play catch up. The result is ever-increasing activity on the lending side.

### 5. Now is the time

Prices have tumbled, and may further still. The temptation is still to hold the line on costs. But the Fed has reduced bank rates to near zero - there may never be a better time to lock in credit. For those worthy, opportunities abound. And with the absence of activity in other sectors, construction costs equally are at a low point. If there ever was a time to invest in your building program, now is that time. Programs can be phased if necessary, but accessing the low cost of funds now is the most prudent choice managers and boards can make.

Yes, there are many longer-term issues that remain to be addressed. Among others will be how to handle the long-term national debt that all of the government-provided intervention has generated. But that will be a national problem. We have all reaped the benefits of the years of plenty. For now, we in New York may be the most fortunate in these years of dearth.

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