nerej CELEBRATING 55 YEARS

Over stimulated? Beware the "dead cat" bounce

September 10, 2010 - Appraisal & Consulting

A "dead cat" bounce is a Wall St. term that refers to a brief, usually unfounded, recovery in the stock market. The term derived from the idea that "even a dead cat will bounce if it falls from a great height." A similar term is "a sucker's rally' whereby investors are lured into the market because there's some relatively brief good news. I fear we may have had some of this activity in the last 12 months in real estate, and many indicators are now pointing downward again. Few are talking about a double dip recession, but investors in real estate may look back on this as being a little early to have pushed their money out the door.

There are certainly pockets of very good news in some real estate in various parts of the country. Much of this has been well published over the last six months, and we have seen a mild mini boom in a few housing and commercial real estate markets.

A few of the reasons for this improvement have included:
1. Money on the sidelines looking for a yield better than 10-year T-bills.
2. A continuation of interest free rates at historically low levels.
3. Some enthusiasm for improving corporate balance sheets.
4. Housing price stabilization and increase in sales.
5. Modestly improving stock market.

Recently, however, some of these trends have begun to reverse, primarily because there is no job growth, which is fundamental to economics stability, and people realize that much of the "bounce" has been brought on by government stimulus.

Besides the fact that unemployment is at the same level as essentially it was at the worst of the recession, there are other indicators that, after the bounce, have not significantly improved. The Dow Jones Index is essentially back to where it was a year ago. Retail sales are predominantly down after brief increases. Car sales are down as the "cash for clunkers" program essentially advanced sales during the program, leaving a vacuum at the end. Home ownership rate has fallen during the second quarter to a new lower level; and most recently July showed a 27% drop in residential sales over July last year, due to the end of the housing tax credit. Unfortunately, it is very clear that various government stimulus efforts, whether you agree with the policy of not, had some short-term benefits but have proved to be unsustainable. At some point, the "real" economy has its day of reckoning.

If we bow to our cynical side, we would have to say that some of the government stimulus is politically oriented, whether to impress local constituencies, pander to lobbyists, or prepare for re-elections. This is not new, and no one is above it. However, in a recession, the aftershock of such generosity may seem more pronounced when the funds dry up.

No one wants to be the bearer of, or at the epicenter of, bad news. As a result, politicians, corporate heads, economists, are starting to push for the lengthening of stimulus. Unemployment benefits have been increased from months to month. The Fed is using various tactics to keep interest rates down. There is even talk about re-instating the housing credit. This can only work for so long, as we "kick the proverbial can down the road." More people are becoming aware of this, and money which was chasing yield is once again moving to sidelines. That said, I have been surprised that some of the success of various auctions and sales of debt. Some of the success is regional, and there are pockets such as Boston where prices are fairly high. Despite this, some may look back on this time and wish they had waited a little longer to jump into the game.

Daniel Calano, CRE, is the managing partner and principal of Prospctus, LLC, Cambridge, Mass.