



**Capital Metes and Bounds**

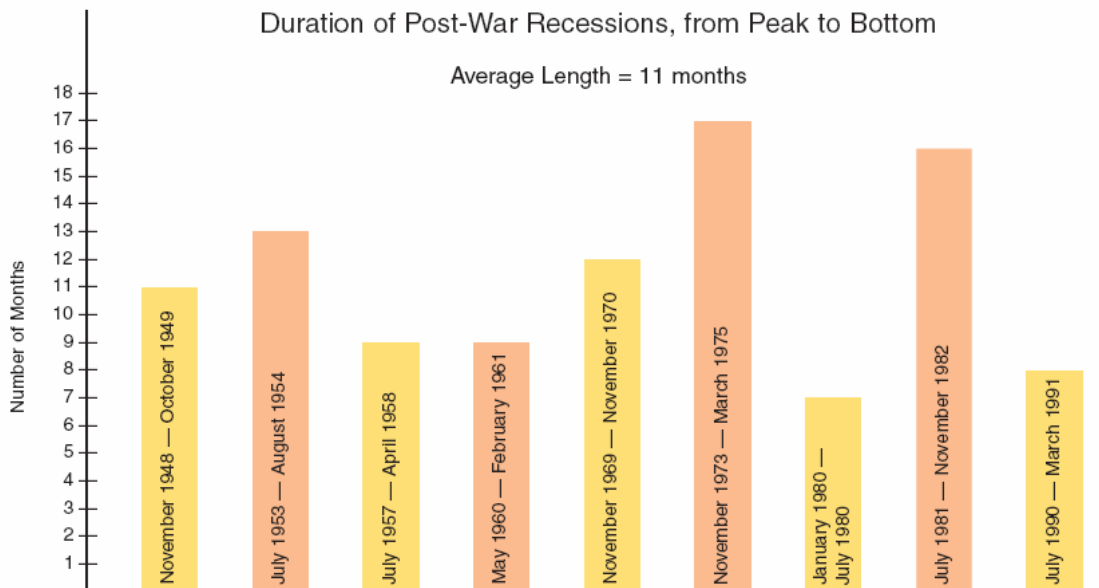
*By James M. Murphy, CMB, CRI*

**Economic Good News**

**“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty. “  
-Winston Churchill**

The loss of jobs since the beginning of this recession has now exceeded 5 million and the rate of job loss shows no sign of abatement. Obviously, this portends bad news for commercial real estate since unemployed people don’t buy in retail stores, don’t occupy office space and don’t create warehouse demand by either making goods for export or demanding goods to be imported. Perhaps the one bright spot continues to be apartments, where folks continue to rent while saving up for their down payment on a home.

When the fundamentals of the employment market are combined with the scarcity of capital for commercial real estate, things look pretty dark. There is no doubt that the road ahead for owners and investors in real estate is lumpy and the worst is not behind us. However, if you are inclined toward optimism, you can find at least 14 reasons for optimism in the dark clouds ahead. If this recession started in November of 2007 as most economists agree, then we have just entered our 17th month of the downturn. Since the depression, the average duration of a recession is 11 months and the longest has been 17 months, as shown below. Most everyone argues that this is worse than all previous downturns but how much worse and how much longer can it last?



Source: National Bureau of Economic Research

Here are 14 reasons to be optimistic when you look at the economy. While this does not mean an immediate turn around, it could mean the end is in sight.

1. A broad rally in stocks, confirmed last Thursday, continuing into this week and led by the beaten-down financials.
2. A surprising 22% surge in February housing starts to a seasonally adjusted annual rate of 583,000 units.
3. A back-to-back jump in retail sales ex autos, in both January and February.
4. A return to profitability at several major banks, including Citigroup, Bank of America and JP Morgan.
5. A doubling in the obscure but important Baltic Dry Index, a key indicator of global trade flows.
6. An upwardly sloping yield curve which Fed research suggests all but ensures a rebound by year-end.
7. A Housing Affordability Index that has hit an all-time high.
8. A two-month improvement in wholesale used-car prices, measured by the Manheim Index.
9. A rise in Monster's Employment Index in February, suggesting a turn in the job market may be around the corner.
10. A 4 1/2-year high in the dollar against other major currencies, on a trade-weighted basis.
11. A sharp increase in the money supply, as measured by M2 and M1. Weekly M2 growth has averaged 10.1% year-over-year since the start of 2009, while M1 has grown at a 14.6% rate.
12. A two-month rally in the Index of Leading Indicators.
13. A growing body of evidence that the "liquidity crunch" is dead. Data show nearly \$14 trillion in liquidity on the sidelines of the markets, ready to boost consumer spending, credit growth or further stock market gains.
14. The United States still leads the world in Net Worth and GDP when adjusted for exchange rates.

If any of the facts above are correct, real estate investors could be looking at the best opportunity to buy in decades with prices close to a cyclical low and commercial mortgage rate still attractive when compared to capitalization rates. All that is needed is for buyers to enter and give the industry a benchmark. This will require some sellers to recognize that the days of 6% capitalization are gone for a long time to come.

For anyone looking to buy today, there is debt available for investors willing to put 30% to 35% cash in or less if the investor is willing to add guarantees. Q10|Capital has closed \$167 million in the first quarter of this year. Give your Q10|New England Realty Loan Officer a call to find out more about availability of capital in this challenging environment.