

“Is Your Future in the Past?”

By

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The cyclical nature of real estate has never been so evident as in the meteoric rise in home values starting in 2002 to the peaks of early 2006, followed by a dizzying descent from the stratosphere to mother earth. Witnessing these ups and downs would have been comparable to the ‘X’ ride offered by Six Flags Magic Mountain. To quote a review of the ‘X’ at www.ultimaterollercoaster.com, “X is far different compared to the traditional roller coaster. For the first time ever riders are seated in prototype vehicles that spin independently 360-degrees forwards and backwards on a separate axis. The added spinning effect creates an unprecedented and never before ‘don’t know what to expect next’ sensation.” “Don’t know what to expect” – doesn’t that give you a fuzzy feeling describing most real estate salesperson’s predicament today? The downturn in real estate was expected. What may not have been forecast accurately would have been the start of the decline and the rate of drop in property values. Many Realtors would have prepared themselves for the downturn; however, many more may have elected to ‘play it by the ear’ or ‘take it as it comes.’

When Realtors discuss the real estate market we generally refer to residential real estate. This is because in most States, educational and licensing requirements for obtaining a real estate license cover areas that mainly pertain to residential real estate. Commercial real estate on the other hand has, and is perceived as a specialized field requiring different skill levels. New real estate licensees are expected to cut their teeth doing residential transactions. Gradually, as they gain experience their business starts to grow. In a stable or growing economic environment, demand for residential housing creates numerous opportunities for Realtors. The situation takes a dramatic turn when the economic growth shrinks or the market goes into a tailspin. If the supply of housing begins to exceed demand and this disparity grows rapidly, you now have a situation wherein the residential transactions per Realtor reduce markedly. Individuals whose primary source of income is from residential real estate take a hit and in many cases have to look at alternative sources of income: at times this translates to Realtors becoming inactive.

The demand for commercial real estate on the other hand, does not fluctuate in consonance with the demand for residential real estate. Residential real estate demand is primarily driven by individuals who seek homeownership for their personal needs and secondarily by investors who seek an income stream by renting out the units. The commercial real estate arena is not a single entity but can be broadly subdivided into retail, office and industrial units. The demand for these properties depends on a number of factors including, economic environment, local market conditions, availability of commercial properties, absorption rates, investment motivators that include tax laws benefitting investments and land use laws. The stability of commercial real estate, to put it

simplistically, would appear to a REALTOR® in the form of a vacancy factor in the local market and the leasing rates; to an investor, a commercial property would be valued for the amount of cash flow that it generates.

Residential and commercial real estate have different cycles. The ability to understand these cycles and prepare for them in advance would determine how successful one could be in the real estate market. Residential REALTORS® could add on commercial real estate to the services they provide and thus protect themselves from the residential market fluctuations. However, this is easier said than done. Brokerages would necessarily have to provide the same level of support for commercial as they do for residential real estate. This would not only include a structured commercial training program, but also have an effective risk management program. A designated Broker proficient in both commercial and residential real estate would be ideal; whether you could obtain one easily is questionable.

The aim of this article is not to propagate that one form of real estate is better than the other. It only suggests that a REALTOR® could insulate himself from market conditions by really providing a one-stop service. The future is uncertain. This uncertainty could be reduced by not living in the past but preparing for the future.