

THE VIEW

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What Commercial Real Estate Can Tell Us About the Economy

BY JON SOUTHARD

One of the legacies of Torto Wheaton Research's 25 years in the industry is its having popularized the idea that real estate demand is tied directly to employment growth in the economy.

Over time, most commercial real estate researchers have become close students of the metro-level employment data that the government releases each month. Generally, then, we look to employment and other economic data to tell us about commercial real estate.

Maybe, though, it is better to give than to receive. One of the storylines that seems to pop up everywhere lately is that perhaps we are already in a recession.

Knowing that all of the major indicators are not showing negative readings, why is an existing recession such a popular concept?

Well, in part, I think that pundits and journalists enjoy being cheeky about the matter. Also, however, the "real time" data have burned commentators in the past. In particular, the 2001 recession was not reflected in the data leading up to August of that year but after revisions the recession was eventually deemed to have started in March.

But perhaps these commentators are merely fighting the last battle.

One unique aspect of the 2001 recession was that it was started by the failure of the many small dot-com companies chasing the exploding technology stock bubble of the previous years.

As close observers of the employment data know, the employment patterns of small companies are the hardest for the government to get a handle on and the last to be incorporated into the data with anything other than estimates.

But this is where the commercial real estate data of CB Richard Ellis/Torto Wheaton Research can come in. As an independent data source, our measures of commercial real estate demand can be used as a check on government-published data, even as we use their data to suggest what demand should be.

The results suggest that the talk of a present recession is coming from those caught in the emotion of the near-relentless bad news coming from Wall Street and the housing market.

Using various measures of demand across three different real estate sectors, our analysis suggests that the economy is experiencing a slow-motion slowdown rather than an existing recession with negative employment growth.

If the analysis holds, we expect that additional government data will not result in substantial revisions to its current employment estimates.

So, while we have substantial concern about what 2008 will bring, there is no need to assume the worst when positive data does arrive. The economy is large, complicated and, dare I add, resilient.

Many trends are weighing down the economy today and perhaps this is why many say it feels like a recession, but until the statistics start showing negative values, the proper response is to wait and see. ■

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