Recession and Recovery - by David Kirk

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The Counselors of Real Estate will crack the code at the annual meeting in Boston September 11-14. Cheers, Chowder and Change promises a current comment on ground zero. Cash is loaded in a cluster of barrels, all prepared to unload. Everyone has the same macro dashboard. The micro market conditions have a broadening dispersion. Boston is a good market for the pondering, pause and pounce! Recovery starts slowly. A long J curve!

For commercial real estate, the first half of 2022 was a weakening of strength in most trends. Recession will be marked with historic contraction in Gross Domestic Product during the first half 2022. The variables loaded for GDP determination are fixed historically. Old news to some extent. Hard to have imagined anything but recession. Early forecasts did include some very marginal positive GDP calculations for the second quarter as trends slackened if not reversed. The rule is two successive quarters of negative GDP. First half 2022 will be negative. So the macro dashboard for everyone is blinking recession.

Now, first half, and second quarter, inventory aggregations in commercial real estate markets will begin reporting for the local markets. Brokers, developers and investors already know the local inventory for commercial real estate. Comparative analysis, anecdotal data and pipeline updates will be collected for commercial property decisions. Development and operating decisions start with macro and finish with micro data. Number crunching on what ifs are the determinant. How has risk changed, and what is likely at the property level. Not in the market headlines or summary, different for every market and every property. This ballgame is not over. The recovery is just beginning.

The capital markets could be more problematic for commercial real estate, at least temporarily. Globally, commercial real estate, US particularly, still, is well priced and competitive. The jiggling and uncertainty regarding global economy and local markets might cause a pause! Call me next week. I am ready.

Comparative analysis with historic recessions and recoveries tells little about today; informs, however, the methodologies for understanding and describing where we are and where we are going. Short or long. Mixed. Patterns, newly forming, and phases, changing slopes, cycles only when disaggregated, analyzed. What’s a recession, anyway. Plain old, same old, NOT! The pivot in property uses and sector shuffles and shifts challenge the old data and current inventory. Commercial property is still an economic derivative; demand and supply for property is derived differently based on emerging trends for use such as hybridization! The demand for green property is boxing existing inventory differently and obsolescing marginal existing buildings at an accelerated rate. Patterns are helpful. Do not get stuck in a rut! Poised. Powder. Pounce.

Otherwise, stability and balance in the markets are mixed. Differently, dependent on economic base, historic and emergent configurations. Labor is broadly tight. So tight that location has a labor dimension for some users, and relocation is now a frequent consideration.

Close readings by CEO’s, CFO’s, analysts, and bankers, in the securities market reveal reductions in full year outlook, workforce, sales and earnings. Commercial real estate ownership is heavily fragmented and such outlooks are limited. Covid, hybrid, mobilization, climate are few of the most significant disrupters plaguing performance and the platform profoundly. Still anecdotally speaking, commercial real estate has been maintained and sustained and inflated. And the investment class has held on during the fears of recession. And might well surge as an inflation and recession hedge. Early recovery!

Counselors enjoy strategic advisory challenges. There is a context generally comparable for the national markets. Even the international Counselors, attending the annual meetings in Boston, will take away some protocols on preparedness, Covid, hybridization, climate readiness, energy efficiency. Culture dependent behaviors might even have surprising overlapping solutions from markets overseas. Recoveries are slow to develop, vary on the catch, slope and run before expansion. Recoveries are often a J Curve.

Summer still sizzles. The markets are busy and buzzing. Find your sweet spot.

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