



RIO GRANDE
FOUNDATION

LIBERTY • OPPORTUNITY • PROSPERITY

Paul Gessing, President



RIO GRANDE
FOUNDATION

LIBERTY • OPPORTUNITY • PROSPERITY

Jean Baugh, Vice President

Commercial Real Estate: Don't Worry, Be Happy!

By

Vic Bruno

June 24, 2009

Commercial Real Estate: Don't Worry, Be Wary!

By
Vic Bruno

June 24, 2009

Worry

Worry is an emotion in which a person feels anxious or concerned about a real or imagined issue, ranging from personal issues such as health or finances to broader issues such as environmental pollution and social or technological change.

Most people experience short-lived episodes of worry in their lives without incident; indeed, a moderate amount of worrying may even have positive effects, if it prompts people to take precautions (e.g., fastening their seat belt or buying fire insurance) or avoid risky behaviors.

Wary

Marked by keen caution, cunning, and watchfulness especially in detecting and escaping danger

Speculation (As a Fine Art)

“Speculation is a venture based upon calculation; gambling a venture without calculation. The law makes this distinction; it sustains speculation and condemns gambling. All business is more or less speculation.”

...the qualities essential to the equipment of a speculator: self-reliance, judgment, courage, prudence, pliability”

By D.G. Watts, Published in Cosmopolitan Magazine, 1888

Back to the Economy...

Recent News...

Last Friday....The Recession will end by the end of the 3rd Quarter 2009... but job growth will not occur until sometime in 2010!

This Monday.... GDP will decline by 3% in 2009... Stock Market loses 200 points on the news

Jobs, Jobs, Jobs...

its all about JOBS!

Jobs, Jobs, Jobs...

Jobs ARE Commercial Real Estate!

Forces Shaping The Future

Dr. James Crupi

- Economist / Futurist
- Clients include the Office of the President of the United States
- www.crupi.com



Affect of Employment on Commercial Real Estate:

14,000,000 presently unemployed in the U. S.

If they had jobs, the space requirement * would be:

| | | |
|----------------|----------------|-----------------------|
| Office Space: | 1,680,000,000 | (1.68 Billion SF) or, |
| Manufacturing: | 14,000,000,000 | (14.0 Billion SF) or, |
| Warehouse: | 7,000,000,000 | (7.0 Billion SF) |

* This is a SWAG by Vic Bruno using unconventional methodology that can be found nowhere else!



Economy at a Glance

Southwest FONT SIZE: PRINT:

BROWSE EAG

[U.S. ECONOMY](#)

[CENSUS REGIONS](#)

[ABOUT THE DATA](#)

BROWSE ALL STATES

[ALABAMA](#)

[ALASKA](#)

[ARIZONA](#)

[ARKANSAS](#)

[CALIFORNIA](#)

Albuquerque, NM

Albuquerque, NM

| Data Series | Back Data | Nov 2008 | Dec 2008 | Jan 2009 | Feb 2009 | Mar 2009 | Apr 2009 |
|--|-----------|-----------|-----------|----------|----------|----------|-----------|
| Labor Force Data | | | | | | | |
| Civilian Labor Force (1) | | (4) 414.8 | (4) 412.0 | 407.0 | 408.1 | 405.0 | (P) 405.9 |
| Employment (1) | | (4) 395.3 | (4) 392.4 | 384.9 | 383.6 | 379.6 | (P) 381.7 |
| Unemployment (1) | | (4) 19.5 | (4) 19.6 | 22.0 | 24.5 | 25.5 | (P) 24.2 |
| Unemployment Rate (2) | | (4) 4.7 | (4) 4.8 | 5.4 | 6.0 | 6.3 | (P) 6.0 |

24,200 Unemployed

Albuquerque Commercial Real Estate Vacancy

Office: 1,900,000 SF

Industrial: 3,200,000 SF

Retail: 3,600,000 SF

Commercial Real Estate Vacancy Extrapolated to JOBS!

| | | |
|----------------------|--------------|---------------|
| Office: | 1,900,000 SF | 9,500 |
| Industrial: | 3,200,000 SF | 2,400 |
| Retail: | 3,600,000 SF | 18,000 |
| Total Job Potential: | | <u>29,900</u> |

