

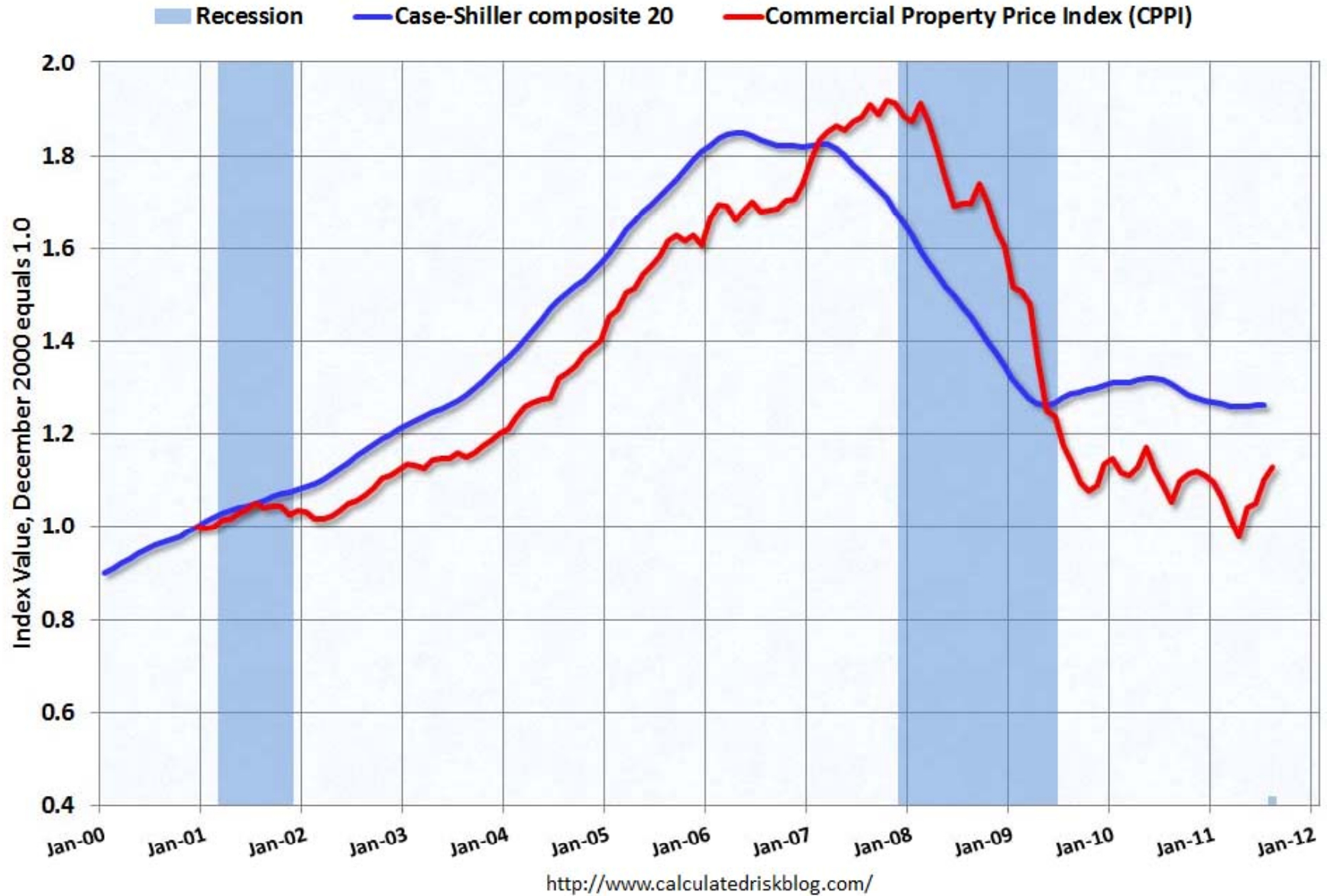
# WHY REAL ESTATE REMAINS A DRAG ON THE U.S. ECONOMY

30<sup>th</sup> Annual Real Estate Institute  
November 9, 2012  
MNCLE

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MAI, MCBA, CRE®, FIBA



## Comparison of Commercial and Residential Price Changes



## Reason # 1

A high fraction of loans at many banks are based upon real property.

## Reason # 2

Almost all real properties have fallen sharply in value since 2006.

## Reason # 3

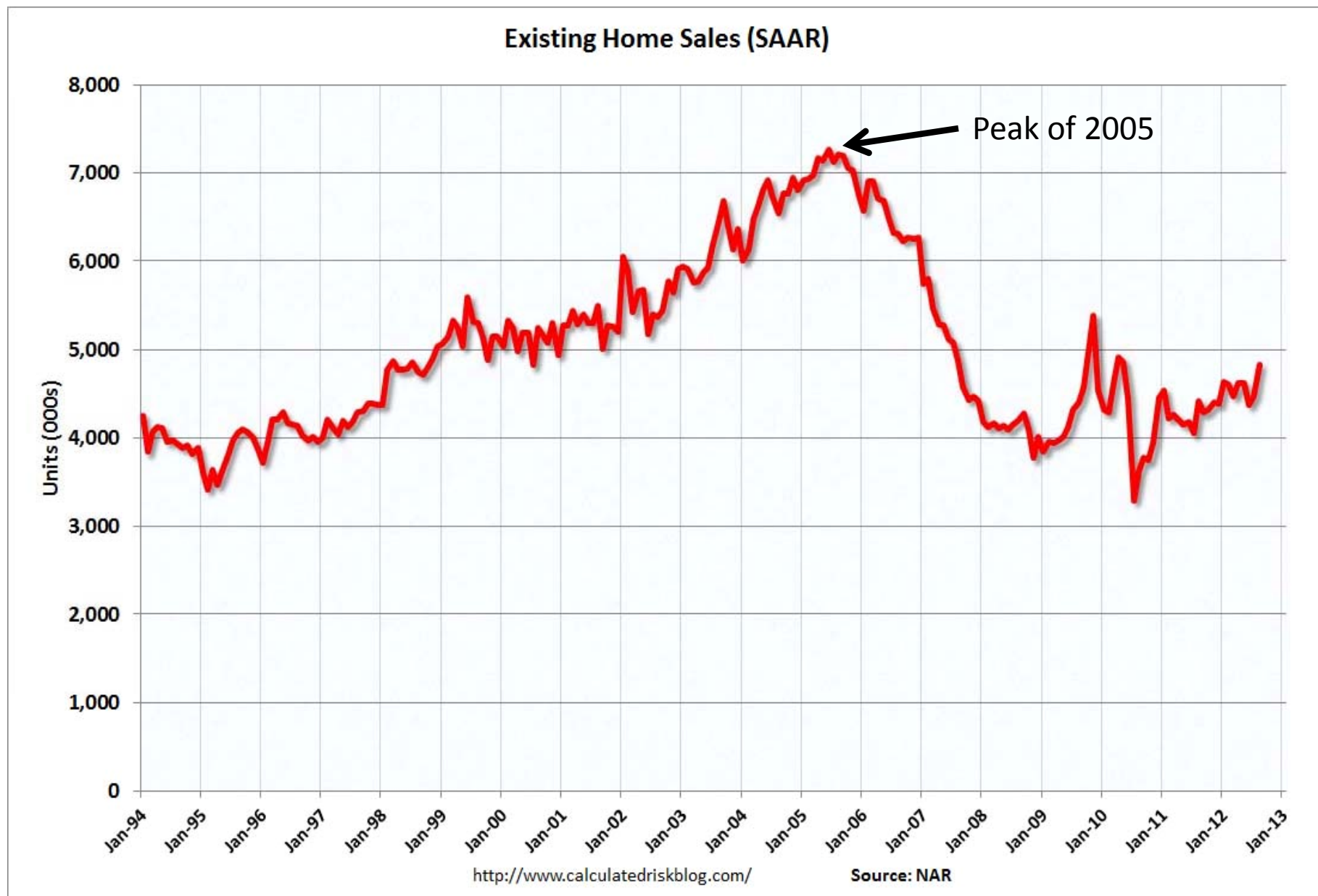
The prospects for rapid recovery in housing markets are very poor.

