

# **CAPTAIN REAL ESTATE GROUP**

## **Guam Market Update Report**

The calm before the storm may best describe Guam's current real estate market, but the calm has already started to quiver. The overall market reflected strong gains during the second quarter of 2009 and expectations remain high that significant growth will occur over the next 12 to 24 months. However, certain sectors remain weak. Like Arnold Schwarzenegger's California budget, Guam's second quarter real estate market statistics included The Good, The Bad and The Ugly.

The good news confirms that the worst is over and overall sales during the second quarter increased a remarkable 55 percent to \$56.1 million. In addition, the median price of a single family dwelling (SFD) rebounded 25 percent to \$199,500, the strongest quarterly gain on record, but still 16 percent below the \$238,000 median price high set in the third quarter of 2008. The SFD median price was nearly flat compared to the same period in 2008 and 2007 and the stabilization is a positive sign considering the dramatic increases since 2003. The single family dwelling sector reflected 158 sales in the second quarter, up 40 percent from the five year low of 115 sales in the first quarter. However, the 158 sales are relatively weak compared to the 210 average units sold during the same period in 2006 to 2008. The more volatile condominium sector reflected 38 sales, up 52 percent, and a \$131,000 median price, down slightly from first quarter statistics.

The good news in Guam's real estate market also includes the return of high-end housing sales, which shrank to a nano-market during the first quarter. Clearly the fear and uncertainty caused by global economic and credit market fallout is on the decline as 21 houses sold at prices above \$350,000 and 5 houses sold at prices above \$500,000 during the second quarter. The second quarter also reflected four condominium transactions at prices above \$325,000 which is good news for sellers. But with the commencement of the U.S. military's largest construction project since World War II now less than one year away, why would anyone want to sell? Guam's first experience with \$1 billion per year in construction alone is already fixed for FY2010. We expect further increases in median prices for housing because an increasing number of sales will reflect new and higher priced product.

The bad news for Guam's real estate market is that activity, although increasing, remains weak. Our downward revised expectations (again) for overall 2009 sales volume reflects \$225 million, down 42 percent from 2008 (which was down by 55 percent from 2007). Strong growth from the first quarter was expected because that period was weaker than the height of our local "depression" during 2002 and 2003. The bad news also includes generally weaker overall economic conditions with significant job losses reflected in the tourism sector.

The ugly news for Guam's real estate market involves a lack of foreign investment. Historically, Guam's market has significantly increased only when foreign investment is flowing into real estate acquisitions and development. Korean investment has shifted from acquisition into construction which is positive, but we need foreign capital injections to push real estate to the next level. The lack of foreign investment creates what may be the last good buying opportunity for many years. We expect strong market conditions to coincide with massive military construction projects between 2010 and 2015. The next 12 months may involve the last great Guam real estate investment opportunity during our lifetimes.

During the first half of 2009, especially considering the temporarily disrupted market conditions, there were a remarkable number of notable transactions. The first quarter, for the first time on record, reflected zero transactions priced above \$1.0 million. The highest priced deal of the quarter closed in March, when Manu Melwani sold the leased fee interest in a former Royal Palm Tumon land site to Becco Guam, Inc. at a recorded price of \$950,000, slightly less than the reported March 2008 price of \$1.0 million. Also, a high end Tamuning house sold at \$850,000 and another house sold at \$550,000 during the first quarter. After that, all sales reflected prices below \$500,000. Now that's quiet.

During the second quarter, the market recovery was evident as the increase in notable sales included 10 transactions closed at prices above \$500,000. These sales included a \$3.1 million industrial property acquired by Jerry Kramer's Pacific International Inc. In May 2009, Triple J Enterprises sold the MKI Air Conditioning commercial property in Tamuning (behind McDonald's) to Victorino and Conchita Reyes at a recorded price of \$925,000. Five houses priced above \$500,000 sold during the second quarter and a five acre land parcel in Yigo sold at \$30 per square meter, approximately the same price it sold at in November 2007. The highlight of the quarter involved the sale of a Talo Verde cliff line land sale from Pacific Rainbow to Mr. Marchal at a recorded price of \$800,000 or \$521 per square meter. Lastly notable, a Tumon land sale reflected \$236 per square meter, down by nearly 15% from its prior 2007 sale.

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