Correlation of Job Growth/Losses to Vacancy

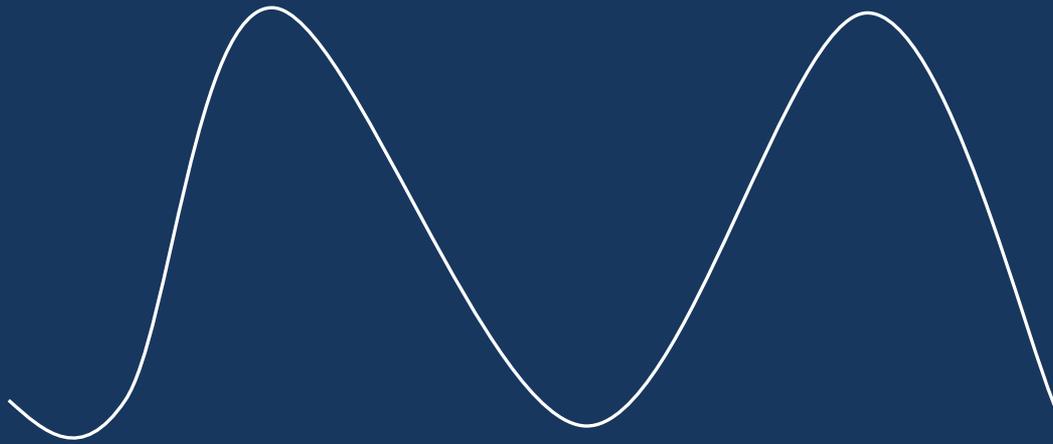
Bureau of Labor Statistics Unemployed: 24,200

Job Potential of Current Vacancy: 29,900

Banking is....

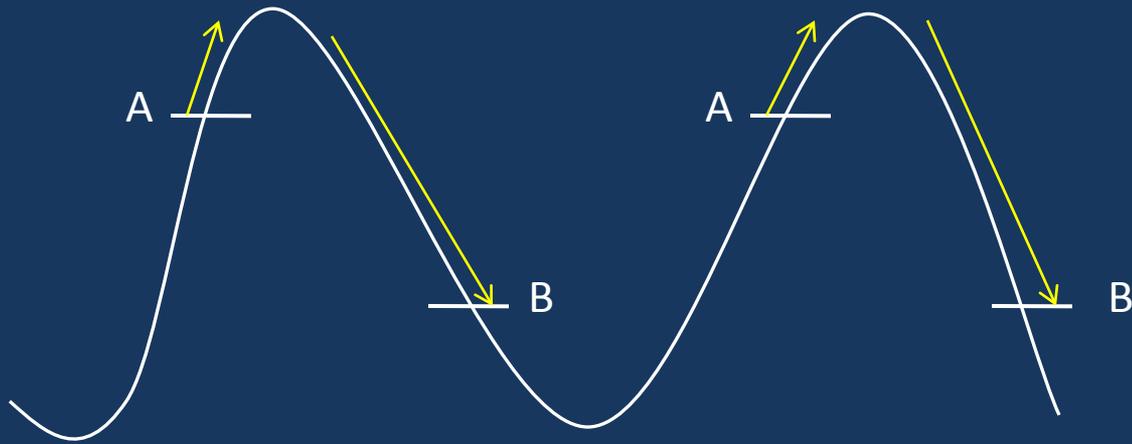
Schizoid!