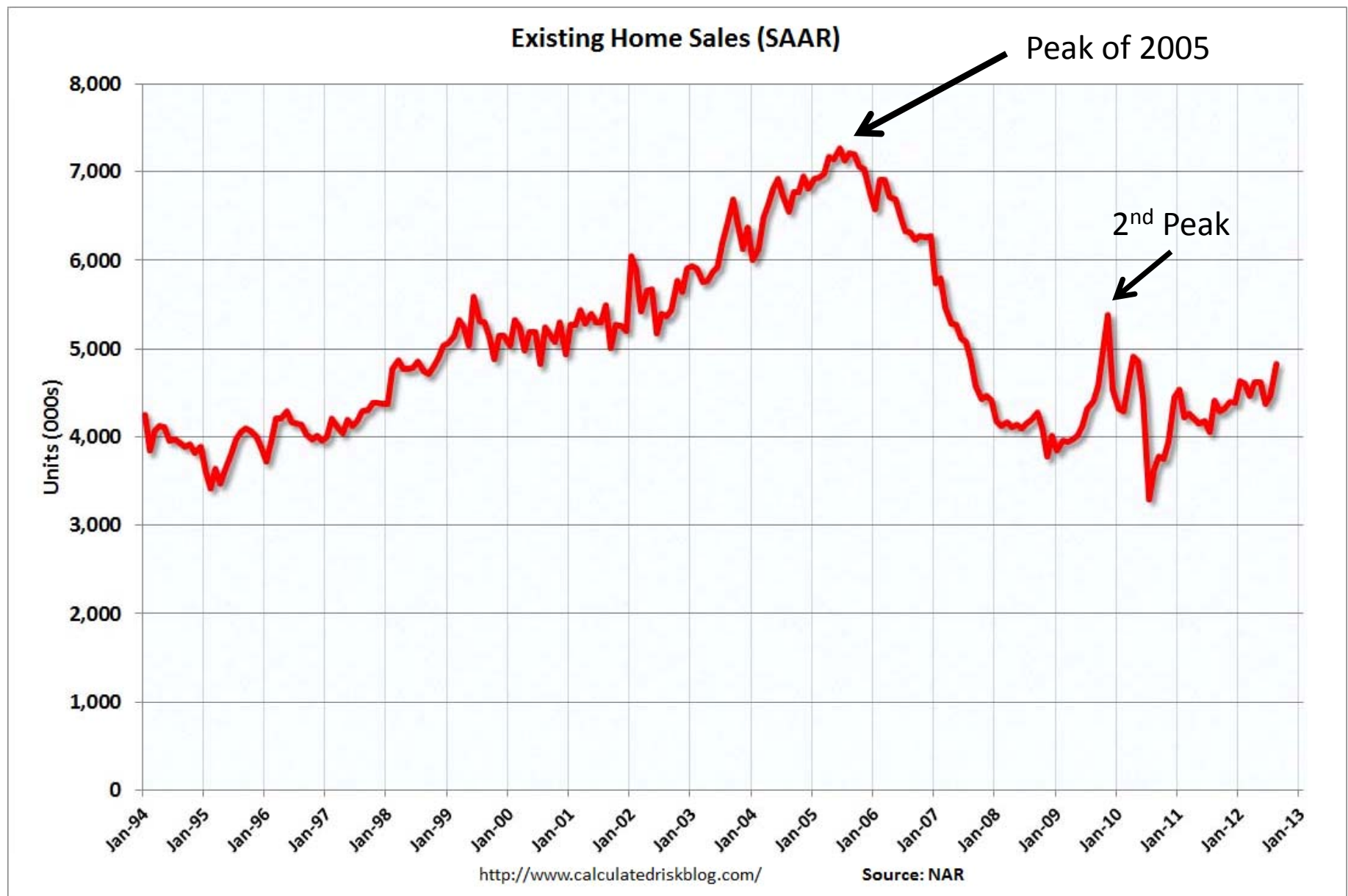
Existing Home Sales (SAAR)



