



Commercial Real Estate Outlook Q1 2012

By Daniel Owen Mee

The big question at holiday parties in 2011 queried, “Will 2012 finally be the break-out year we have been looking for; will the economy finally find consistent traction with a robust job growth tide to lift all boats?”

While such events would certainly be welcome, the tea leaves do not show a dramatic economic uplift just yet. On the other hand, there are no clear signs that Twenty-Twelve will be “Mayan-esque.” We have seen no credible economists embrace the oft-mentioned, doomsday predictions of our pre-Columbian American forefathers. Perhaps to no surprise, most projections indicate we should expect continued low growth until the election, with subsequent growth rates picking up in 2013 (irrelevant of who wins).

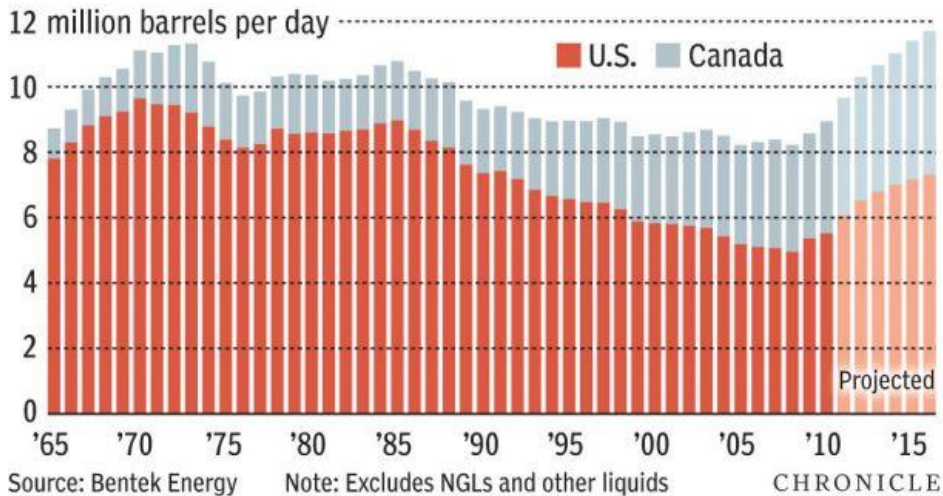
There are certainly some important positive indicators afoot, specifically concerning job creation. The stubborn unemployment rate seems to finally be in a retreat, albeit at a slow pace. This past November’s 8.6% rate compares favorably with the 9.6% and 9.9% levels of November 2010 and 2009, respectively. Clearly these levels remain punitive to the overall economy; however, this trend looks real. While no single employment driver is taking the lead in job creation, US small businesses appear to be picking up some steam. Such firms (with less than 500 employees) employ about half of all private sector employees nationally and have created over 65% of all new jobs since 1994. A recent Wall Street Journal article found that banks are approving more SBA loans with extended terms. In addition, the National Federation of Independent Businesses found that 42% more of small businesses plan to hire in the 1st Quarter of 2012, as compared to the same period last year.

There also seem to be positive signs in the for-sale housing market. Major players are showing a new interest, which has perhaps been generated by the significant re-pricing of development land along with substantial pent up demand for household creation. Goldman Sachs Group, Inc. projects a housing pick-up in 2012. The WSJ reports that numerous hedge funds have recently turned bullish on housing and are actively buying stocks of public homebuilder firms. The National Association of Realtors reports that sales of previously occupied homes are up 4% in November from a month earlier. In addition, the inventory of previously owned homes fell almost 6% to a level consistent with mid-2005.

Another positive indicator is the US oil industry. Goldman Sachs projects that the US could move from the world’s number 3 position, behind Saudi Arabia and Russia, to number 1 by 2017. The chart below illustrates that North American oil production could hit a 40-year high within a few years. This activity has driven all sectors of the real estate industry in the heavy oil shale/sands regions of North Dakota, as well as certain West Texas areas, which have also reached new highs.

PRODUCTION BOOM

Combined U.S. and Canadian oil production could reach record-breaking highs by 2016 as output grows in unconventional projects such as the Alberta oil sands and U.S. oil shales, according to Bentek Energy.



The example above illustrates the well-known adage that “all real estate is local.” More specifically, every sub-market in the US has been hard at work trying to resuscitate. There are numerous incentive programs and localized initiatives in place to promote growth; among these programs are the newly approved gaming initiatives in Massachusetts and the recently passed 2011 Business Energy Tax Credits in Oregon. Virtually every region of the country has implemented efforts to spur growth. These initiatives take time to develop and 2012 should be a year when some of the fruits are on display.

Before we get too Pollyannaish, we must pay attention to the real and potential headwinds facing an accelerated recovery. A major issue is the Euro debt crisis, which has the potential to crater all global expansion efforts. The Middle East is always a flash point, but the recent withdrawal from Iraq may lead to Iranian muscle-flexing and an escalation in tensions could result in a significant increase in energy costs. The political uncertainty and potential power struggles in Egypt, North Korea, Argentina, Libya and elsewhere could also collectively have a negative effect on the global economy. With the upcoming US election, we can expect brinkmanship from all parties. Such antics can suppress good programs or accelerate bad ones. We can only hope true American Patriots will take the high ground and do what’s best for the country!



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