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Real Estate Opportunities

I do not remember entering a holiday season where the mood in the real estate community is so glum. Everyday we are reminded just how bad things are; we hear about the record number of home foreclosures across the country, the fact that many well know retailers may simply cease to exist after the holidays, that commercial mortgage defaults are on the rise, hotel occupancies and room rates are falling; all of this bad news is enough to put one on the edge of despair.

As one professional who has been through multiple economic downturns over the past 30 years, one thing I can say with certainty is that this downturn will indeed end; when it will end it not quite clear nor is it certain the speed at which the economy will recover. Many economists believe that we may well be more that half way through this downturn based on the history of past recessions and others are forecasting that we may be in the steepest downturn since World War II; make no mistake about it, 2009 will prove to be a challenging year where we will see a continued loss of jobs across the country, rising unemployment, tight credit, more mortgage defaults and bankruptcies. But looking beyond 2009 and once we are clearly on the path to recovery, where will the investment opportunities lie in real estate?

To answer this question, we simply need to look at those factors influencing the underlying demand for real estate; i.e. population and household growth, income, and employment growth.

Just looking at employment today as one example, and in the midst of one of the most serious downturns in recent history, there are two sectors of the economy that continue to grow while almost all others are declining, and those would include the education and the health care industries. Institutions of higher learning are expanding across the country, creating demand for both commercial space and new housing. Indeed, the economic downturn has adversely impacted the endowments of many of these institutions and, along the way, have the slowed some of the ambitious expansion plans, but the long term growth potential for education is very good. We are currently advising on a major inner urban development initiative that is being spearheaded by a public-private partnership to create a new education campus in a major United States city that will create demand for market rate housing and office space.

Likewise, the health care industry is undergoing significant change, much of which is related to the ultimate goal of reducing patient health care costs. More and more surgical procedures are taking place outside the hospital in facilities situated on or near the hospital campus. This trend, in conjunction with the aging of the population, will create investment and development opportunities related to the development of medical office and administrative facilities for the health care industry across the country.

Finally, the long term outlook for rental housing is quite favorable. Due to more stringent mortgage underwriting criteria, many households will no longer qualify for ownership housing in the future. Furthermore, for those households who could potentially qualify for ownership housing and are entering the market for the first time, they will need to stay in rental housing for a longer period of time in order to save for the higher down payment required by mortgage lenders; all of these factors enhance the future demand for rental housing.

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