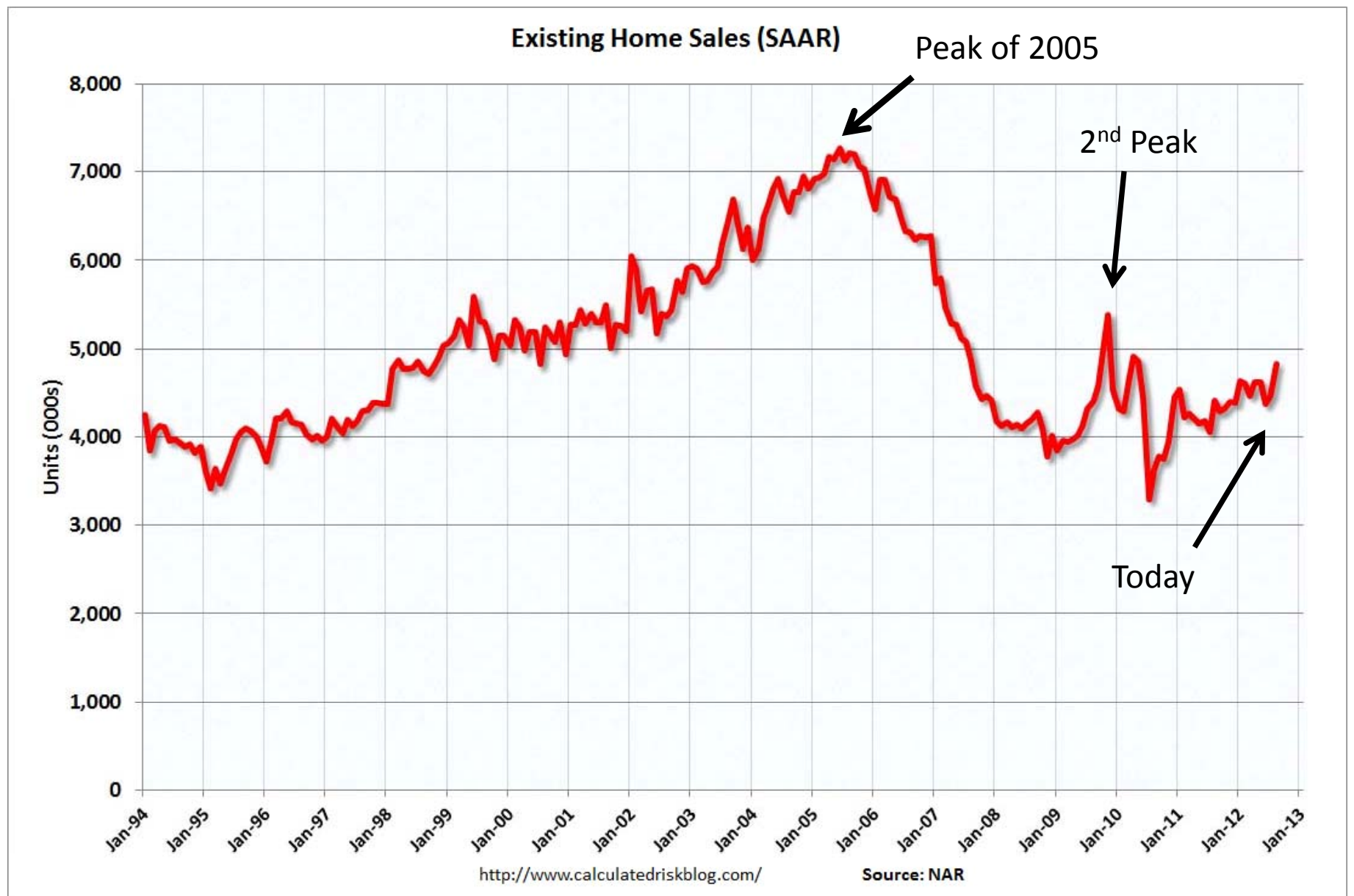
<http://www.calculatedriskblog.com/>

Source: NAR



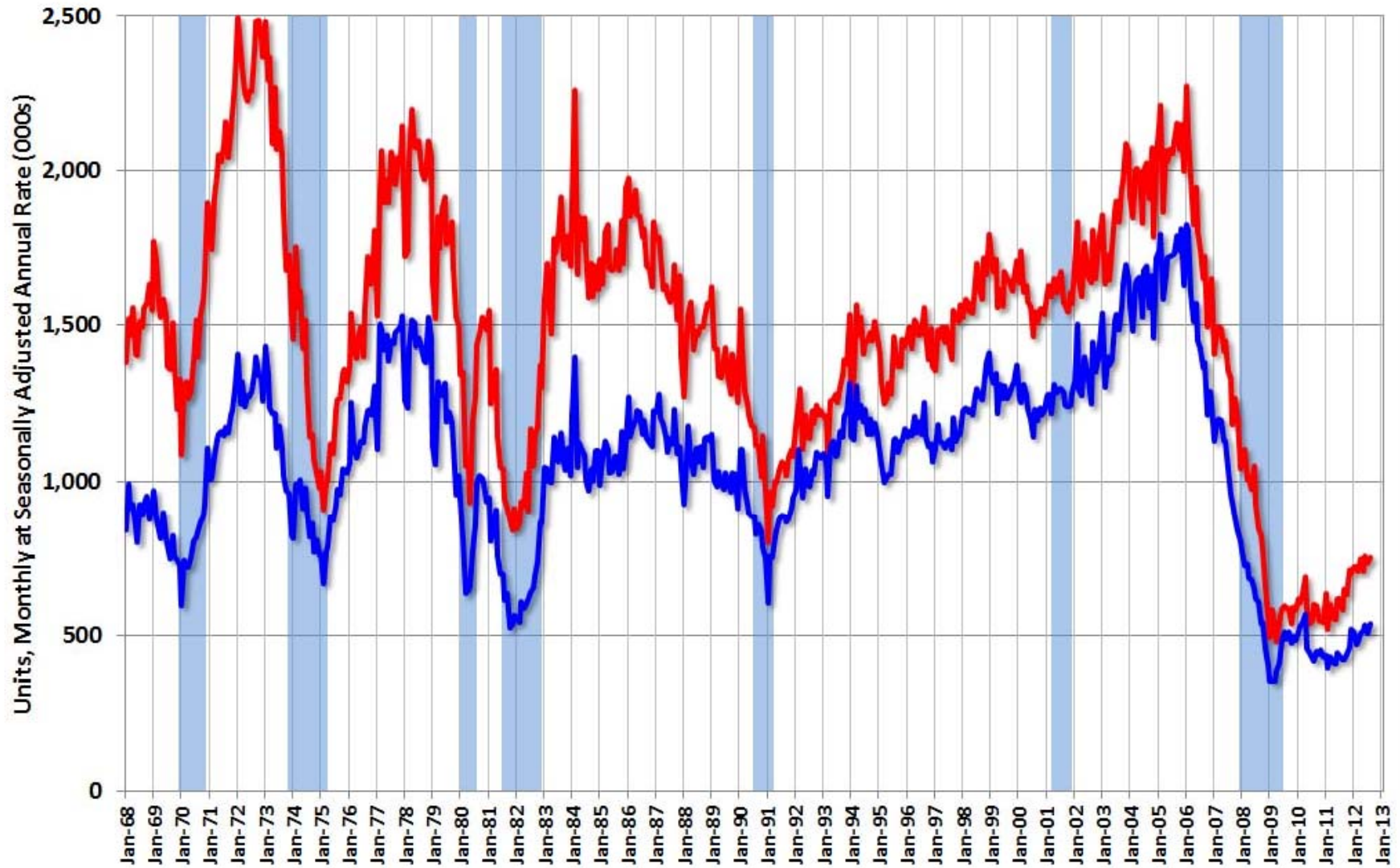






## Housing Starts: Total and One Unit Structures

Recession Total Starts One Unit Structures

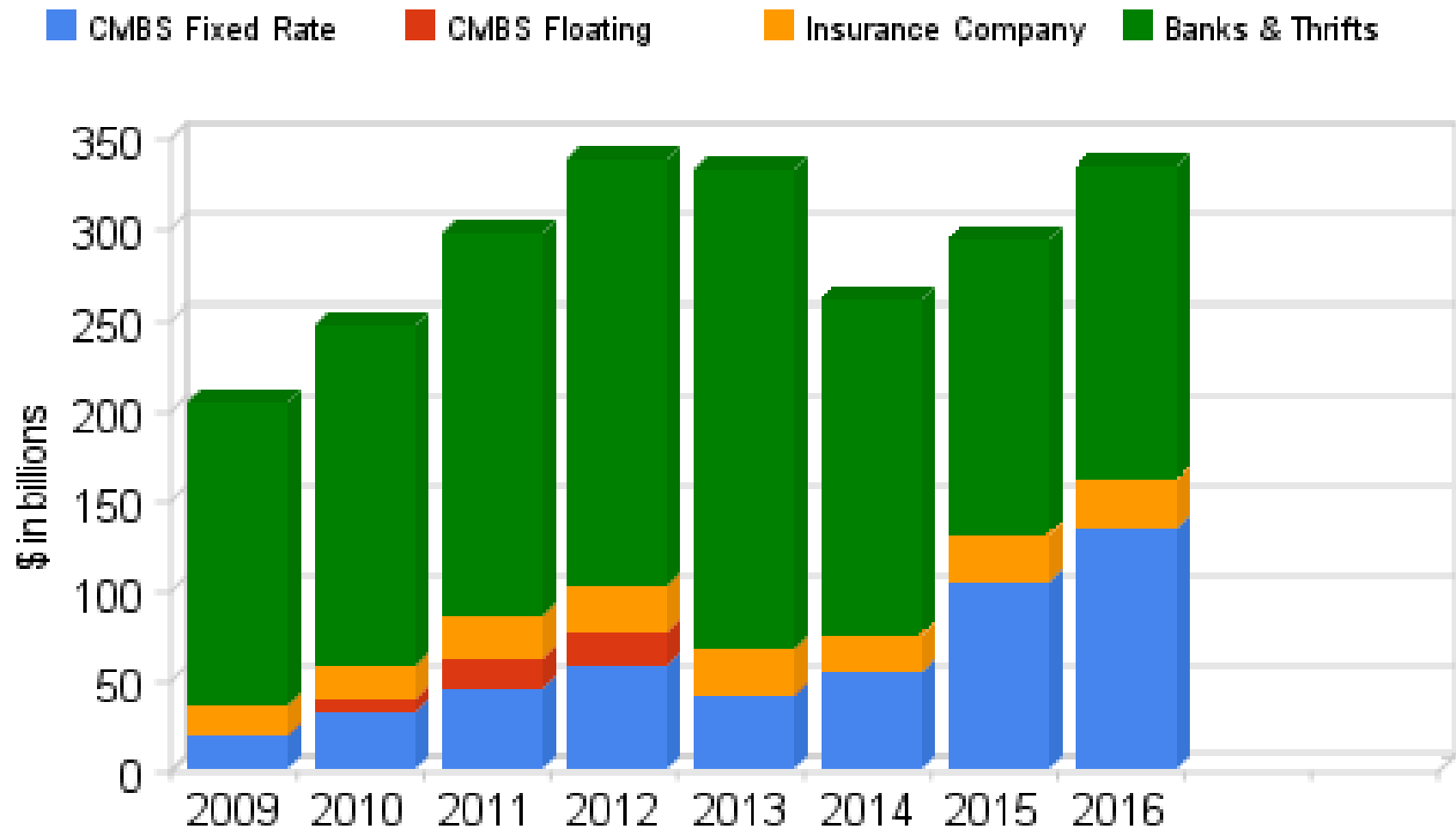


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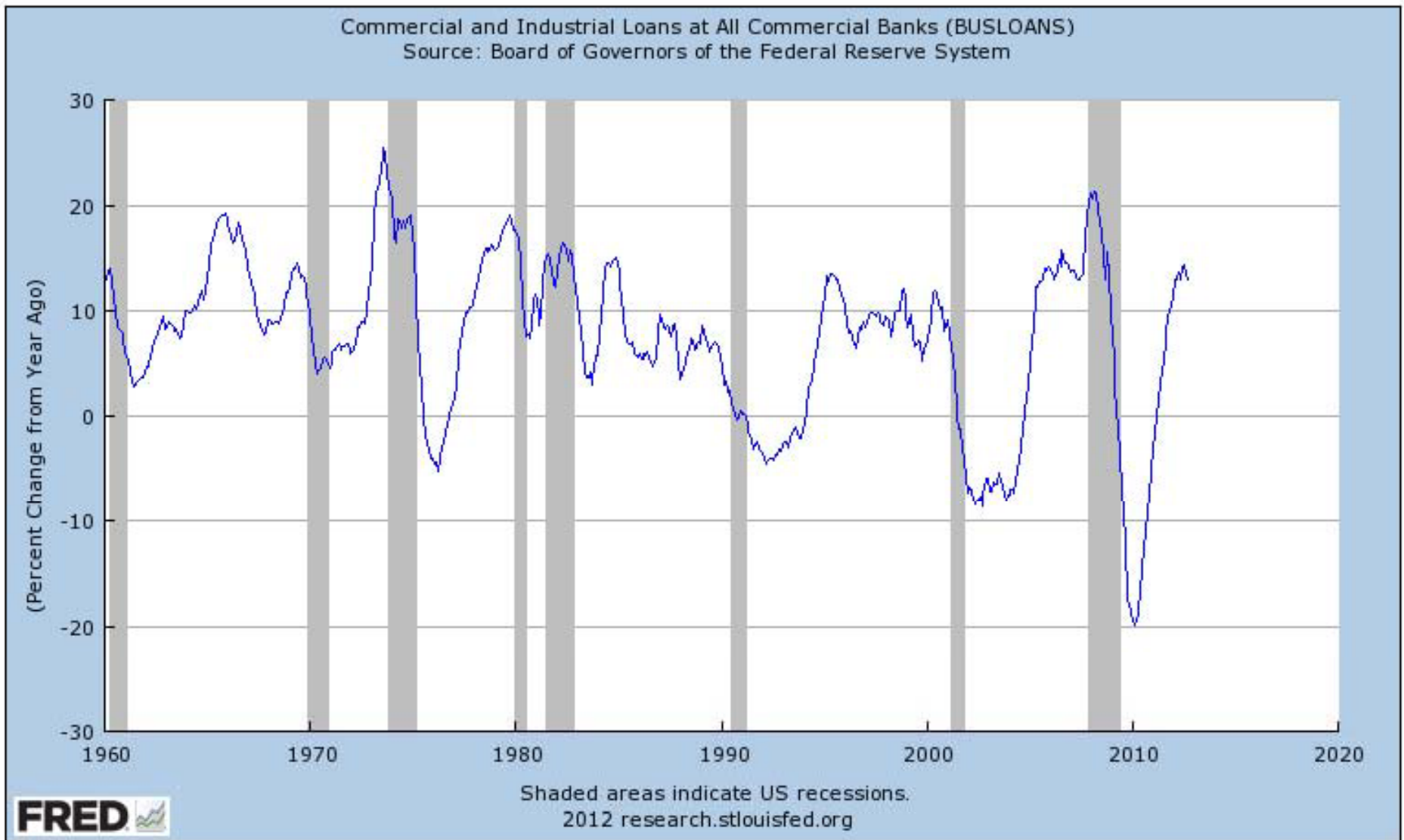
