REPRINTED FROM THE
TUESDAY, JANUARY 10, 2006
NEW YORK
Real Estate Journal
COVERING ALL OF LONG ISLAND, NEW YORK CITY AND UPSTATE NEW YORK

Although we should have more stability this year, buyer beware

Vipin Thakral

T&T Commercial Capital, LLC

How often are our forecasts or projections different than actuality? In the sports arena even the so called "experts" are often wrong. Many believed the New York Jets would be in the Superbowl this year. I don't know one person that gave the Boston Red Sox a fighting chance when they were down 3 games to 0 in the 2004 playoffs or the Houston Astros a chance when they had 15 wins and 30 losses in late May 2005. Who could have forecast that the Atlanta Braves would win their division 14 years in a row?

My background and credentials could probably afford me the title of financial expert, but I do not have a problem admitting I have been wrong on many occasions because several factors that are out of my control affect the economic climate year to year. Also, I am in the real estate mortgage and investment business and I will always try to point out the positives of investing in this sector just as the New York Times often places a positive spin on liberal views while the Wall Street Journal often places a positive spin on conservative views.

Before I go out on the limb and provide a forecast, I often like comparing key financial statistics to January 1, 2000, the first day of the millennium because this method often "opens your eyes."

Stock Market

On January 3, 2000, the Dow Jones Industrial Average Index (DOW) was 11,357.51 as compared to 10,717.50 on December 31, 2005 and the NASDAQ Composite Index was 4,131.15 on January 1, 2000 as compared to 2,205.32 on December 31, 2005. The days of exponential growth via the stock market are over and we should see a moderate 5% growth in the DOW throughout 2006 thereby finishing slightly above the 11,000 barrier. The NASDAQ should probably fare a little bit better. We may never see the likes of the internet revolution of the late '90s and early 2000s, but the ever-changing face of technology should provide an added push to the technology laden NASDAQ in 2006.

Residential Real Estate

Thirty year, fixed rate residential mortgages (average of jumbo and non-jumbo) in January of 2000 were approximately 8.25% as compared to 6.25% on December 31, 2005.

Throughout 2005, there was a significant concern regarding 2 and 3 year adjustable rate mortgages (ARMs). The concern stemmed from the higher adjustable interest rate (re-pricing) that would be in place after the 2 or 3 year fixed interest rate period ended. This adjustable feature would result in a mortgage payment that the borrower may not be able to afford and coupled with rising fixed rates, refinancing would not be a viable option. However, as 2006 commences, the 30 year fixed rate mortgage is at an affordable 6.25% and with a flat or inverted treasury yield curve (short term yields are equal to or higher than long term yields), should remain at the level if not lower in 2006. This will provide individuals in the hunt for a 30 year fixed rate product, the chance to lock in at a relatively reasonable rate. Therefore, our borrowers with ARM products need not worry assuming the value of their home has not substantially declined and they have not added a significant amount of credit card type debt.

According to the Long Island Board of Realtors, the median price of a house in the Long Island/Queens area was in the low 200s in early 2000 and in the mid/high 400s by the end of 2005. The increase in average prices is even steeper. Look for a slightly moderate pull-back (if any) in price and sales nationally in 2006 fueled by a more conservative approach by buyers/borrowers. Moderate declines from 2005 record levels will still assure that real estate is a large asset on consumer balance sheets in 2006.

Commercial Real Estate

The prime rate on January 1, 2000 was 8.50 % and with almost 30 increases/decreases, it ended at 7.25% as of December 31, 2005. Though there was a significant decline since 2000, the overall increase throughout 2005 had the average commercial real estate investors shaking their heads. Look for the prime rate to stabilize in 2006.

Buyers can still find lucrative commercial real estate investment with favorable cap rates and positive cash flows with 15% to 20% down. There continues to be a demand for commercial rental space and housing which is strengthened by the growing influx of immigrants into this country. However, you may need to spend a little more time with due diligence efforts and/or broaden your horizons to different geographic locations. In addition, take advantage of lowering the interest rate by structuring deals via a balloon payment option.

We should have a little more stability this year but as always, buyer beware.

Vipin Thakral, MBA, CPA, is chief operating officer of T&T Commercial Capital, LLC, Queens Village, N.Y.

Tel: 781-878-4540 / Fax: 781-871-1853 / 800-654-4993 / nerej@rejournal.com / www.rejournal.com