

# WHEN WILL THINGS GET BETTER?

By David M. Rosenthal

## IN 1991 WE BEGAN TO HEAR STAY ALIVE TILL '95...AND SO IT WAS.

What will our story be today? Things will be fine in 2009? We'll be good again in 2010? We'll be in heaven in 2011? Things must get better before 2012...because nothing rhymes with 12.

Catch phrases aside, after a long and prosperous bull market over the past 10-plus years, the current state of the marketplace is painful. Many of us are out of jobs and/or struggling with a cautiously uncertain business landscape. So what lies ahead, and when will the market turn around?

To help shed some light on where we are headed, we turn to some prominent economic pundits. Their views and projections paint a surprisingly consistent picture of the economic road ahead.

**Are We In a Recession?** According to Jack Kyser, chief economist for the Los Angeles Economic Development Corp., we are "flirting" with a recession, but "it's not a recession right now." Real GDP grew during the first two quarters. The growth was slow, but it was positive nonetheless.

**Are The Fed and the Government Helping?** Raymond Torto, principal and chief strategist of Torto Wheaton Research, believes that "U.S. policy makers have aggressively and successfully addressed the problems of systematic risk in the US economy." This sentiment is echoed by Real Estate Research Corp., which says that "while the economy remains under stress, the 'substantial' rate of cuts and other measures the Fed has taken to provide liquidity to the financial markets have tempered the risk of a severe recession."

**How Do We Compare With The Last Two Cycles?** TIAA-CREF Asset Management reports that, "fundamentals are far and away better than at the onset of both the 1990-92 and 2001 recessions when the real estate pipeline was stuffed with excess supply." However, its survey of senior lending officers suggests that "credit availability is tighter now than during the real estate credit crunch of 1989-92, and tighter than in 2001, when markets were awash in space."

**How Is This Impacting Commercial Real Estate?** Per TIAA-CREF, "In contrast to the turmoil in financial markets, commercial real estate fundamentals are holding up rather well. All four major property types had vacancy rates near or below their long-term averages as of the first quarter." Similarly, respondents to RERC's institutional investment survey rated commercial real estate higher than stocks, bonds and cash during the first quarter. RERC takes the position that the current market disruption is actually good for the long-term prospects of commercial real estate, since it "provides us with a more solid investment foundation without having to suffer a broad-based market failure like the residential securitized market."

**Where's The Equity?** Apparently it is abundant, but waiting. As noted by RERC, "There is plenty of equity sitting on the sidelines from funds raised over the last few years, but there appears to be a disconnect in pricing."

The exceptions to this, according to Raymond Torto, are sovereign wealth funds and other well-capitalized offshore investors. Torto agrees

that there is plenty of capital looking to buy real estate at the right price. He contends that investors are only uncertain about when they should re-enter the market, not if they should.

## So, When Will Things Get Better?

Clearly no one has a crystal ball, but here are some expert projections:

- TIAA-CREF: "The consensus Blue Chip Economic Forecast (shows) a modest recovery accelerating over the course of 2009."
- LAEDC: "Normal growth probably won't return until 2010."
- UCLA Anderson: "No recession this year...The economic outlook through the end of 2009 is decidedly subprime."
- Torto-Wheaton: "The expectation for commercial real estate is...for shallow weakening but stretching through 2009."
- RERC: This is an economic "storm that will last for the next several quarters."



## "Things must get better before 2012...because nothing rhymes with 12."

- Standard & Poor's: "Recovery for the financial sector is not expected until the latter part of 2009 or the start of 2010."

Based on these projections, it sounds like a rhyming catch phrase may well be in order. But will the bottom be a "V" or a "U," and will it happen in 2009 or 2010? That of course remains to be seen.

*The views expressed in this article are those of the author and not Real Estate Southern California.*

*David M. Rosenthal is president and CEO Curtis-Rosenthal Inc., which is celebrating its 25th year as a regional commercial real estate appraisal and consulting firm founded in 1983, with offices in Los Angeles, San Francisco and Newport Beach.*