## Reason # 4

Commercial real estate was blindsided as huge numbers of highly-leveraged loans rolled over. These loans were made with very high property values and high loan-to-value ratios.

## All Commercial Loan Maturities



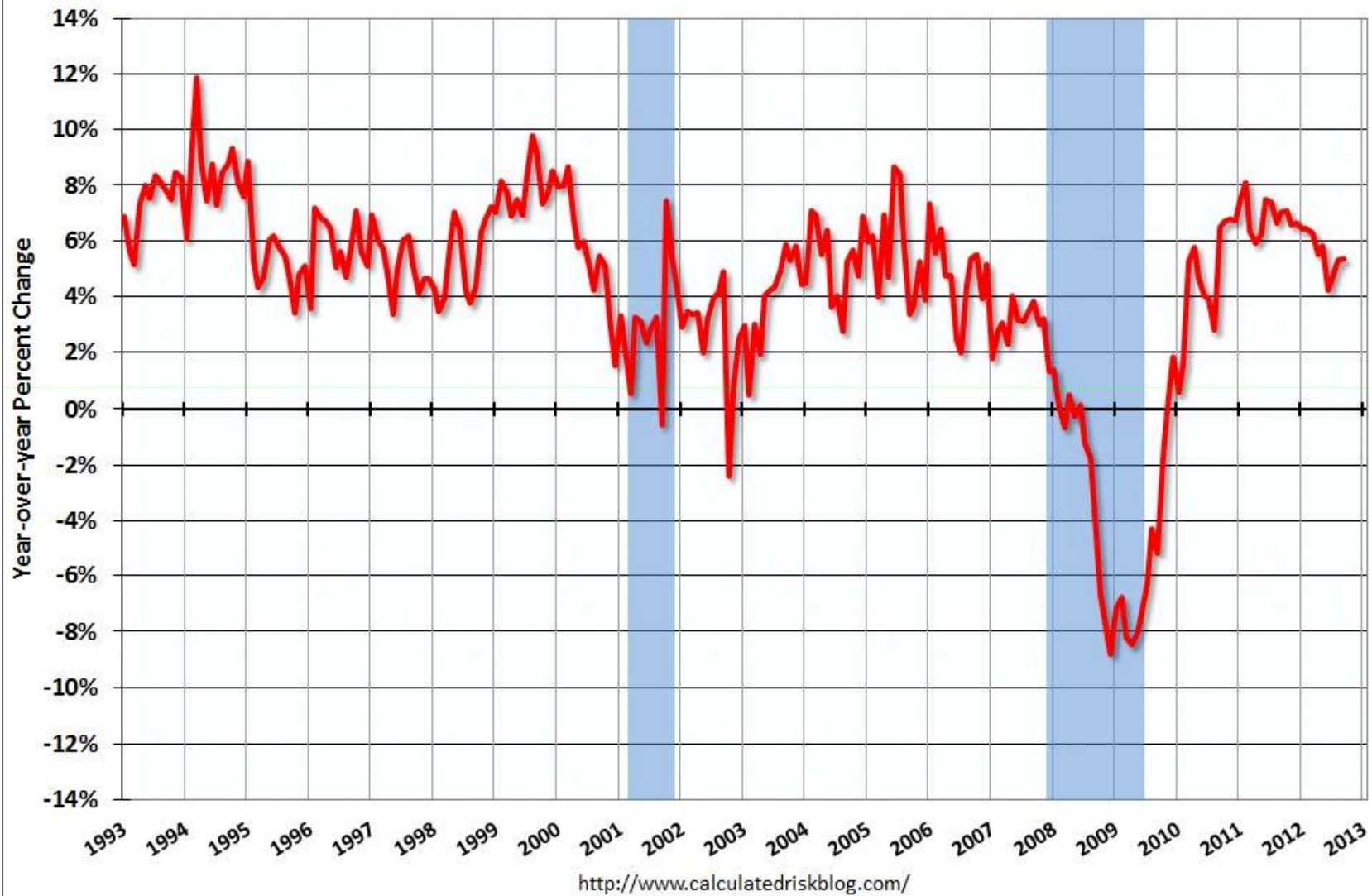
Source: Deutsche Bank, Intex, Trepp, Mortgage Bankers Assoc, Federal Reserve



## Reason # 5

High rates of unemployment are likely to continue for several more years.