Economic Business Cycle

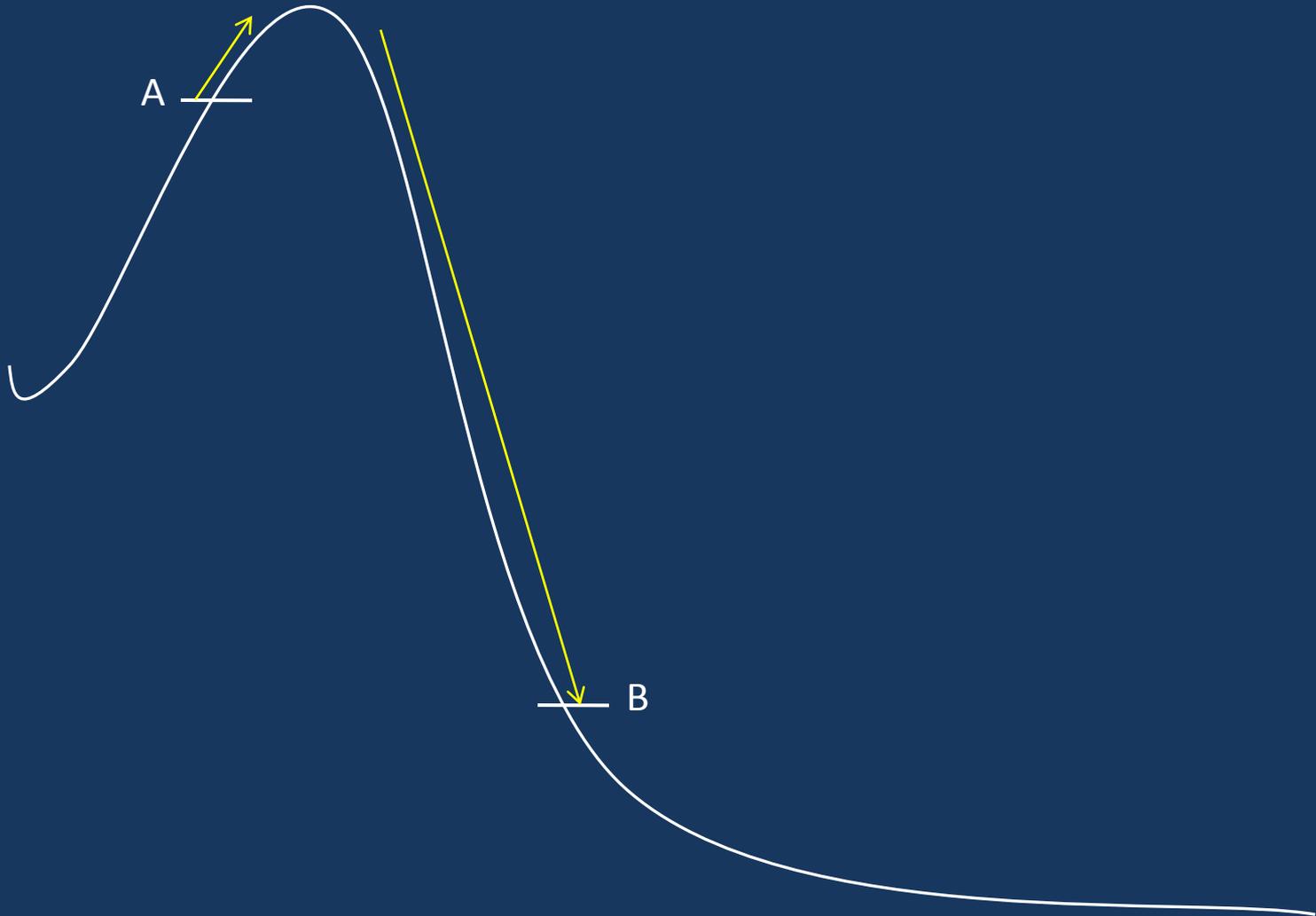


Commercial Real Estate Lending Cycle

A = Start Lending
B = Stop Lending



Is This Where We Are Now?



Is Commercial Real Estate Going to Tank?

Commercial Real Estate Loan Maturities
2009 - 2018:

\$ 1,000,000,000,000
(One Trillion Dollars)



Land... Is a finite resource!





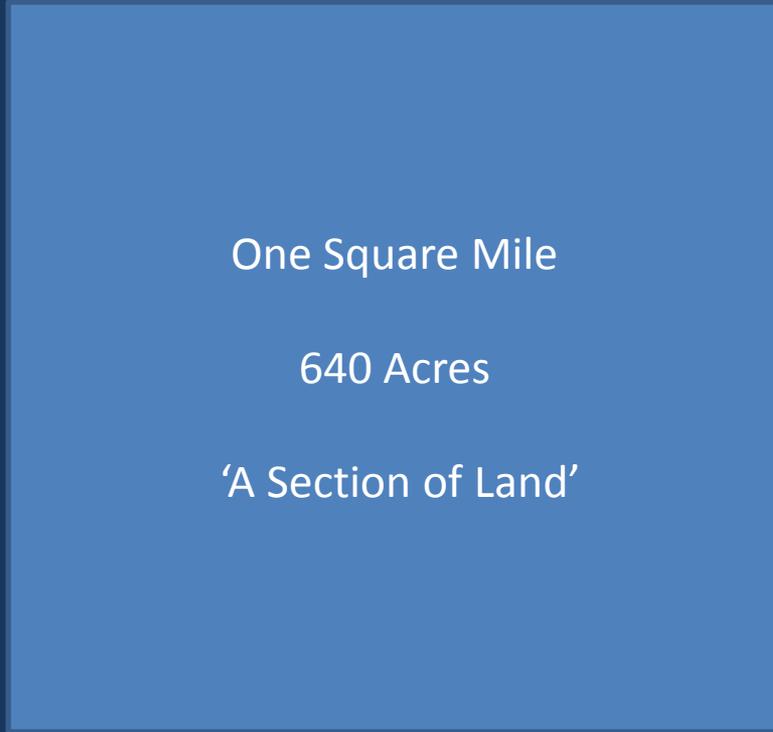




Albuquerque Facts:

