



Commercial Property's Future

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Fusing the *ART*, *SCIENCE*, and *TECHNOLOGY* of Business.

Income

- Average household income has continued to decline
- Household wealth from peak to trough has lost \$14T
- Personal savings has increased to 4.6%
- Consumers have paid down \$12B in debt

Jobs

- Nationwide worst time since WWII
- Lost over 7.2M jobs
- MA economy grew but jobs shrank
- MA unemployment rate better than Nation
- MA employment drivers: Education, Government, Healthcare, Travel, Construction & Real Estate, Business & Financial Services, Bio-tech and Defense

Valuation

- Academic hat
- Value = NOI / capitalization rate
- The Denominator effect
- The Numerator effect
- Few data points
- Downward pressure on value

Lending

- Bank failures have topped 100
- Banks failed to set aside enough capital
- \$3.7T in commercial loans
- CMBS market \$208B in 2007 - \$0 today
- Life Companies about same size as CMBS
- Government Sponsored Enterprises \$60B in multifamily
- Extend and Pretend
- Almost any loan granted after 2005 is in trouble
- Landlord's Catch 22



Homes

- Prices have not yet bottomed out
- Foreclosures declining but filings are up
- Home sales off 23% to 5.6M units
- Inventory stands at 8.5 months supply
- Short sales about 15% of market
- Prior to bubble home values increased 4% annually
- Government has had stabilizing effect
- Lucky we are in MA

Retail

- Nationally retail real estate transactions off by 74%
- Retail sales are down year to date by 8.5%
- September to September annual increase of 2.6%
- Watch Consumer Price Index
- Retrenchment in consumer spending

Industrial

- Pace of business reported to be abnormally low
- Non-financial companies had second quarter \$156B surplus over cash flow
- Watch Institute of Supply Management - mfg
- Sector may see slow recovery 2010



Lodging

- Less tourism and international travel
- Diminished business travel
- Watch Beige Report
- This sector has a long way to go before recovery



Office

- Market size for Boston and suburbs ~200 square feet
- Overall vacancy rate ~18%
- Leasing activity should increase as tenants try to lock in attractive rents
- Watch Institute of Supply Management –non mfg
- Sector will continue to see retrenchment through 2012



Prediction as to Values

- Homes off by 35%
- Retail off by 40%
- Industrial off by 40%
- Lodging off by 55%
- Office off by 45%



Jobs

- Average work week increase
- Growth in temporary employment



Final Thoughts

“A pessimist sees the difficulty in every opportunity while the optimist sees the opportunity in every difficulty”

-Winston Churchill