Year Over Year Change in Retail Sales and Food Service, Excluding Gasoline

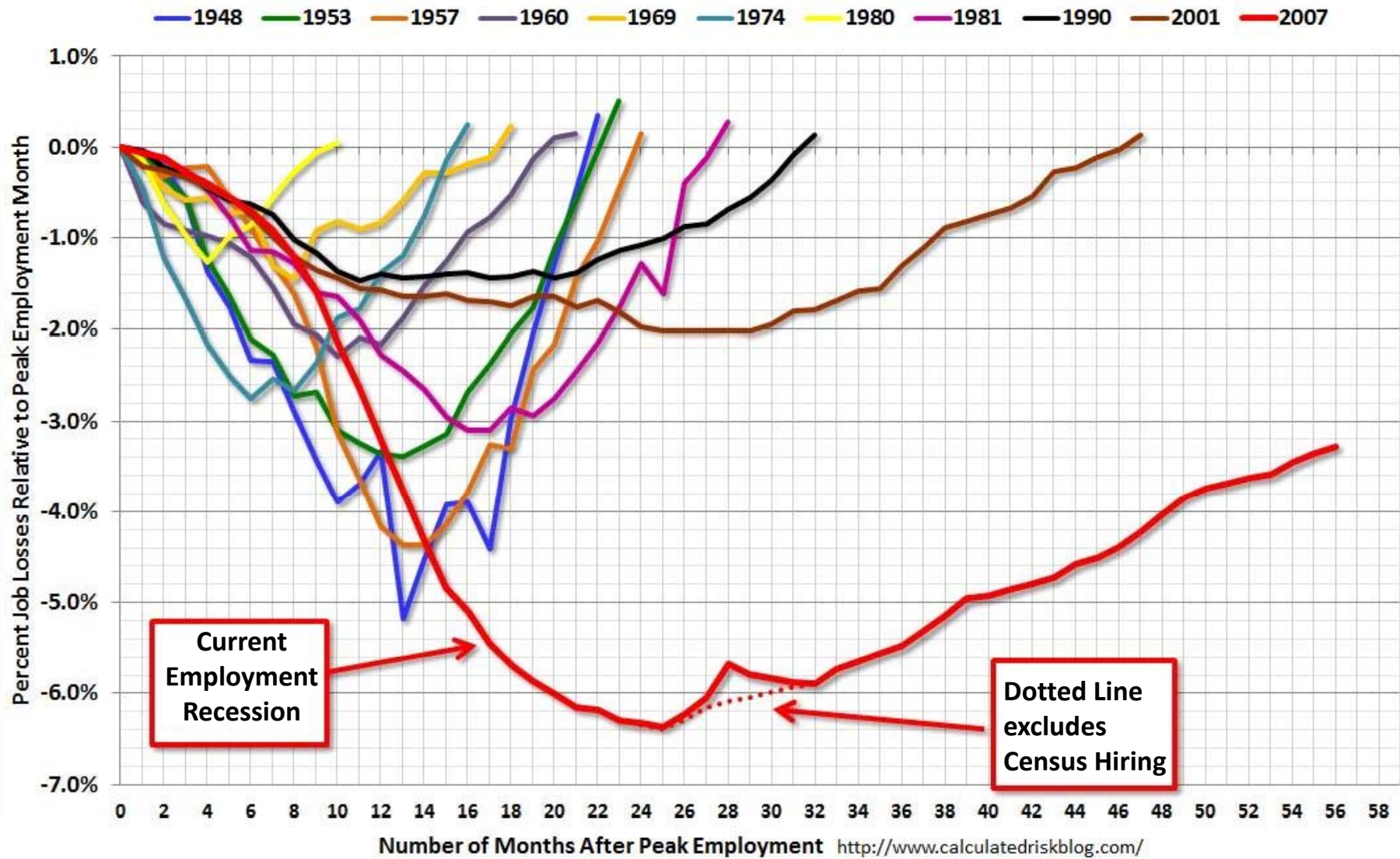


## Reason # 6

A sudden change in conditions - one which would radically increase the demand for workers or new production - is unlikely.

