Sage Group
A National Appraisal Network

TEXAS REAL ESTATE UPDATE

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"From some strange reason, bragging about a mortgage rate takes on such status as how far one can hit a baseball or how big the fish was" - David Reed, CD Reed

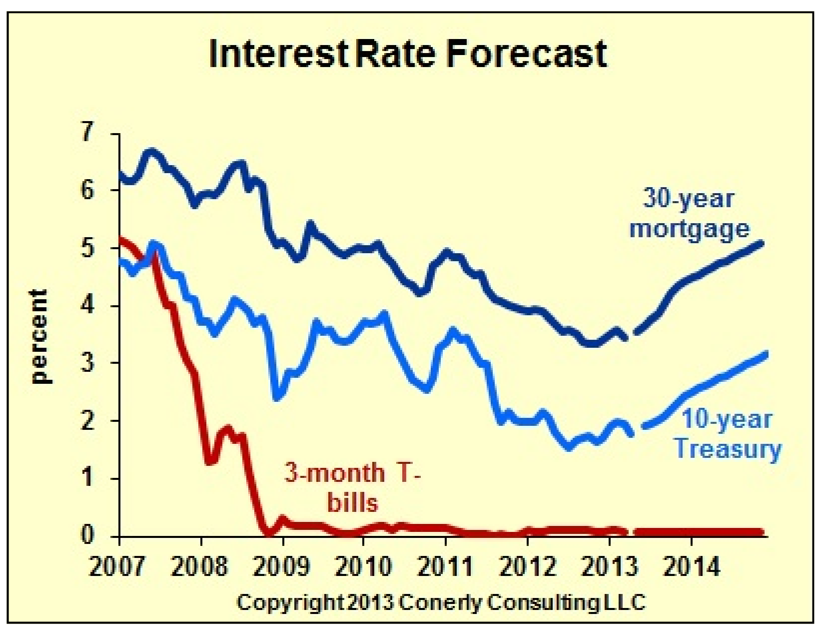
Too Much of a Good Thing May Be a Bad Thing

When taking a drink of water, lighting a match, or flying a kite, most people do not stop and think a substance or action that can be very beneficial to an individual or society can also cause significant destruction. While water is the staff of life, it also causes billions of dollars in flooding and other drainage disasters on a yearly basis. Fire is a major force when controlled, but also causes incredible disasters. One can conclude the overabundance or improper usage of a good thing can clearly present negative forces if improperly applied or applied in an excessive amount.

While interest rate levels are clearly a man-made phenomena and not subject to nature, they are affected by the concepts of overabundance and distortion. Low interest rates have become a part of our economy; however this artificially low term structure has afforded many households the ability to purchase or refinance a home on beneficial terms. In effect, like a hurricane promotes its own weather system, a sustained lower term structure of interest rates has promoted its own economic system. But this economic environment, in addition to fostering additional growth, enjoyment, consumption and investment, has created its own system, and lacks policies with a safety net. Parties involved in the capital markets are not prepared for a shift (increase) in rates.

Too often, like a calm before the storm, individuals or corporations become comfortable with an economic scenario that is known to be unsustainable over the medium or longer terms. In present periods, corporations have utilized low interest rates to incur substantial debt, including stock buybacks and many households have followed a similar pattern with their real estate or credit card obligations. While this might be good for individual corporations or households, it is probably not beneficial for the overall fiber of our society, namely the fallacy of composition - the false assumption that what is true for a part will also be true for the whole.

As interest rates have maintained their historically low levels, of course created by artificial means, few are prepared for the storm after the calm. Many are projecting that the storm will either never come or come at such a reduced level it is not worth undertaking programs to soften the blow. The multiplier effect of the storm, namely the consequential effects, have not been fully explored or stated in our national economic press. True, a future storm could be considered a weak one if it only effected a small part or segment of our economic system. However, rising rates will not occur in a vacuum. Rising rates in one sector will clearly have a pronounced effect on other sectors and all coming together at roughly the same time.



Next Month

Market performance through year-to-date 2013 will be reviewed in the major metro markets. Dr. Kenneth Eugene Lehrer will also provide a snapshot view of the market.

