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Are we in recovery from the Great Recession yet?

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All of us are all too familiar with the Great Recession and what that looks like - job loss, falling real estate prices, increasing vacancy, declining retail sales, and the like. But would we recognize a recovery? The seeds of the recession were planted well before any symptoms surfaced, and even the seeds were unrecognizable as portents of a crisis in the making at the time of planting. In fact, they seemed like a great idea when first devised. Take for example, mortgage backed securities recognized as one of the major contributors to the recession.

When first offered, mortgage backed securities were a hot item with investors clamoring for the opportunity to purchase these products. The reasoning was that because so few mortgages defaulted, these investments were fool-proof guarantees of return. The demand became so great, funds so available for mortgages, and so much profit to be made that caution was thrown to the wind. Properties appreciated at totally unsustainable rates and mortgages were given to very risky buyers who did not have the ability to repay the loan. Like the vast majority of man-made crises, the problem is not one specific event but the accumulation of many insignificant occurrences. As the saying goes, it was death by a thousand paper cuts.

The seeds of a recovery are also planted well before symptoms become obvious, and these seeds are also not always recognized as such. When a business financial crisis hits such as the loss of a major client or the reduction in demand for a service, the business must take steps to cope with the crisis or go out of business. These steps may involve cutting staff, decreasing benefits, renegotiating rent, increasing marketing efforts and reducing non-essential expenses. No matter what steps are taken, some pain is inflicted but necessary to endure in order to survive. Now take this situation to a national and global level and it describes the economic realities of the last two years.

The good news is that the symptoms of a recovery are beginning to become obvious. The stock market is slowly edging upward signaling investors' willingness to once again buy equities on a meaningful scale. The private sector, after many quarters of jobs loss, has begun to add more jobs. The December 2010 jobs report indicated 297,000 jobs were created, adding more than two times the number of jobs economists anticipated. One of the most encouraging signs is the resumption of real estate development. I was thrilled to see an actual building under construction in downtown Portland (a new hotel on the former Jordan Meats site) and multi-family new construction underway in South Portland.

The recession did not happen overnight nor will the recovery. A full recovery is not anticipated until sometime in 2013 when the number of jobs lost during the Great Recession is regained. In any event, we are definitely moving in the right direction. The sobering news for the real estate profession is that real estate values will not start to increase until personal income from employment increases, and that may take some time.

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