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CRE economic outlook from New Orleans national meeting

December 09, 2009 - Appraisal & Consulting

The Counselors of Real Estate held its national meetings at Hotel Monteleone in New Orleans from Oct. 11th-14th. Approximately 144 CREs attended.

On Tuesday, Oct. 23rd, CRE held its Economic Update. Hugh Kelly, CRE and real estate professor at NYU and Michel Bouchard, principal of Altus Helyar Real Estate Services, Quebec, Canada gave their impressions of where they thought the economy was headed in 2010. Here is a summary of the presentation:

Kelly believed that there had to be an understanding of change and risk to understand the future of the economy. He stated five items that were a part of change:

1. Cyclical change
2. Trend driven change
3. Motivation change
4. Change of state: "cost of risk" is now priced by excess scarcity and,
5. Disruption

Change

The U.S. always tends to over-correct a bad situation and in doing so, creates a swifter and easier way to revert to the norm. We have again over-corrected in this cycle.

The personal savings rate has been growing twice the level of the average. The U.S. has averaged 5.5% increase in the M2 supply since 1988. Institutional money has grown in risk-free accounts from August, '06 (\$1200 billion) to August,'09 (\$2500 billion). The safest loans are giving bottom of the down market rather than at the top. On the topic of inflation and interest rates, Kelly believes that the federal rates are so low (about 3.5%) that including inflation at 3%, the federal government is again paying borrowers to borrow money. Can this recuperation be complete in a non-inflation way? Kelly stated that no one knows. If money can be returned to the U.S. government then it will help to tame inflation or if the money supply doesn't overwhelm the market. There was a discussion that serious inflation could be 1-2 years away. Houses are being sold at \$75 per s/f with a free land lot which is below replacement cost. In 2 years, housing will be back to \$150 per s/f and that is called inflation.

Banks

Community banks comprise 85% of all banks. What is the business model for these banks and are they writing down loans? This is more complicated to accomplish and more than 1000 banks will fail.

Bouchard then stated that the losses in real estate value are about 10-15%, more disciplined and only affect 7-8 national banks. Canada is not going to the IFRS accounting standards and he feels that this will be a nightmare but there is a need to reveal loans at market value. The best assets are owned by pension funds. Bouchard thinks real estate values will come back but the process will be painful along the way. Inflation is coming but is good for real estate. However, interest rates will increase and that is not good.

Tentative 2009

Calendar of Events:

*December 16, 2009: Algonquin Club, Holiday Evening Reception, Boston

*January, 2010: Harold Brown, Chairman, The Hamilton Co. "Back to the Future"

2009 Chapter Officers

*Robert Nahigian, Auburndale Realty Co., chapter chair

*Emmet Logue, NAI Hunneman, vice-president

*Robert Costello, Capital Crossing Bank, secretary/treasurer

*William Norton, Norton Asset Management, membership chair.

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