| | |
|--------------------------------|---------|
| Population Within City Limits: | 505,949 |
| Population in MSA: | 845,913 |
| Square Miles of Metro Area: | 208 |
| Persons Per Square Mile: | 2,483 |

Wyoming



One Square Mile

640 Acres

'A Section of Land'

Montgomery

Candelaria

Louisiana

New Mexico has 16.3 persons per square mile ... ranked 45th of all states

New Jersey has 1,171 persons per square mile ... ranked 1st of all states

NYC has 8,310,212 people = 26,403/sq mi = 314 sq mi = 201,436 acres

LA has 3,834,330 people = 7,876/sq mi = 486 sq mi = 311,575 acres

PHX has 1,552,259 people = 2,781/sq mi = 558 sq mi = 357,226 acres

ABQ has 518,271 people = 2,484/sq mi = 208 sq mi = 133,531 acres

NM has 1,984,386 people = 16.3/sq mi = 121,665 sq mi = 77,865,600 acres

Albuquerque has 6% of NYC's population
and 66% of NYC's land area
and 9% of NYC's people/sq mi

Albuquerque has 13% of LA's population
and 42% of LA's land area
and 31% of LA's people/sq mi

Albuquerque has 33% of PHX' population
and 37% of PHX' land area
and 89% of PHX' people/sq mi

ABQ: 518,271 people = 2,484/sq mi = 208 sq mi =

133,531 acres

Mesa Del Sol = 12,000 acres

Suncal = 50,000 acres

= 62,000 acres / 133,531 acres = 46%

Rio Rancho has about 90,000 acres...

Public Policy Issues Affecting Economic Well Being Albuquerque

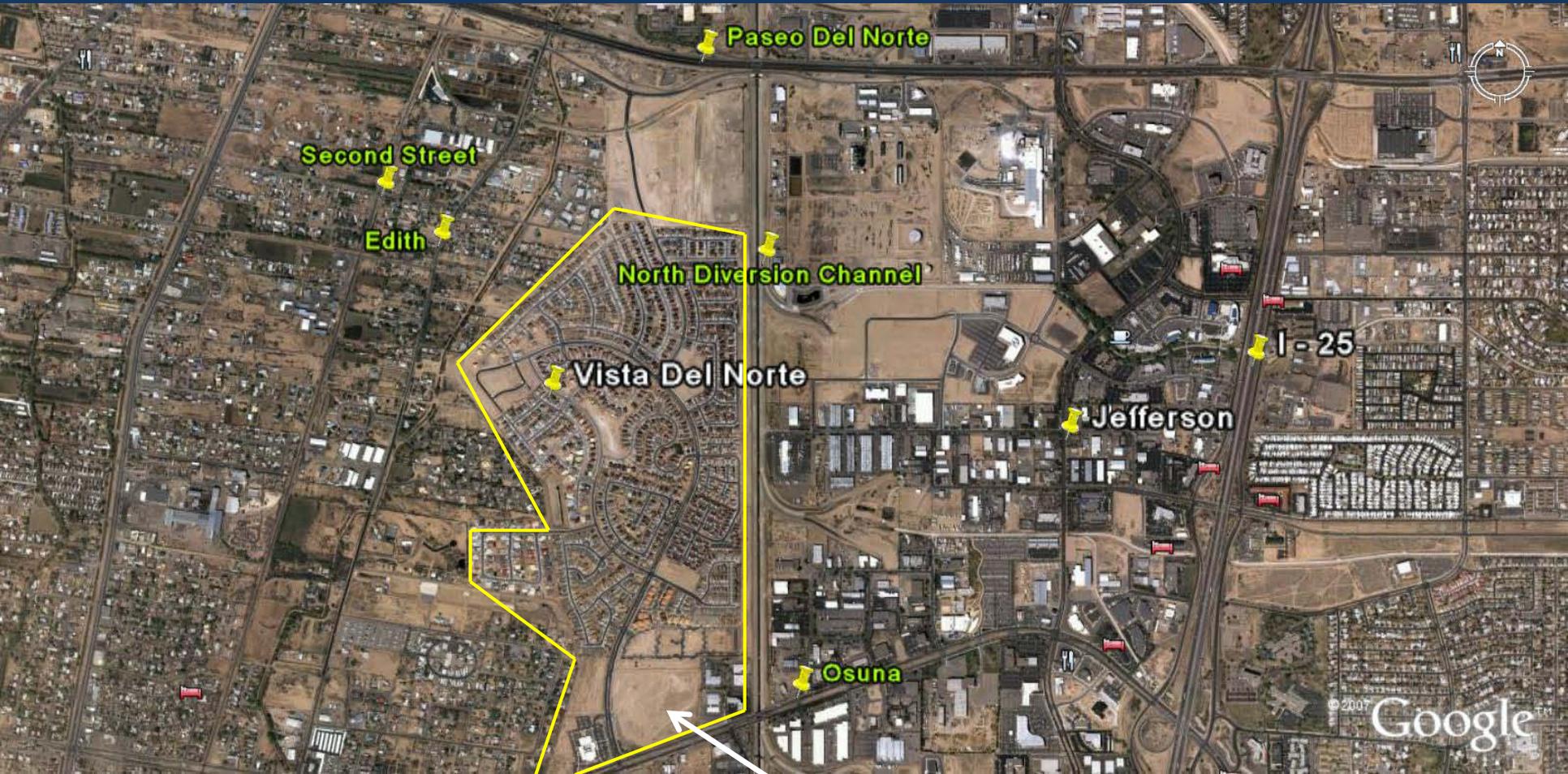
- Mayor/Council Form of Government
 - The Comprehensive Plan of 1975 + Revisions
 - Sector Planning/EPC vs Prescriptive Guidelines
 - 25 + years of down-zoning industrial land
 - 25 + years of mass transit emphasis
 - 40 years of 'Downtown Revitalization'
 - Does anyone have a dollar amount spent?
 - Planned Growth Ordinance of 2002
 - Energy Policies

