Global Economic Trends That Will Impact Commercial Real Estate

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Topics for Today

• The outlook for job growth and the economy
  – Global influences on American job creation
  – National influences on American job creation

• The investment environment
  – Global influences on investment capital flow
  – National influences impacting CRE values
The Outlook for the Economy

- Consumers
- Business
- Government
Consumers

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Consumer Confidence Index

The Present Situation Index decreased to 33.3 from 35.7. The Expectations Index decreased to 51.9 from 74.9 last month.

Source: The Conference Board
Consumers Paying Down Debt for First Time in 50 Years

Household Sector: Liabilities: Household Credit Market Debt Outstanding (CMDEBT)
Source: Board of Governors of the Federal Reserve System

(Percent Change from Year Ago)


2011 research.stlouisfed.org
Personal Saving Rate

Personal Saving Rate (PSAVERT)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

(Percent)

2011 research.stlouisfed.org
The Business Sector
Corporate Profits
(With Inventory Valuation Adjustment & Capital Consumption Adjustment)

Source: Department of Commerce
Small Business Outlook

“Planning To Hire People In The Next Six Months”
Industries Under Regulatory Distress

- Health care
- Health insurance
- Autos
- Electric Utilities
- Coal Companies
- Banks and Mortgage Lenders
- Aircraft Makers
- Homebuilders
- Appraisers
- Offshore drilling
- Natural gas exploration
<table>
<thead>
<tr>
<th></th>
<th>Q3-11</th>
<th>Q2-11</th>
<th>Q1-11</th>
<th>Q4-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Jobs</td>
<td>36%</td>
<td>51%</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>Less Jobs</td>
<td>24%</td>
<td>11%</td>
<td>11%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Business Roundtable
Trade Weighted Exchange Index: Major Currencies

Trade Weighted Exchange Index: Major Currencies (TWEXMMTH)
Source: Board of Governors of the Federal Reserve System

(Index March 1973=100)

2011 research.stlouisfed.org
This is What Chinese Currency Manipulation Looks Like

Red Line: In 1993, China devalued the Yuan from 6 to almost 9 Yuan per dollar.
Blue line: Within a few years, our trade deficit went from $100 billion to $800 billion.
The Government Sector
Government Sector: Unfathomable Budget Deficits

Federal Surplus or Deficit [-] (FYFSD)
Source: The White House: Office of Management and Budget
Commercial Real Estate

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A Bi-polar Commercial Market

“Core” properties in
Boston
New York
San Francisco
Washington DC

“Transitional” properties
Most commercial real estate in every other city in America.
A Bi-polar Commercial Market

“Core” properties in
Boston
New York
San Francisco
Washington DC

- 65-70% financing available
- Mezzanine financing available
- Prices nearing 2008 peak
- Numerous bidders competing
- Apartment sold for 4% cap.

“It’s as if 2008 and 2009 never happened.”
A Bi-polar Commercial Market

- No credit available
- No price discovery
- No transaction volume
- Worries about absorption
- Worries about shadow inventory

- “Transitional” properties
- Buildings with significant vacancy
- Secondary markets
International Capital Flow

- 1983 to 1986  U.S. Commercial RE
- 1987 to 1989  Japanese Stocks
- 1992 to 1997  Asian Tigers
- 1997 to 2000  U.S. Stocks
- 2004 to 2007  U.S. Commercial RE
- 2007 to 2010  BRIC Countries and Commodities
- 2010 to 2011  U.S. Treasuries, Gold, Swiss Franc
- Next stop U.S. Trophy CRE
- Next stop U.S. stocks?
- Next stop U.S. commercial real estate
Key Issues for Recovery

- 4.5 to 6 million homes have to be foreclosed and sold to private investors
- Broken commercial real estate held in the banking system needs to be sold to investors
- Until the massive overhang of troubled properties are sold, the markets won’t clear.
Conclusions

- It appears that major business and investment decisions will be postponed until after the 2012 election.
- Hence sluggish job growth expected into the first quarter of 2013.
- If the stock market swoons, look for more QE.
- Interest rates likely to stay low through the election.
- Could be some enthusiasm in the spring and summer of 2012 if polling data is encouraging.
- Major inflection point in first quarter of 2013.