There seems to be little disagreement that the overall economy and many commercial real estate markets are significantly improved over where they were at the depth of the recession, but opinions diverge when you ask SIORs if this is a "true" recovery or merely the prelude to another crash.

"All expansions today are prelude to another crash! The world has a very short- term memory," warns **Gabriel Silverstein, SIOR**, President of Angelic Real Estate, LLC, New York, NY. "This is the slowest and least job generating recovery in memory. We are past another crash for this cycle, though, and a slow recovery, while not cause for a Tyco party in Sardinia, is real, and real estate has been seeing it for two years or more."

Richard D. Whitney, SIOR, CCIM, CPM, GC, of Whitney Commercial Real Estate Services, Asheville, NC notes that, "Things are certainly much better than they were in 2008-2010, but while last year was our second best year in our 12-year company history, we find that our company and region are both down in sales volume by 35 percent this year compared to last. I really thought we had come out of the woods, but I see 2013 as down."

Whitney also says that when you crash 'last," you will recover last. "And we are – just not as quickly as I had hoped based on the success we had in 2012," says Whitney. "I guess we'll close the year out 'up' -- maybe as much as 50 percent from the bottom."

"I think probably there's a geographic influence concerning the threat of another crash," adds **Mike Hillis, SIOR, CCIM**, Principal with Cushman & Wakefield/Commerce Real Estate Solutions in Las Vegas, and SIOR President. "Because Las Vegas was an original epicenter of the real estate recession, we are probably more vulnerable than a lot of other places."

About 450 miles north of Las Vegas in Salt Lake City, **Michael Jeppesen, SIOR, CCIM, LEED AP**, President and Managing Broker of IPG Commercial Real Estate, states that, "as one of

IS THE RECOVERY TRULY HERE?

SIORS DOUBT THE STRENGTH & STAYING POWER OF THE RECOVERY

BY STEVE LEWIS

the first markets to emerge from the downturn it is fairly easy in Salt Lake City to point to the substantial amount of activity and absorption of space." He notes that 2012 was an all-time record year for both leasing and sales activity in the industrial sector. "But even with all the good news coming out of our area, I am sure if you took a straw poll of our clients about a 'true recovery,' the results would certainly be mixed and the naysayers would probably be speaking more loudly."

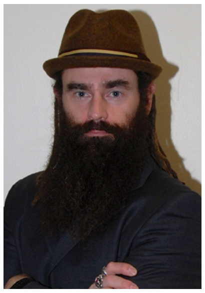
Still, he continues, "if capitalization rates and market liquidity are the source of measurement, then yes, real estate will rebound, and in fact, it already has! Cap rate compression is prevalent in all major markets, secondary markets, and even in tertiary areas. Picture a nest of hungry fledglings vying for a bit of worm from their mother. That is a similar picture when it comes to the amount of appetite built up for investment grade product across all product types in our area. Institutional money has been slow in coming back to our market, but it is here now, and it is seeking major placements."

WHY ALL THE CONCERN?

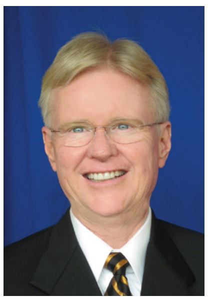
SIORs have numerous reasons for their less than optimistic long-term projections. "Personally, I think we have experienced what we can now consider the 'new recovery,'" says Jeppesen. "That means slower than desired job growth, and a long-term 'output gap' (The output gap measures the spread between potential GDP and actual GDP). We can see this directly in the time it takes to get transactions completed. Business decision makers tend to take much longer to make major real estate commitments than they did five years ago."

"We have seen the [industrial] market go from nearly zero liquidity - almost no buyers and zero lenders – to a deluge of liquidity for both buyers and lenders, and lease terms and cap rates have moved faster than I have ever seen in any three-year period…and we still don't have a strong recovery," says Silverstein. "I believe that corporate users have exercised more discretion and caution (read: fear) in post-recessionary expansion and use of balance sheet cash than in any previous

CONTRIBUTING SIORS



GABRIEL SILVERSTEIN,
SIOR



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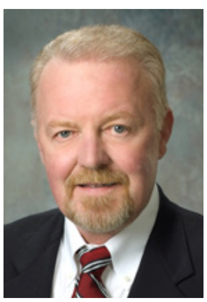

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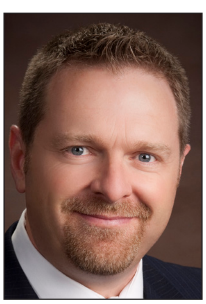

MICHAEL JEPPESEN,
SIOR, CCIM, LEED AP

recovery on record - or it sure feels that way. The hand shake (LOI)-to-signature cycle time is still unusually long, which I had hoped to see improvement on this year. That has yet to improve despite the overall expansion of deal flow. There are more deals now, but they aren't yet happening faster, or with urgency."