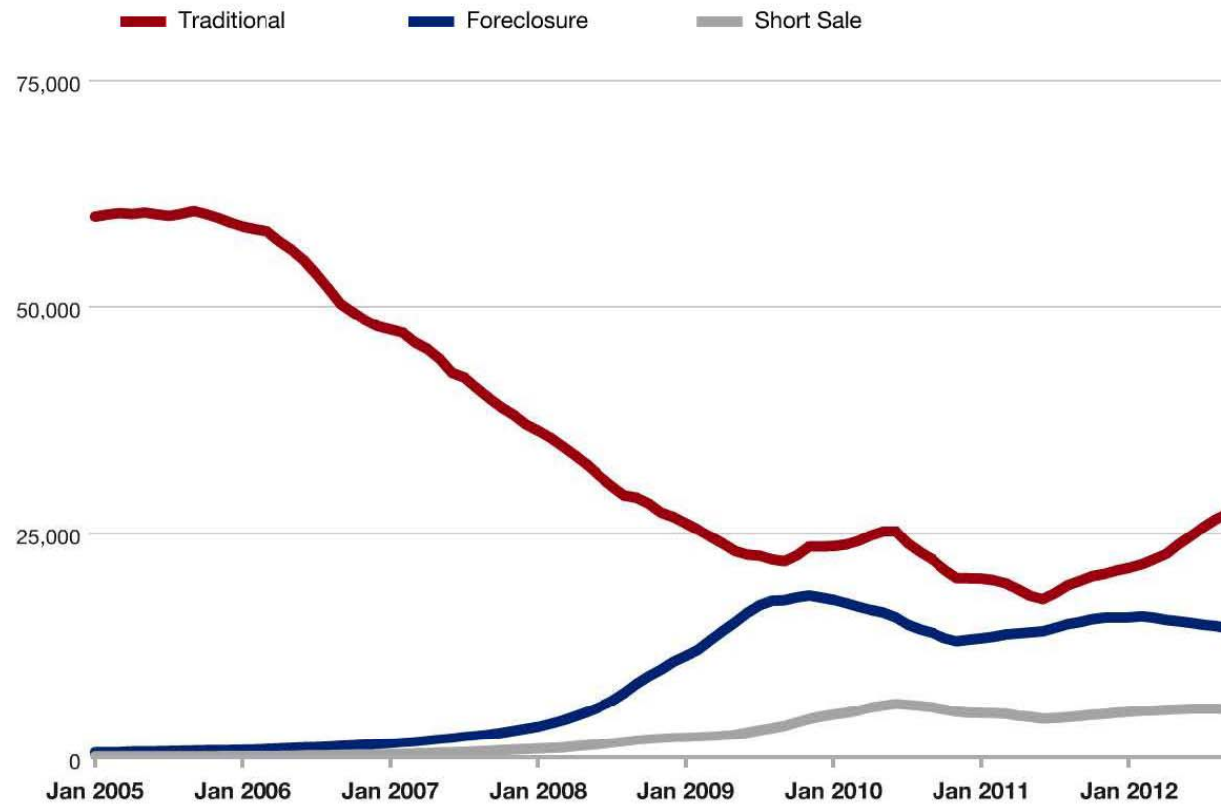


# Percent Job Losses in Post WWII Recessions



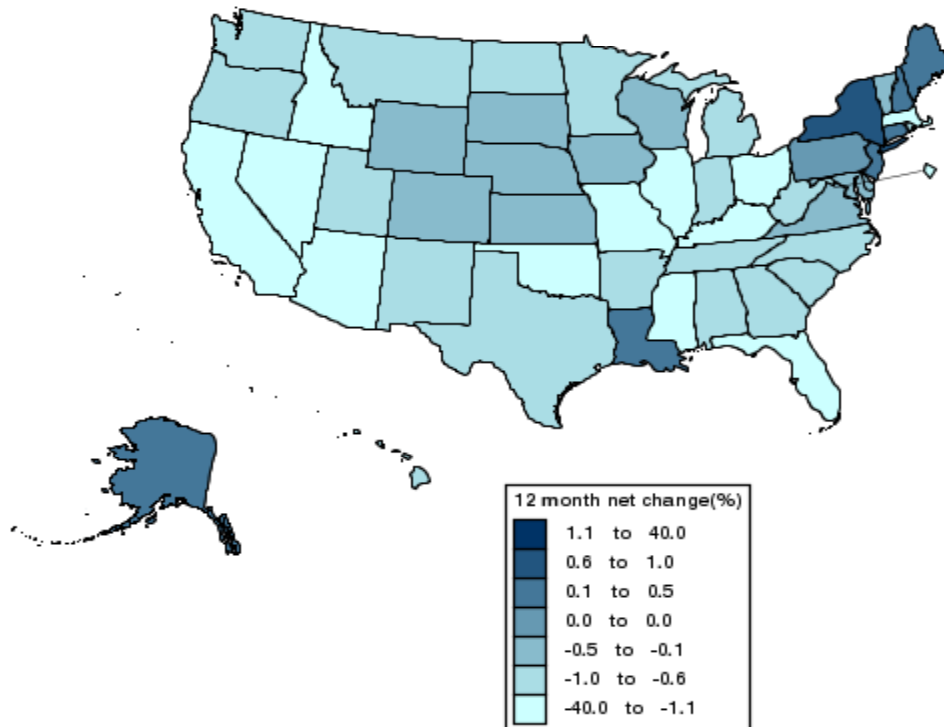
This information was prepared by:

**Twin Cities Region  
Closed Sales  
Time Frame: Rolling 12 Months**



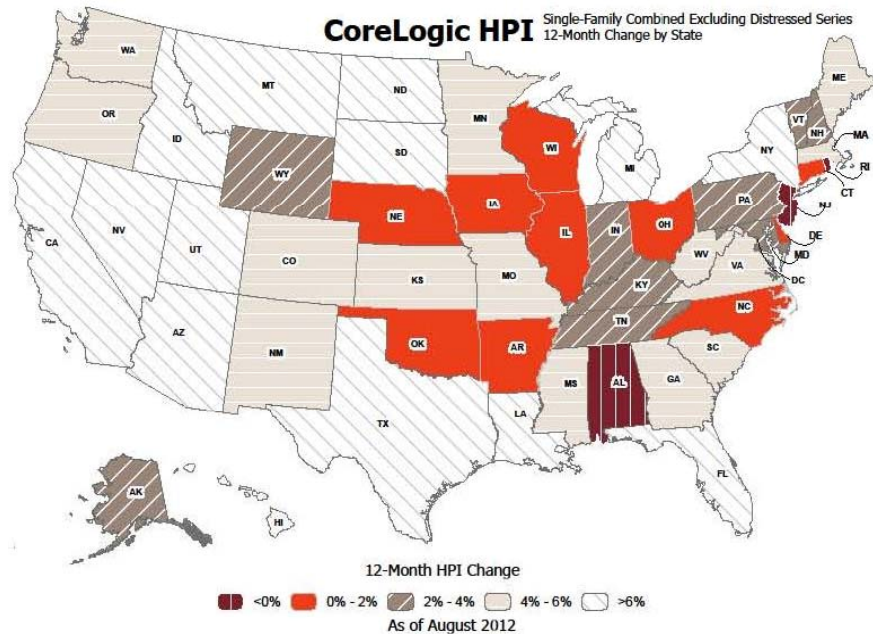
Based on data available as of October 17, 2012  
Data comes from the Regional Multiple Listing Service of Minnesota, Inc. Data deemed reliable but not guaranteed. Powered by 10K Research and Marketing.

## 12-Month Change in Unemployment August 2012



Mississippi	-1.8%	Tennessee	-0.7%
District of Col.	-1.7%	Alabama	-0.6%
Florida	-1.7%	Minnesota	-0.6%
Nevada	-1.7%	North Dakota	-0.6%
Ohio	-1.6%	Oregon	-0.6%
Idaho	-1.4%	Washington	-0.6%
Missouri	-1.4%	West Virginia	-0.6%
California	-1.3%	Delaware	-0.5%
Arizona	-1.2%	Iowa	-0.5%
Oklahoma	-1.2%	Kansas	-0.5%
Illinois	-1.1%	Nebraska	-0.5%
Kentucky	-1.1%	Virginia	-0.5%
Massachusetts	-1.1%	Vermont	-0.3%
Indiana	-1.0%	Wyoming	-0.3%
Michigan	-1.0%	Colorado	-0.1%
New Mexico	-1.0%	Maryland	-0.1%
North Carolina	-1.0%	South Dakota	-0.1%
Texas	-1.0%	Wisconsin	-0.1%
Utah	-0.9%	Pennsylvania	0.0%
Arkansas	-0.8%	Louisiana	0.1%
South Carolina	-0.8%	Maine	0.1%
Georgia	-0.7%	Alaska	0.2%
Hawaii	-0.7%	Connecticut	0.2%

