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Experts: Pain on Horizon, More for the US

By Robert Carr

Rose

TORONTO-While commercial real estate markets around the globe are looking at a dozen or so painful next quarters, the US will likely be hit the worst, according to CRE experts. Even though US markets are still steady, the impact of the consumer-led slowdown and financial credit crunch will hit in the next few months, and could even last four to five years, say experts such as Colliers International US operations president Rick Chichester and locally based Avison Young CEO Mark Rose, the former CEO for Grubb & Ellis.

The rest of the world's markets should follow in a slowdown, but many believe Europe, Canada, Australia and the Middle East will see less of an impact, and Asia may not suffer much at all, say experts, including Cushman & Wakefield CEO, Asia Pacific, Michael Thompson.

It's true that whenever the US gets a cold, Canada starts sneezing, says Rose, who took some time off after the Grubb & Ellis sale to find a good company and business model. He says he decided the model included a company outside the US, and that he likes Avison Young, positioned to be one of the largest commercial real estate firms in the large country. "Canada is very solid in terms of occupancy and absorption, but it would not be shocking if buildings related to the financial industry had a slowdown," he tells GlobeSt.com. "But it's a very different country from the US. There's a lot of oil money, there's significantly less consumer debt and interest rates are very low, with a stable banking system."

If there's one message that he can pass down to the neighboring country to the south, however, it's that there's a lot of pain ahead. He says another reason he moved up to Canada was that he saw the correction coming. "It was just the sheer volume of opportunity, everyone was executing on too far and too fast, you always need a correction to have a stable market," he says. "Though no one could have imagined this. You look at companies such as Lehman and Wachovia, all such important pieces of our real estate community. Look at General Growth, their properties are like 93% occupied, but they're facing a significant issue with debt."

He says he is saddened by the amount of job losses that have happened, and will likely continue, but asserts that it was a needed part of the correction. "Some of these companies that were holding on by a thread, they need to be in bankruptcy. The job loss has to happen, there are a significant percentage of people in the industry now who haven't ever seen a down year. We have to bring companies back to the corrected revenue and cost structure," Rose says. Europe will probably come out of it faster than the US will, he says.

Research from Colliers International seems to agree that foreign markets will suffer some, though likely not as much as the US. "It's true, most people in the industry have never experienced a time like this, a consumer-led recession," Chichester tells GlobeSt.com. "This has put the brakes on a lot of activity around the world."

However, he says it will be a little while before the industrial market, in the US and

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internationally, will feel any pain. "Industrial vacancies around the world are very low, but there will be some risk where distribution space is significantly used by retailers. You're going to see a real decline in consumer spending, at least now through the first half of next year," Chichester says.

He says there's still some activity out there, with many tenants postponing significant moves but still acting on one-to-two-year lease extensions. "There's not a lot of space being given back yet, but we're not as overbuilt as we were in the 1990s, the industry is still relatively healthy, he says. "For the last five-to-eight years, it's been all financial, buy at a 7% cap rate and sell at 5%, and that wasn't good for management or the user. Really, I think what you're going to see is a return to fundamentals, where the most important things for a tenant will be a quality location, product and ownership."

According to Colliers, Asia is going to come through relatively unscathed, at least as far as industrial property is concerned. While Europe economies registered a noticeable slowdown in the first half of 2008, the Asia Pacific region remained relatively strong. The same pattern is expected to continue for the balance of 2008 and into 2009, although with global economy slowing, even the Asia Pacific region will post slower growth," said Colliers commercial real estate director Felice Stark in a statement regarding the company's 2008 Global Industrial Report.

Other companies also post that Asia will be the least hit, compared to North America and Europe. Office space has not been hit hard yet in Asian cities, said Cushman's Thompson in a statement. "Due in large part to historically lower vacancy factors across most major markets across Asia, rents have not moved downward in response to financial turmoil," he said.

Asian cities such as Mumbai and New Delhi have stable rents, though new product is starting to soften, Thompson said in the statement. However, cities like Seoul and Kuala Lumpur remain strong with very low vacancy, and the International Monetary Fund expects Asia (with the exception of Japan) to see a 6% gross domestic product increase in 2009, he said. "Hence companies appear to be taking the approach of positioning themselves for growth in Asia when the recovery comes," Thompson said.

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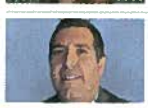

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