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CELEBRATING 55 YEARS

President's message: Some silver lining in our cloud

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I want to begin by wishing everyone a very Happy Holiday Season and a Prosperous New Year... and by prosperous I mean, full of business and deal making.

The stats are in for the third quarter of this year and they are slightly encouraging. GDP, after four quarters of decline, finally turned up. Stock markets are better and the industrial and manufacturing production is heading up. That's the good news...

... The bad news is that the commercial real estate market is still floundering, demand is down and the banks are still tight. At the root if most of this is the employment picture.

How are these factors impacting our commercial real estate situation? In brief, the next few quarters will be difficult as we try to stabilize, but I believe that they will show slight improvement. As usual it will affect different aspects of our markets in different ways. Office properties will continue to have high vacancies; rents for industrial space will continue to drop; demand for apartments is projected to rise in 2010. For the fourth quarter 2009, net absorption is expected to decline for office and industrial space. Retail space will suffer more negative net absorption. Combined with the decline in demand, available space is growing across all property types. Vacancy rates for the fourth quarter are expected to increase for office, industrial, retail and multi-family. In order to get and keep tenants, landlords are reducing rents.

On the transaction side, sales activity has been positive, but still slow, and the tightness of credit isn't helping. The banking industry is still engaged in the deleveraging process. During the third quarter of 2009, loan balances at commercial banks declined 2.8% from the previous quarter, the largest percentage drop in 25 years.

Sorry, there seems to be more bad news then good, "BUT"... and there is always a "BUT," our corner of the country has had the highest increases in sales and leasing of anywhere in the country.

Also, in another great sign for commercial real estate, the commercial mortgage backed securities (CMBS) market began to bounce back around midyear due to the government's TALF program, with over $1.2 billion issued during the third quarter. The Federal Reserve also extended funding for the TALF program into 2010 for both new and legacy CMBS issues. In addition, the Fed also issued a policy statement in support of commercial real estate loan modifications.

Additionally, recoveries in global economies and rising international cash reserves are prompting investors to start looking for deals. So, there may be some silver lining in our cloud.

Commercial real estate is facing a moving target where maturing debt, loan modifications, lower prices and private investment seem to be fighting for a foothold. We all know that in order to get back to market stabilization and sustained recovery the key issues are employment and credit availability. Ergo, a positive shift in employment and financing activity are both needed to place commercial real estate on solid ground.

With all that being said, one of the most positive things that you can do for your business is to

enhance yourself and your company. CCIM is the foremost authority on commercial real estate education. Join us and enhance yourself and your business, by becoming one of the most recognizable commercial practitioners in your area.
Call us today for more information.

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