## 12-Month Growth In House Prices August 2012

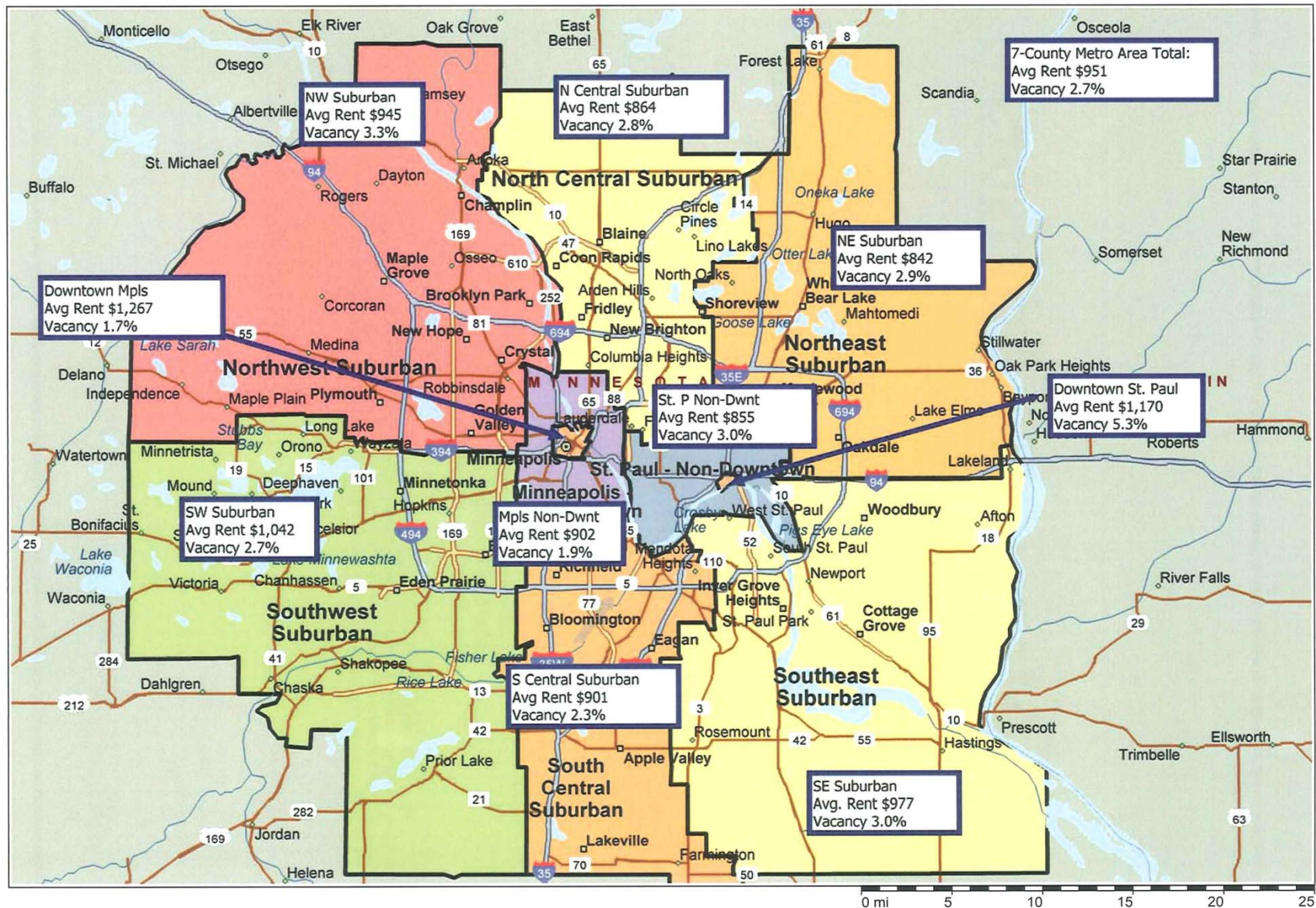


Source: CoreLogic HPI, 12-month change by state; single-family combined excluding distressed series.

Rhode Island	-1.7%	Kansas	4.5%
New Jersey	-1.4%	Virginia	4.6%
Alabama	-0.2%	Washington	4.8%
Connecticut	0.0%	Oregon	4.8%
Delaware	0.3%	<b>United States</b>	<b>4.9%</b>
Ohio	0.6%	<b>Minnesota</b>	<b>4.9%</b>
Wisconsin	0.7%	Dist. of Col.	5.2%
Iowa	0.9%	South Carolina	5.5%
Illinois	1.2%	Massachusetts	5.6%
Arkansas	1.4%	Maine	5.8%
Oklahoma	1.8%	Colorado	5.9%
Nebraska	1.9%	Mississippi	5.9%
North Carolina	1.9%	Louisiana	6.0%
Pennsylvania	2.1%	New York	6.1%
Kentucky	2.1%	Texas	6.2%
Maryland	2.2%	Florida	6.3%
Wyoming	2.6%	Michigan	6.7%
Tennessee	2.6%	Hawaii	6.8%
Indiana	3.4%	South Dakota	7.3%
Vermont	3.5%	California	7.3%
Alaska	3.6%	Nevada	7.5%
New Hampshire	3.8%	North Dakota	7.7%
West Virginia	4.0%	Idaho	8.6%
Georgia	4.0%	Montana	8.8%
Missouri	4.2%	Utah	10.0%
New Mexico	4.3%	Arizona	13.0%

