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Ice road truckers in July? Is the CRE market onto something big in the future?

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While there has been long needed improvement in the volume of sales in residential markets: buyers and sellers are finally finding a middle ground. This trend is an affirmation of a fundamental principle: all markets finally find a bottom. Hopefully it's all up from here.

Commercial real estate (CRE) continues to be the darling of investors. Read the news media and you'll be told how investors are flocking to the certainty, good yields, and predictability of CRE, especially as compared to the alternative investment out there.

Let's get beyond the hype. Let's examine the data.

* **Uncertainty.** This is basic. Investors abhor uncertainty. There is precious little certainty out there. Not from banking regulators, the federal government in general, the economy, Europe, etc. Risk adverse behavior abounds.

* **Market Distortions.** There is aggressive competition for a limited amount of truly unique, prime assets. For the rest, it's there for the taking. There is the concern that those "me too" investors (a lot of money, not so much smarts) are willing to put down a bundle to get into the high roller game. And the next group is willing to be even less picky. There are canyons and canyons between the core asset investment arenas and everything else.

* **Jobs.** Investment real estate is extraordinarily dependent on people to fill space. Job creation drives space markets. No jobs, vacancy stays high. What is happening right now? Little job creation, little movement in vacancy rates. A lot of the buzz out there is based on lateral movement. Interestingly also, the lower end of the office market is doing better in terms of vacancy than the class A. Economy improves, jobs get created, this will change.

* **Market Performance.** I looked at the MIT CRE Transaction Based Index. After a positive spike in 2010, 2011 was subpar. Another major index suggests that high end demand may be moderating and second tier markets and a wider variety of property types may be coming into demand. Mixed signals here.

* **Lots of Possible Tenants.** In another interesting twist, landlords report there are plenty of tenants looking for space. Whether these tenants have the financial wherewithal to pay the rent and make a go of it is another question. The smarter landlords would prefer to keep the space empty than have to worry about full space that's not producing income.

* **Bankers and Borrowers.** For commercial lenders with plenty of money, and lax underwriting criteria, there are plenty of borrowers out there. Whether these borrowers and their properties meet basic criteria is another story. Many bankers would prefer to wait for some viable ones than worry about more workouts two years from now.

* **Interest Rates.** They can't get much lower, we're told. Someone said central banks have pretty run out of jet planes, cannons and arrows and are pretty much down to throwing rocks at this point to

make fiscal policy. An interest rate spike is something that everyone fears. Another big point of uncertainty.

The picture is mixed out there. An election is coming up. Will investors act differently after the election? Will things be different? Have the crises we have experienced tell us anything about the ability of government to really influence events?

Real estate investors look forward to be sure. What are they seeing in the tea leaves that the rest of the markets don't or can't? Are they buying in anticipation of the next boom or are they just buying because they have to?

Is the CRE market onto something big in the future? Or, is the big rig just about to hit some rotten ice and make a big splash somewhere up in the Northwest Territories near Inuvik?

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