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Property and capital market crunch with mixed signals

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The credit crunch has reached commercial real property and capital markets. Even with persistently strong fundamentals, the property and capital markets are in the crunch. The February job loss of 63,000 announced March 7th confirmed other negative trends at the national level. The crisis, or turbulence, has created opportunities.

What are the numbers in the first quarter? The counselors at the 2008 Midyear Meetings in Chicago, April 13-16th will be analyzing the data in several general sessions. The Global Supply Chain and Macro Trends feature international investors and economists, and all will be examining real estate fundamentals as well as commodity and currency issues.

The crunch was confirmed at the Real Estate Finance Association (REFA) traditional post-MBA luncheon roundtable March 6th, which presented a sharp, and for some gloomy, contrast to the 2007 post-MBA when the capital markets were brimming. However, REFA participants and members also confirmed deals can be, and are being, done in this market with mixed signals.

Where are the opportunities? The CRE's brochure for Chicago, printed in January, headlined with strategies that will help the CREs thrive in recessionary times, and CREs usually spend meetings with fish stories and strategies. The REFA panel responded to a query from the member-attendees about what to do with $100 million, if you had it, to exploit the current marketplace.

There were several ready and thoughtful answers from the REFA panelists which included buying discounted CMBS paper and filling the capital gap at the mezzanine level. Many are still wondering how smart, or stupid, one has to be in this market to make a buck. Many are also wondering how fast, or slow, one has to move to make it.

The mixed signals were dominant in the Fed's Beige Book release for February 2008. All regions report some indications of growth slowing and concern about the impact of credit availability because of the crunch. Always anecdotal because of its interview/survey format, this edition of regional activity for First District-Boston also contained the mixed signals of continued growth, normal or steady capital spending, challenging outlook but confident about their ability, even projected growth at current rates.

We now have a stimulus package approved and funded in the range of $170 billion to be distributed commencing in the spring! The Federal Reserve Board has also moved dramatically and is expected to further support capital availability with lower rates for the weakened economy. The real estate capital sources are poised to replenish the market, even if at a substantially reduced level.

The action is definitely hopeful, and the resulting cautious optimism might be just enough to sustain fundamentals in the property markets and also sustain the opportunities in this market of mixed signals. The midyear meeting in Chicago for the CRE's promises to be a timely and rewarding forum.

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