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Torto summerizes 2011 as better but sees less recovery

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The New England/Upstate NY CRE Chapter held its first program with Ray Torto, CRE, global chief economist at CBRE, Boston in the global research and consulting division. Torto offered the chapter his 2010 and 2011 market review on Thursday, February 3rd. Torto offered his insight of the U.S. economy and his outlook on commercial real estate. Torto commenced the program by stating that he was limiting his viewpoint from 30,000 feet above ground level and dropping to 15,000 feet; a more macro viewpoint. Here is a summary of Torto's presentation:

1. The economy is improving its health but it is not yet a "good" health. Things are getting better but, he asked, "How does one define good health?"
2. Right now, Torto sees "good" health in the form of a stronger GDP. Unemployment is better but jobs are still down 7 million jobs in the U.S. and off its peak. The U.S. added 1 million jobs in 2010 but still lost 8 million in total.
3. Commercial real estate: rents and value are lower and rents aren't improving until the end of 2011.
4. Commercial real estate values are slightly improving but so much depends on your perception. If you have "all cash" in your funds, then you are happy but if you own real estate, you perceive that you have problems.
5. Although there is improvement, it's in concentrated sectors of real estate and specific geographic areas.
6. From the 2009 period to 2011, to be successful with stocks, an investor only had to invest with index stocks and ride out the wave. But in 2011, for an investor to be successful, the investor will have to select the right stock and will not be able to ride out the wave. It will be more selective and strategic.
7. Conclusion: Torto is confident of the where the economy is headed. In 2008, there was the Lehman trauma. It turns out that the Lehman trauma was like an organ transplant and so we have to act differently moving forward. It is the risk of how we plan to change moving forward that faces us. We ate and drank too much and that behavior has to change. The question is whether we will change and in what form will we change?

Torto also feels that people will take more risk to buy real estate because of supply and demand issues; there are too many buyers. The core properties have been purchased. So investors are faced with "value-added" properties. That tier of properties is almost gone from the market. So the next lower tier has more risk properties. Investors are still sitting on a great deal of capital. They will research the higher risk properties if they want to divest of their capital. Investors may sell their core assets and even move down the risk-line.

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