"Back in our heyday the price of land for commercial development was in competition with homebuilders; they ran the price up so our industrial land prices just went off the chart," notes Hillis. "The high water mark in 2007 was $27 a foot; you can't build warehouses on $27 a foot of land. During the recession the homebuilders sold land back to banks, and prices reset to a decent level, but if they run prices back to $5 or $6 a foot residential people are back in competition with commercial folks. The trend is not very encouraging; we see competition from homebuilders repeating itself."

"While things are still significantly better than they were in the early 'era,' they are still nowhere near where they were in 'pre-era,' and that is kind of discouraging," Whitney adds. "The evidence says that bottom-fishers came off the sideline for pennies on the dollar. That pent-up demand was filled last year, and this year, unfortunately, is more the reality."

"Our next crash and recession could very well be longer than this one to get turned around, and I am concerned that we may not escape a true depression next time," warns Silverstein. "I hope this isn't the case, but for the past thirty years we have had a very steady downward march of interest rates and also, for the most part, inflation."

PLANNING FOR THE FUTURE

Given their concerns, what strategies are SIORs employing for both the current market and the next downturn they see as likely?

"We continue to focus on structured finance and alternative capitalization solutions for user and investor/developer clients," says Silverstein. "That is one place where we differentiate ourselves as investment bankers versus traditional brokers. We will continue to do that. When the opportunity arises, we are also acting as principals for the first time, at least early in the cycle. We will continue to be very aggressive and bullish now, again early in the cycle (He sees the next downturn coming in 2019 or 2020). Rates are also still historically low, so borrowing long-term now is a good plan. We are also bullish on spec development in the industrial sector and are working with some clients to make sure they are on the early part of that wave, which has only really just begun again."

"This business has always been about working smart," says Whitney. "We really scrutinize our potential listings and buyers and tenants." In fact, he adds, his firm uses a "numeral" acronym: needs, urgency, motivation, expectations, ability to make a decision, and the loyalty they have to you. "Is this someone who really needs to do a deal, or are they just shopping around? Does it matter if they do it this year or in three years?" he poses. "Sometimes, even if their needs are urgent they may not have the motivation to price it right." If any one of these variables is skewed, he says, "I look real hard at if I want to take the deal. Then I combine it with the math – will you go to work all week for $500 vs. $50,000? You only have so much time to give." By working smart, he adds, "I have people in this company who make more money in bad times than in good times."

"Our market was one of the first out of the gate with speculative product in 2010," says Jeppesen. "Looking at past cycles it may be reasonable to believe we are half way in to a historic growth cycle. Therefore, land sale activity and new construction will continue for a time, and leasing activity will follow, but begin to taper off in the next 24 –36 months. At our firm we are focused on all aspects of the activity curve – from helping developers acquire attractive land opportunities for new projects, to assisting operating companies in reducing occupancy costs and formulating long-term leasing or acquisition strategy. We also focus on investment sales. A stabilized and well-positioned product will continue to trade to investors at historic high levels. Investors, whether individual or institutional, have been the most stable influence in our market through the good times and the bad. Since it takes longer for deals to get done and with the amount of competition for deals, we are throwing more and more on the wall to see what sticks."

"This is kind of the new reality some people talk about," Whitney adds. "We'll be lucky this year if we do 50 percent of what we did in the peaks. Going forward, we will not necessarily stay at this level. I do think it will take a long time for prices to get back to where they were. Companies are very motivated to use less real estate; more employees are in work stations or working from home, so you have smaller showrooms, and just-in-time approaches in cheaper warehouses. These are challenging factors – you have to do more deals to make the same amount of money – but as far as coming out of this, my feeling is we will."

"WE HAVE SEEN THE MARKET GO FROM NEARLY ZERO LIQUIDITY TO A DELUGE OF LIQUIDITY FOR BOTH BUYERS AND LENDERS, AND LEASE TERMS AND CAP RATES HAVE MOVED FASTER THAN I HAVE EVER SEEN IN ANY THREE-YEAR PERIOD. . . AND WE STILL DON'T HAVE A STRONG RECOVERY."

In conclusion, Silverstein says things will change for the better in 2014, but not by as much as previously projected. "Recovery in real estate has also been slower to move to tertiary markets, or in office, even to secondary markets. Transportation and distribution markets for industrial space are active - and have been increasingly so for two years. Good retail markets are booming, but without a housing market expansion, they aren't just chasing rooftops another exit at a time anymore; it's very focused on larger markets and infill locations."

ABOUT THE AUTHOR

STEVE LEWIS is President of Wordman, Inc., a marketing communications firm based in Loudon, TN. He has been representing real estate clients and covering the commercial real estate industry for more than 30 years, and he continues to write freelance articles about the real estate industry.