



NEW ENGLAND REAL ESTATE JOURNAL

October 25, 2003

THE LARGEST BUSINESS PUBLICATION OF ITS KIND IN THE NATION

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Increased activity enjoyed in institutional and housing market to migrate into other classes

As we look forward to the New Year, we look back on 2001 and see a nation seemingly marred economically, emotionally, and physically and hope brighter days lie ahead moving into 2002. The economic downturn, impacted significantly by the September 11 attacks, actually dates back to last March and according to a Bloomberg Survey there are prospects for growth to occur as early as 2nd Quarter 2002. From a real estate standpoint, it seems that this investment sector has weathered the storm thus far, but real estate executives will have to proceed cautiously in early 2002.

Pricewaterhouse Coopers and Lend Lease Real Estate Investments *Trends in Real Estate 2002*, highlights the future of the industry and what is in store for the upcoming year, and the report seems reassuring. One of the key findings in the report states that there will be a two tiered downturn in real estate markets driven, for the most part, by declining demand, not oversupply. The first tier is the impact of the .com fallout and the slumping tech sector. Many of the problems posed by the

decline were absorbed by the fall of 2001 but the second tier is the impact of the September 11 attacks, which we are still in the midst of although weathering better than most industries.

Current economic forecasts predict consumer spending, buoyed by tax changes, wage growth, home refinances, and declining energy costs will continue to grow. This is projected to prime production, which in turn should reduce unemployment as we exit the recession. Inflation is expected to reemerge as energy prices move up with OPEC gets its act together, and airfare, lodging and computer cost stabilize. With unemployment in check and rising prices, expect the Fed to substantially tighten over 2002, and most interest rates to climb.

As we head into the new year with questions regarding the real estate sector, many can rest assured that real estate professionals are better poised to deal with a downturn, than they were in the last cycle in the early 90's. While this recession promises to be less severe than the last, many lenders are attempting to hedge against risk and have focused on

properties with creditworthy tenants and long-term leases. According to Motoko Rich of the Wall Street Journal, "property owners are negotiating with existing tenants to renew their leases several years in advance of lease expirations." Along with ensuring lenders of income streams real estate professionals are also taking advantage of our technology driven times to ensure against inadequate information when analyzing potentials for a particular project. Increased information flow according to *Trends in Real Estate 2002* "acts as a circuit breaker on the markets, keeping supply and demand in far better balance and reduces the likelihood of future boom-bust cycles." Thus, while real estate remains a lagging industry, we saw new development significantly curtailed last year near the start of the recession. This fact, heretofore unheard-of in the previously "undisciplined" real estate industry, avoids an excessive glut of new space and an extended recession for this sector.

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