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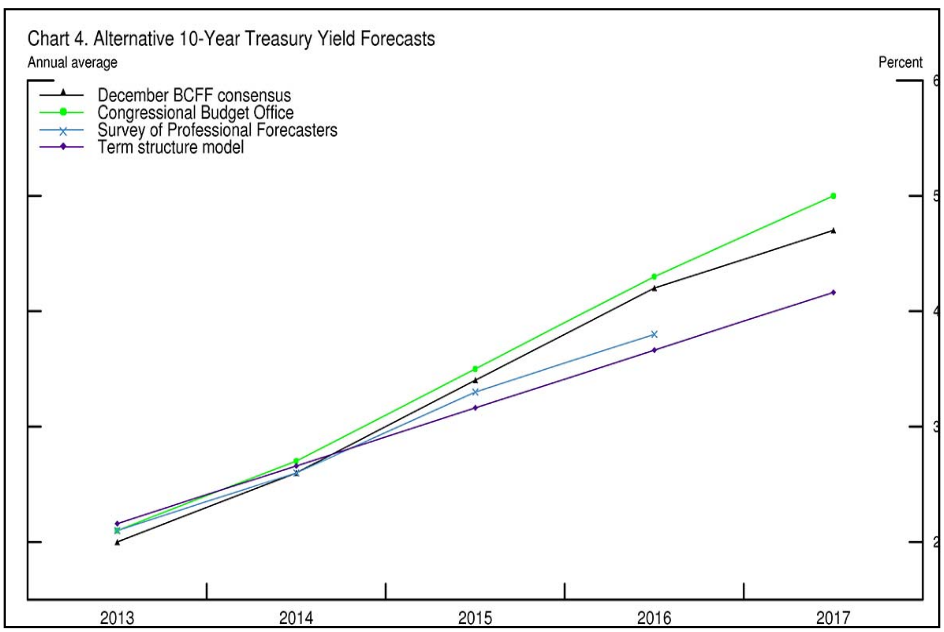
Too Much of a Good Thing?

Rising rates might have an initial effect upon reducing home sales, corporate capital investments and refinancing of capital assets. These actions when accompanied by sustained cuts in all levels of government spending and potentially increased operational fees (or taxes) will only serve to make adverse affects more concentrated, focused and intense. Increasing interest rates usually leads to acquisition cutbacks that often promote increased "blue collar" unemployment and decreased consumer consumption, which can further decrease employment levels and subsequent lower consumption. While this cycle in prior times has been broken by lowering interest rates and / or increased government expenditures, these two (2) options would not be available in a near term cycle.

While increased rates will afford debt instrument holders increased rates of return, holding those instruments in a rising rate environment could result in capital loss, in addition to lost opportunity costs.

Since the day of increasing interest rates is only a matter of weeks or months not years or decades ahead, a productive investor needs to remain flexible, liquid and creative in order to capitalize on future investment opportunities. The inability to restructure a corporate or investment portfolio of stocks, bonds, real estate and even commodities could become not only a mistake, but also an error that effects rates of return beyond the next economic cycle.

The next economic cycle will surely be different than most, if not all, cycles from times past. A changing interest rate environment will require those investing in the next economic cycle to not only think "outside of the box" but also to create new boxes to maintain healthy returns. They will be encouraged to take risk and reward by seeking investments that will further reinforce a more solid structure of interest rates that would also allow for and foster long-term growth. Such might be the answer for investment into different levels of efficiency that could once again allow our nation to become self sustaining – as opposed to a somewhat flat level of interest rate rewards and a rather flat economy.



— About Sage Group —

We are a group of appraisal professionals working together to provide a single source of information and analysis for commercial real estate professionals across the country. Our team is managed by John Fisher, CCRA, LEED AP, W. F. "Buddy" Trotter, Jr., MAI, Michael L. Miller, MAI, Andre Suissa, MAI, Greg Zachary, Senior Appraiser and H. E. "Skip" Preble MAI, CCIM. Dr. Kenneth Eugene Lehrer recently joined the group and manages financial services practices. For more information about us or to sign up to receive our newsletter, contact Michael L. Miller, MAI at 713.358.8450 or mmiller@sageappraisalnetwork.com.