

Too much uncertainty? May be time to wait and watch

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I can't remember a time when there were more balls in the air, issues affecting real estate, and no one able to say for certain where they will fall. All you hear and read about these days is uncertainty. Real estate is always a little bit of a gamble, but really, this is more like Russian roulette.

Recently, the CoStar group surveyed participants on what troublesome areas they saw in commercial real estate markets. Based on responses, CoStar listed ten major areas; I'll paraphrase several that resonated with me:

- * **Worry About Interest Rates** - Always a question, because people have expected rates to rise for years, and manipulation has kept them low. Everybody faces the choice of lower rates for shorter term (greed) or higher rates for longer term (fear).
 - * **Tenants Aren't Growing** - Companies/tenants are not hiring because of other uncertainties, and therefore not committing to longer and larger leases for the most part. This could change, or not.
 - * **Euro Zone** - Volatility up and down, causing optimism with elections in Greece, followed by pessimism with problems in Spain. Almost every European country is at question, and since it is the second largest market, Euro Zone success or failure is key. China and India are a whole other story, and if they slow
 - * **Jobless Rate** - There are occasional blips, but recently new jobs have stalled, and people are not sure why. Markets can crash or rise on the Friday jobless rate report.
- Those are a few of the top CoStar survey issues, but I can think of a few more to add:
- * **Health Care Mandate** - This will be the only issue decided by the time you read this. The uncertainty of Supreme Court overturn has left employers in limbo, exacerbating the hiring and growth question.
 - * **Congressional Gridlock/Inaction** - Congress has the lowest popularity rating in history, and the reason is it can't decide what to do. If it can't decide what to do, how can we constituents make decisions.
 - * **Tax Cliff** - Are we going to revert to pre-Bush tax cut, or will they be sustained for a year or so, or will they change altogether? Once again, people need to know before they can make decisions on their businesses and personal lives.
 - * **Finally, the Presidential Election** - What could be more fundamental than which candidate, and which candidate's party, will represent us. The two are diametrically opposed, and would cause two different economic futures.

The interesting thing is that the polls place resolution of most of these issues on a fifty-fifty basis; that is, there aren't even clear odds. As real estate participants, we could deal with one or two of these things and take reasonably considered steps. But think about it, with even ten issues in play, most of which could go either way, there are too many combinations of outcomes. While it may not be the correct metric, the permutations of ten issues going either way and in different sequences

translates to over three million options of outcome (remember your factorial math, permutations of ten being: ten times nine, times eight, etc.).

We clearly can't consider all of the combinations, or we'll never make decisions. However, until a few things settle down, it is almost impossible to decide what to do: whether to invest, sell, develop, purchase, whatever we do as real estate professionals. From my point of view, I think it's worth waiting awhile to see how some of the chips fall. Without some of the uncertainty resolved, it's just too big a gamble to do otherwise.

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