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NAI Global Sees Opportunity Along With Challenges for 2009

Amid projections that the next 12 months will mean “another year of challenge and slack demand,” Jeffrey Finn and his colleagues at NAI Global nonetheless offered reasons for optimism. Presenting the company’s annual global forecast to an audience in Manhattan recently, the NAI president and CEO said demand would start picking up in 2010 amid a slowdown in delivery of new product.

All in all, Finn said, “This situation presents a unique window of opportunity for our industry. This is the time to make money”—at the bottom of the market, not the top.



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JEFFREY FINN, NAI GLOBAL

Nonetheless, Finn emphasized that what started as a malaise in the subprime market has long since become a global contagion. “Almost everybody in the world is feeling pain; it’s only a matter of degree,” he said.

Peter Linneman, NAI Global’s chief economist, pointed out that the recession has hit Europe and Asia harder because those regions had slower fundamental growth to begin with.

A particularly negative effect on European and Asian economies, he said, was the increase in the price of oil: from \$50 to \$150 per barrel in 14 months. With a ratio of 30 basis points in GDP gained or lost for every \$10 decrease or increase in oil prices, Linneman said the dramatic, inexplicable spikes wiped out the growth rate in many countries.

“Norway wins, Russia wins, Argentina wins and Saudi Arabia wins” when oil prices skyrocket, Linneman said. “Does that help you? Only if you’re looking for capital, not if you’re looking for tenants.”

Linneman said a recession looked inevitable as long ago as 2005, when the market was at its peak, thanks to a combination of “excess, hubris and government mistakes.” However, he asserted that by the traditional definition—two consecutive quarters of negative growth—the downturn did not begin in December 2007 but in the fourth quarter of 2008. As recently as last August, many US industries were still pulling in decent numbers. “Then the government decided to save us.”

Treasury Secretary Hank Paulson’s dire pronouncements turned a Wall Street panic into a Main Street one, Linneman asserted, while the constantly changing TARP game plan convinced the public that “nobody’s home.” As a result, a recession that was predicted to cost the US economy one

million jobs and a 0.5% percent decline in GDP has already resulted in at least 2.5 million layoffs and a 3.5% drop in productivity.

Linneman likened the federal bailout efforts to triage, in which patients who are going to die regardless of any intervention are not given medical attention. “Show me a bailout that has ever worked,” he said. “If it did, the fourth quarter of ’08 would have been the booming-est ever.”

The stimulus package, Linneman noted, was not likely to provide economic stimulus because it either would lead to unnecessary projects or, if directed toward infrastructure investment, would mean too long a term for the payoff.

The good news, he said, is just as the spike in oil prices helped erode the economy, so its recent decline to \$40 per barrel will help it recover, albeit with a lag.—*Paul Bubny*

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