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The impact of the Wall St. crisis on comm'l. RE markets

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Basic and fundamental to real estate is the availability of capital. Please remember that it was firms such as Lehman Brothers and Bear Stearns that enabled the commercial real estate field to recover so successfully after the 1991 recession. The 1989-1991 recession was caused by weak bank underwriting standards and the resulting bank failures. 1992-1994 was bouncing along the bottom. It was the creation of the commercial mortgage backed security (CMBS) that lifted the commercial market to new heights. In 2007 alone, \$230 billion in CMBS financing took place.

Financing and Commercial Real Estate: I am continually appalled by real estate texts that do not properly address the importance of financing. I had to go to Canada and a publication by Lincoln North to obtain a true quote on the urgency of financing. In 1976 he predicted "The existence of permanent financing will be a significant factor affecting property's marketability as well as its value." You just can not take out of the market \$200 billion in CMBS financing and not have an adverse impact on value. Without financing, leveraged returns disappear. Double digit equity returns can not be achieved to properly reflect real estate risk.

The Wall St. investment banks created liquidity for the commercial real estate field and provided the funds through their CMBS system for the markets to grow.

Impact on the Commercial Market: And grow we did! Our firm's Q1 1991 bottom line report indicated a total greater Boston office market size of 124,901,011 s/f. Our Q3 2008 report indicated a total office market size of 193,991,062 s/f for a 55.3% increase. We have added over 69 million s/f of space!

The availability of capital is what allowed over \$17 billion in property to be constructed over the past 17 years in the Boston market. The argument can be made that the almost limitless size of Wall St. capital was the cause for overbuilding of our markets. As I write this article we have a 16.5% availability rate for office space in the greater Boston area. By itself this is 32 million s/f or about double that which employment growth indicates should be carried in inventory.

Predicted Turning Point for Recovery: From a market perspective, I do not anticipate the current recessionary climate to be long term. It is true that the jolts of the Wall St. bailout and mismanagement are having a far reaching impact. At the same time, in our small corner of the U.S. we in New England benefit from Boston's highly educated work force far beyond other sections of the country.

Where growth is expected is in the area of education, health, sciences, scientific fields, engineering and consulting. Study of NEEP forecasts indicate employment growth upwards of 54,100 office oriented jobs over the next four years which will absorb much of the over supply of office space.

Conclusion: The Wall St. financial crisis, I believe, will give the commercial real estate market a respite. What will likely happen is that over the next 12 to 18 months, we will experience bouncing

along the bottom, as we did in 1992-1994, to be followed by recovery in the 2011-2012 time frame. The Boston economy is just so vibrant that it will not lie dormant. The diversity of our businesses, world class universities and colleges, combined with leading edge medical and life science organizations is a powerful driver.

The big "IF" to this conclusion is the level of government spending which I believe is upsetting the rebalancing of markets.

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