

BUSINESS

S.A. real estate is hot seller

Expert doesn't see overbuilding here, calls Texas' economy one of the strongest in the nation.

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Doomsayers who prophesy a real estate market downturn aren't talking about Texas.

"All this negative news is not happening in Texas," said Mark Dotzour, chief economist at the Real Estate Center at Texas A&M University.

The Texas economy is among the nation's strongest, and San Antonio and Austin have two of the hottest real estate markets, said Dotzour, who was in the Alamo City on Wednesday for a meeting with the Real Estate Council of San Antonio.

"Our job growth is double the national average, and our population growth is unbelievable," Dotzour said, referring to Texas overall.

Texas gets about 400,000 new residents every year, he said.

Of San Antonio, Dotzour said: "The taxes are low, and it's one of the best places in America for corporations to relocate."

"Our houses are affordable, and we're not overbuilding."

He warned that Dallas and Houston could be getting close to overbuilding in commercial real estate, which would cause prices to start dropping.

"I don't see that happening in San Antonio," he said.



DOTZOUR

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Commercial property values are increasing rapidly, especially in Central and South Texas, Dotzour said. He used Austin's Frost Bank Tower as an example. Equity Office Properties Trust bought the downtown office tower last year for \$188 million, setting a Texas real estate transaction record at \$354 per square foot. Blackstone Real Estate Advisors bought Equity last year for \$39.2 billion.

Now Blackstone is selling the tower to Los Angeles-based Thomas Properties Group Inc., along with nine other office buildings, for \$1.15 billion.

"And they think that's a great deal," Dotzour said.

The economist's remarks contradicted a report released Wednesday from Moody's, which ranked San Antonio among the worst markets for commercial real estate, based on limited data. Moody's is an investor services company that provides credit ratings, research and risk analysis.

New York-based Moody's tracks commercial real estate markets based on data from seven property types but only captures numbers for three in San Antonio: multi-family, full-service hotels and limited-service hotels. Missing are data for retail, downtown office, suburban office and industrial

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property types.

The report concluded that developers overbuilt apartments and hotels in response to a population increase from Hurricane Katrina evacuees and that now there's a supply of apartments and hotels that is too high, making it a risky market for lenders.

"In certain circles, those reports are very relied upon. They're very valid, and they can give a good indication of the strengths and weaknesses of certain markets," said Kim Gatley, research director for REOC Partners Ltd., who tracks the retail, office and industrial markets in San Antonio.

"It seems that the Moody's report always shorts the San Antonio market, and it's because they don't weigh in on all the data."

The Moody's report doesn't give an accurate picture of the local commercial real estate market, she said.

"All indications are that we're going to have another strong year in San Antonio," she said.

Commercial real estate seems to be just one segment of an overall hot real estate market in the area. Dotzour noted that San Antonio and Austin also have

two of the strongest housing markets.

San Antonio has 4.8 months of existing home inventory. A 6.5-month inventory is considered healthy, and anything less is considered a high-demand market.

"You'd think builders would be stampeding, but they're not," Dotzour said.

He thinks large-volume home builders have slowed down in reaction to lowered demand in other parts of the country but aren't making exceptions for Texas, where demand is high and supply is low.

That more builders aren't building new homes in San Antonio and Austin "defies economic logic," he said.

Dotzour warned real estate professionals to watch the mortgage industry for signs of economic trouble.

"They've made serious mistakes by lending to people they shouldn't have, and that's coming to roost now," he said.

Dotzour also will speak about the Texas real estate economy today at the Annual Outlook for Texas Land Markets conference at the Hyatt Regency San Antonio hotel.

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