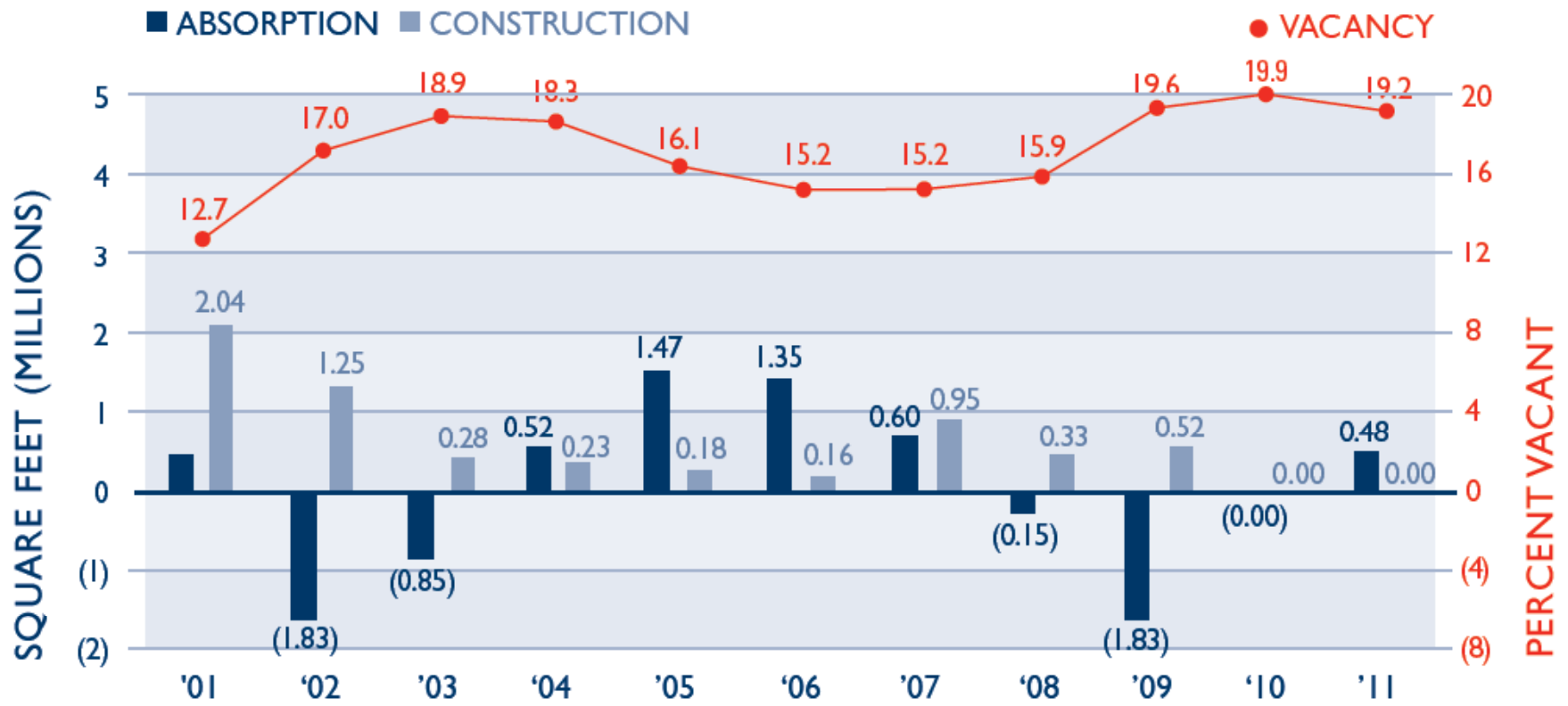


## Twin Cities Submarkets 2012 2nd Qtr



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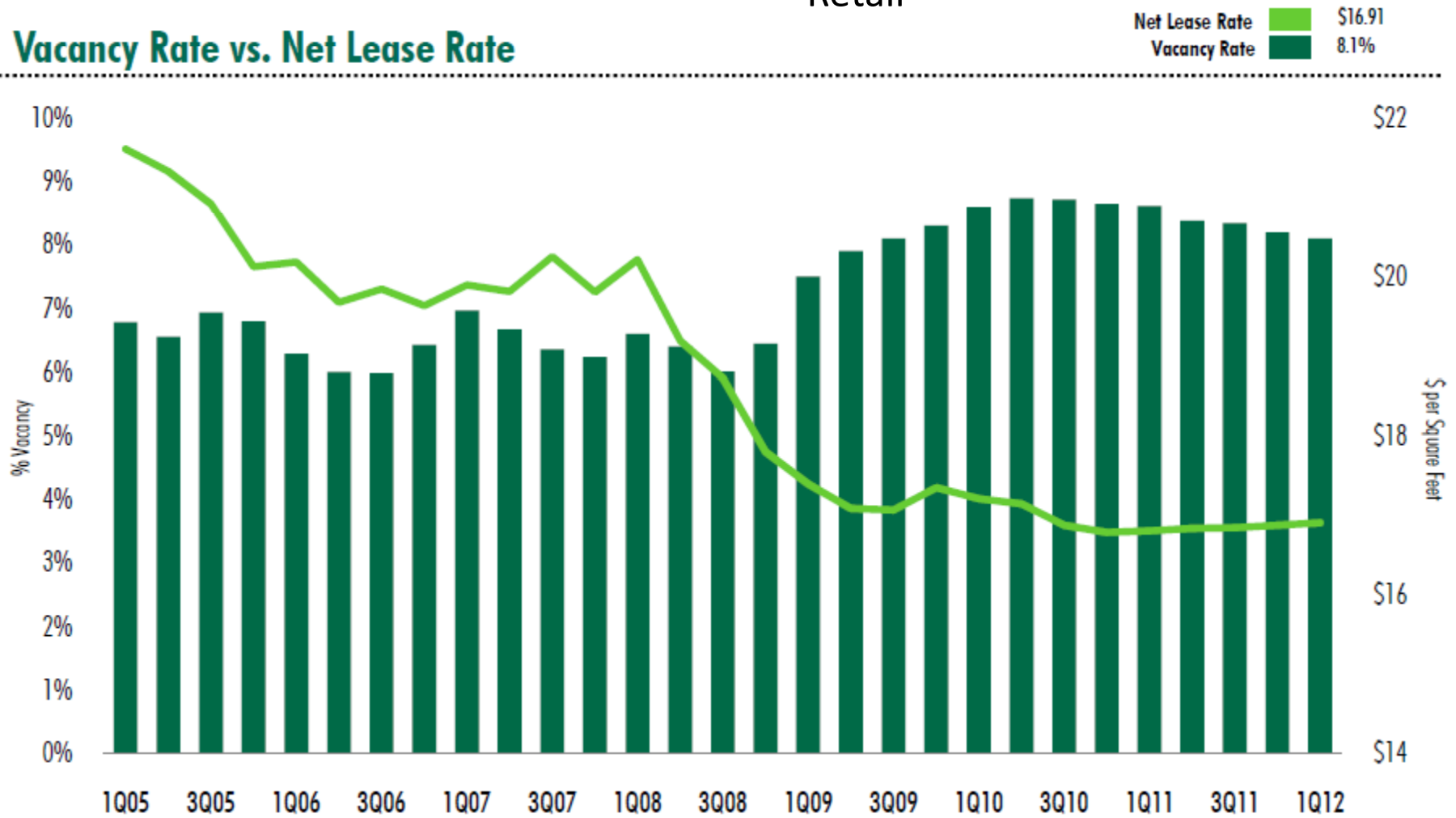
## OFFICE ABSORPTION, CONSTRUCTION AND VACANCY



Source: Cushman & Wakefield / NorthMarq

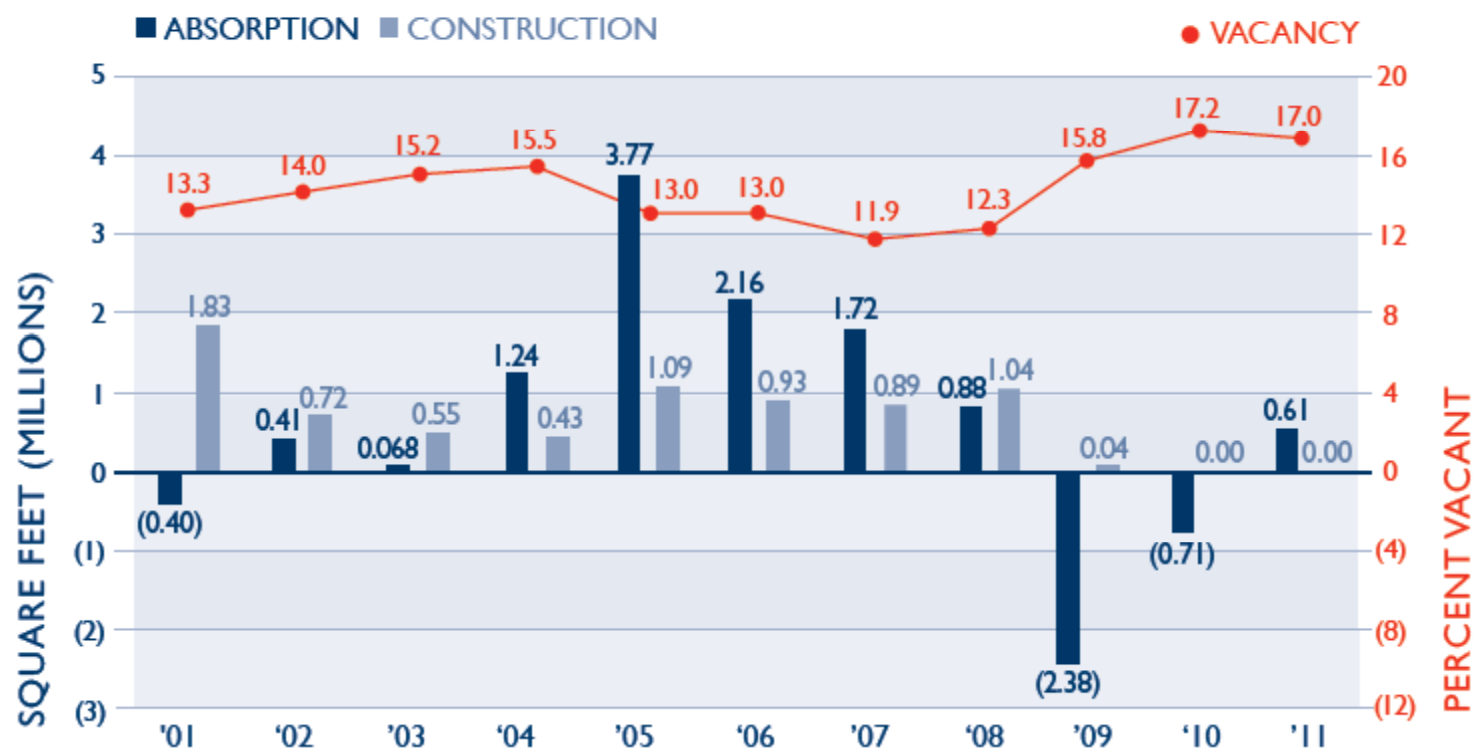
## Retail

### Vacancy Rate vs. Net Lease Rate



© 2011, CBRE

## INDUSTRIAL ABSORPTION, CONSTRUCTION AND VACANCY





## Truth #1

Real estate, in general, is struggling to recover from its present weak position in the near term.

## Truth #2

Housing is not going to recover and will be a drag on the markets as long as unemployment and foreclosures remain high.

## Truth #3

Americans must change their ways of thinking about our economy and realize we compete in a “world economy”. Our incomes and use of resources are measured in a world context, not just here in Minnesota or the United States.

## Truth #4

Financial foreclosures in real estate and businesses will not abate soon. Banks are not yet on solid footings, so the Federal Reserve is left sponsoring aggressive monetary policies.

## Truth #5

Evidence of growing inflation is not on the near horizon. Interest rates will likely stay below historic norms until there are clear signals of economic growth.

## Architecture Billings Index

