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## **The 2011 crystal ball says... Be optimistic, but don't bet the ranch, yet**

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I have been asked to opine on what's to come in 2011 in the real estate world, and with much uncertainty and humility, I'll try. The honest truth is that nobody really knows, because outcomes are dependent on growth in our economy and employment, which is still fragile. After all, real estate is simply shelter for people and businesses. Without that demand, there is neither the ability to use what we have nor the need to build more.

So, let's turn to the economy. In general, most 2011 market indicators are positive. While there is still uncertainty, much has been purged from the economy over the last year. Since 2008, we have eliminated or resolved the following:

- \* Double dip recession. It now seems out of the question.
  - \* "Too big to fail". We bailed them out, for better or worse, avoiding a deeper financial disaster.
  - \* Companies our government bailed out are in large part paying back the loans.
  - \* Some larger companies are hiring.
  - \* Inflation is still in check.
  - \* There are no increase in taxes for the next couple of years, giving more certainty to business planning.
- Because of all this, and because of various cost cutting measures, companies are showing consistently higher profits. The stock market is clearly a believer, and it has been going up for a record number of sessions. There is a confidence in the market and in the overall population which indicates moderate growth in 2011. This is good for real estate.
- On the other side of the scale, if something goes wrong, we have very few arrows in the quiver left to help. There is no TARP, no TALF, no more bail-out. The conservative sweep of congress has definitely brought a different attitude to Washington on spending. Except for the tax extension, there are no incentives: no housing credit, no cash for clunkers, no easy credit. In fact, there is no help in sight even for states and municipalities that are facing big budget deficits and long-term debt. We are standing naked in the marketplace, with only the basic principles of demand/supply to propel us forward. We are definitely on our own.
- What problem could derail our modest growth? One obvious problem is that our government budget deficits and debt, increased through quantitative easing and continued lower taxes, could potentially

lead to new lows. There could be credit problems, if not defaults, in states and municipalities. At best, there will be cutbacks in municipal services which will impact location choice in both housing and business. Regarding employment, no one is predicting a major increase, and hiring will be modest by larger companies and almost non-existent in smaller companies.

While real estate may be still local in some sense, it is becoming more global quickly. More sovereign debt problems could arise in Europe, beyond Greece, into Spain, Portugal, Italy and Ireland. Bailout there, or any manner of economic failure, would impact our economy. Without growth in employment, I would expect little growth in the consumer which makes up 70% of our gross domestic product. As I have written before, the consumer is hampered by loss of work, layered with loss of equity in their homes. Foreclosures will continue, and the residential market will be over supplied in some areas. Some of these potential scenarios are "baked in" to our thinking, and the economy is improving regardless. Some are not.

A lot of pluses, shadowed by a bevy of potential minuses. My summary view is we are making modest but steady progress which should continue into 2011. I am optimistic but cautious. However, as they say, life could change on a dime, or a euro, or a yuan. Although we've done much successfully to stimulate the economy, there are still lots of things we can't control.

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