

What is the current state of the recession in the United States?

What we have right now is a wrong definition of recession. The current definition that Congress goes by is two or more consecutive quarters of decline in gross domestic product, but that doesn't cover the pain factor. I think the new definition should be six or more consecutive months of decline in employment because I don't see how you can ever have a jobless recovery.

Can you tell me where we stand on unemployment?

From January 1, 2008 to January 31, 2010, we lost 8.4 million jobs in the nation. We have 100,000 to 120,000 net new people who enter the work force every month. So to just stay even you need to create 100,000 to 120,000 new jobs a month. Taking that into consideration, we've lost another 2.75 million, so we are down at least 11 million-plus jobs.

What do you see ahead for lending in commercial real estate?

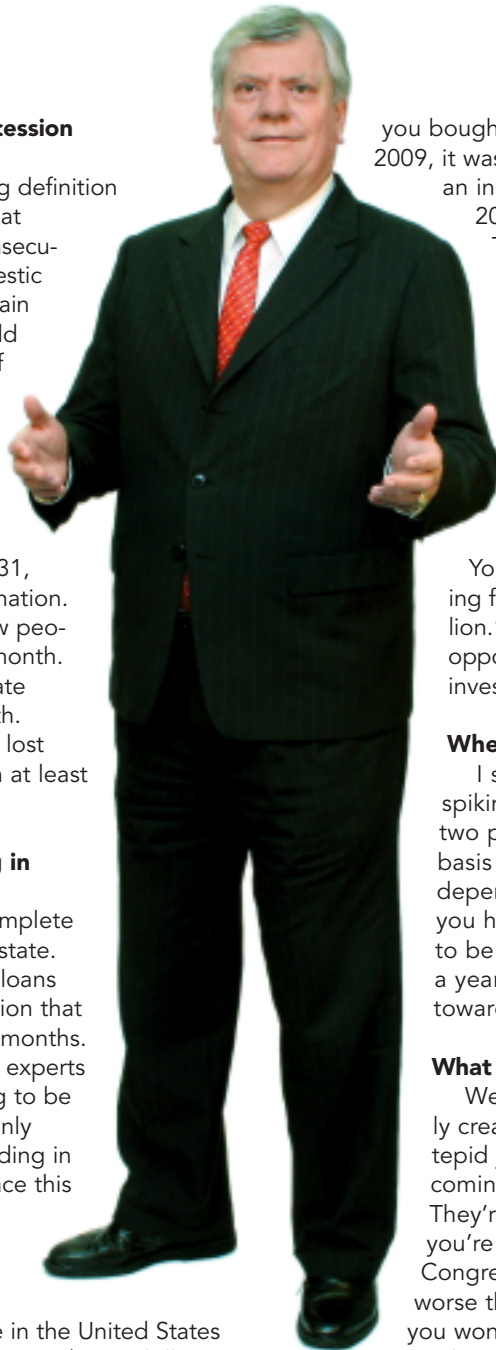
Where we are at right now is a complete lack of funding for commercial real estate. There are \$3.5 trillion of commercial loans outstanding, and we've got \$400 billion that is due to refinance in the coming 12 months. And the money is just not there. The experts on Wall Street are saying we're going to be at least \$300 billion short, so we're only going to get \$100 billion of total lending in the commercial real estate marketplace this year.

What about commercial real estate sales volume?

The total commercial sales volume in the United States for 2007 was \$557.8 billion. In 2008, it was \$181.6 billion. In 2009, it was \$54.4 billion. So our total commercial sales volume in 2009 was less than one-tenth of what it was two years ago.

Can you give us some examples of commercial real estate values today?

The National Council of Real Estate Investment Fiduciaries is a trade association of pension funds that have more than 6,200 Class A properties in their portfolios. They look at what property values have done for industrial, apartment, office, and retail. If you bought an office property in the third quarter of 2007, it's now worth 41.1 percent less. If



you bought a retail property in 2007, by the end of 2009, it was worth 31.2 percent less. If you bought an industrial property in the second quarter of 2007, it was worth 42.4 percent less.

Those estimates are being realized in this database of sales transactions.

Is there a silver lining in all of this?

In the next 12 to 24 months, I think what we are going to see what are probably the best buying opportunities that we've seen since 1988-89. We're going to look back five years from now and slap ourselves for not having bought more commercial real estate.

You'll think, "I could have bought that building for \$5 million, and it just sold for \$19 million." We sit at the crossroads of incredible opportunity amongst the ruins of current investors.

Where do you see interest rates going?

I see interest rates spiking, and when I say spiking, I mean a 200 basis points increase or two percent. Commercial loans are so many basis points above a 10-year treasury note, depending on what type of property quality you have and where it's located. We're going to be looking at 100 to 200 basis points more a year from today, and I'm skewing more toward the 200 basis points side.

What about job growth?

We haven't been spending money that really creates jobs, so I think we're going to see tepid job growth. It's going to be like tulips coming out of the ground after a severe frost. They're going to be a little mangled, but you're going to see some. This is assuming that Congress acts. If they don't, it's going to be worse than tepid. For every 100 bulbs planted, you won't see a whole lot of foliage and color out there.

Has the stimulus bill helped?

It's the most unstimulating stimulus we have ever seen as a country in my lifetime. American taxpayers have had enough and want to see some different kinds of spending. I'm forecasting in the next 60 to 90 days, Congress will go in and pass another stimulus bill. They will spend another \$200 billion, and we will finally see incentives for small business, which create 70 to 90 percent of all jobs. Jobs are absolutely everything to our economy, and all of our spending up to now has not been focused on job creation.

What impact will rising oil prices have on the economy?

If oil were produced in the U.S. by U.S. workers, then we would be employing a whole lot of people. Unfortunately, we are importing not quite 70 percent of our oil. The largest tax that the taxpayer pays is for overseas oil because it's a net bleed of cash out of our system. Other than perhaps Canada and Mexico, most of the countries that we buy oil from don't buy a whole lot from us, so it's a net leakage out of our system. If we want to put this country back to work, we would start to take a serious look at alternative forms of energy that are economically viable. In the long run we're going to see some of this, but right now the economics are not there.

What should businesses do now to weather this storm?

This is a time to go back and rethink your business model. This is a time that you minimize your expenses and vigorously appeal your property taxes. This is the time to be a survivor, and being a survivor doesn't necessarily mean being a nice guy. This is the time to understand that

your customers' expectations are different than they were 24 months ago. Your customer wants it faster, quicker, now. If you don't respond to your customer, someone else will, so this is a time that you go back and be in touch with your customers. When we come out the other side, the survivors are going to be kings of their kingdom. They are going to have accumulated, maintained, and grown their wealth.

THE PROJECT

In his role as senior vice president and chief economist for Stewart Title Guaranty Company in Houston, Texas, Ted C. Jones, Ph.D., addresses the information needs of stockholders and supports economic and financial analysis for his company and its customers. Recently, Dr. Jones sat down with *Area Development* to discuss the current economic climate and the outlook for commercial real estate.