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## **The improving economy does not necessarily translate to an increase in real estate demand**

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It appears that with the economy is on the mend. Year over year, the Dow Jones has increased about 60% since last March. Housing sales, although choppy, have been generally improving. Companies are beginning to spend some savings in growth areas. Retail sales are modestly up from last year. And unemployment has appeared to have plateaued and come down from a 10% high. Some people still fear a double dip recession, although there is more evidence to the contrary, and confidence is increasing.

That said, does it mean that this potential economic improvement will lead to greater use of buildings and ultimately new construction? I don't hold out as much hope. During the downturn, homeowners, companies, retailers and lenders learned how to tighten their belt and improve efficiency. I do not think that they will change back very soon to larger houses, more office space, bigger malls or whatever other manifestation existed prior to belt tightening.

Consider retail: According to Retail Matrix Inc., overall sales improved year over year in January 2010 by 3.3% and 4% in February. While sales are still down overall, typically 20%, it's a start. Yet, foreclosures in retail centers are increasing and values are going down. One major problem is that there will be less spending at all levels, due to consumer to belt tightening and loss of equity lines on their homes. There is also an additional threat of internet purchases, reducing the need for new space. On-line sales grew by 15% since 2008, as store sales shrank. Anyone who has shopped on-line knows this intuitively. You can see more, buy more cheaply, read reviews, compare and save and make a decision all in the time it would have taken you to get in your car and drive to the mall. I believe that with a sea of change towards internet purchasing, and a reduction in overall consumption, existing retail vacancy will take many years to absorb.

Consider office next: There was a recent news article on a company called Work Bar Boston. The developer was creating flexible space for flexible entrepreneurs. The mantra was that young entrepreneurs did not need to be in offices much anymore and did not need to commit to long leases and large spaces. For a few hundred dollars per month, one could use common areas and equipment and temporarily park at a desk.

In another article, a large 1,200 employee New York advertising company moved, downsized, and eliminated most private offices. Where the employees used to have private space, there was now one huge, but smaller open space. Not only had the company reduced space, they believed they had created an environment for more communication and creativity. The change was not without its trauma, however, and psychologists were brought in for "space therapy sessions" to help employees with their "intrusion and exposure anxiety". More anecdotally, in discussing a relatively slow office market with brokers, I learned that those deals that are actually happening are typically for companies downsizing.

The "office-less" story I like best is about my newly graduated son who was managing a bus tour business in Europe for college students taking a semester abroad. He was based in Florence, Italy, and I asked him where his office was located. He said there was no office, that the Swiss based company set up several of them up in an apartment. He did all of the marketing to universities and students themselves over Facebook; all of the organization of the buses and trains were coordinated through E-mail to Switzerland; all of the tour guides, interpreters, art historians, etc. were contacted from his laptop. I asked him whether this whole system was very chaotic, to which he replied that there were only a few mishaps. They shepherded over a 1,000 students during one semester through much of Europe, and only one kid missed the bus after a long weekend carousing at Oktoberfest.

Reduced space needs may not happen overnight, but they will happen. The paradigm shifts are too obvious to be ignored. Don't you be the one to miss the bus.

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