Real Estate Research

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Quarterly Economic and Real Estate Update

Fall 2011

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EXECUTIVE SUMMARY

- **The evidence of a stall in the US and global economic recoveries has continued to build in recent months.** The European debt crises continue to roil credit markets, as the problems in the periphery nations have now extended into large core economies including Italy and Spain. Meanwhile, the US equity market has been unsettled since the S&P downgrade of US treasuries, employment growth has stalled and US consumers and businesses are highly unsettled.

- **The unsettled economic picture at this time raises the question on the sustainability and speed of commercial real estate demand growth in coming quarters.** However, the potential still exists for the economy to right itself and resume recovery. With supply now quiescent, the pace of the recovery in fundamentals is dependent on the pace of demand driven by the broad economic recovery. Overall, we are now expecting a somewhat slower recovery than previously projected, though segments and markets will differ.

- **The US office market has emerged from the downturn and has stabilized as we had anticipated, as demand has crossed supply and steadied vacancies.** The second quarter marked the second consecutive quarter in which demand outpaced supply, though net take-up was modest measuring only 3.8 msf.

- **The retail segment, like the office segment, is likely near its nadir, as the development pipeline is bare and net-take up has flat-lined.** 2010 saw the lowest amount of space added in multiple decades and 2011 and 2012 are expected to see similarly paltry amounts of supply. This places the segment's recovery on the shoulders of demand, which will take its cue from the macroeconomic situation.

- **Despite the economy's stall, the underlying demand drivers for industrial/distribution space are still generally good, setting the stage for renewed industrial absorption.** Exports hit an all-time high in July, bouncing back after several down months. Industrial demand has also benefitted from inventory re-stocking, and that has slowed recently, a potential danger sign of near-term slippage in the demand recovery.

- **The US multifamily segment remains a standout in regards to the timing and rapidity of its recovery amid a struggling economic recovery.** Apartment demand has been robust despite still-muted household formations because of the massive shift from owning to renting indicated by the plummeting homeownership rate.

- **Mindful of the softer macroeconomic backdrop and the potential for a renewed economic swoon to hurt hotel demand, the segment has nonetheless shifted from recovery into expansion as operating conditions have mostly normalized following the sharp downturn.** While some growth statistics have simmered down, this reflects harder year-ago comparisons as much as the recent soft spot in the economy.

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