Public Policy Issues Affecting Economic Well Being New Mexico

1. Legislature 1/3 Albuquerque vs 2/3 Rural NM
 - Need for ethics reform & transparency
2. Reliance on government vs free market
 - Public Welfare
 - Corporate Welfare
3. Government growth
4. Pork Barrel Spending
 - Increased taxes and fees
5. Educational failures
6. Declining infrastructure – roads vs trains

Political Foibles :

In 2002, Mayor Marty was for smart growth before he was against smart growth, before he figured out the Council had a super majority to override his veto, so he was then for it without regard to its consequences and we are now feeling the effects of it ... with impact fees on top of exactions and development policy that is totally controlled by government which creates uncertainty, delays, denials and increased cost of development ... which makes our real estate too high to be competitive in the never ending quest for job growth ... unless of course we employ the use of corporate welfare through redistribution of taxpayer monies and we all know that does nothing for small business, the economic engine of the country...



Neighbors & Politicians Killed A WalMart

Vista Del Norte Subdivision

As An Industrial Park Instead of Residential Development

| | |
|--------------------------------------|------------|
| Total Acres: | 600 |
| Less Acres Used for Roads, Etc: | - 120 |
| Net Acres: | 480 |
| Buildable Square Feet of Land: | 20,908,800 |
| Square Feet of Bldgs @ 30% Coverage: | 6,272,640 |
| Square Feet of Office @ 30%: | 1,881,792 |
| Square Feet of Whse @ 70%: | 4,390,848 |
| Office Parking: | 9,409 |
| Warehouse Parking: | 2,195 |
| Total Parking: | 11,604 |
| Total Employment @ 90% of Parking: | 10,444 |

*Each Industrial Acre supports a 13,000 SF building , which together support a potential **16** jobs.*

Impacts on the Commercial Real Estate Ahead.... Something to Contemplate:

As the world turns, the Baby Boom Generation is in the first leg of retirement and this will continue over the next twenty or so years

It is widely known that the following generation is smaller in numbers

When the Boomers have cycled out of the workforce, where will demand to fill their chairs (their portion of commercial real estate) come from?

What about....

The Declining Birth Rate

Immigration

The Internet and Virtual Offices

Global Economy

Vic's Opinion of What to be Wary of?

Politicians... Especially those promising jobs without a corresponding method for how gov't will facilitate it by removing barriers & making things happen without corporate welfare!

Realtors® ... These days, most of the herd does not possess the fundamentals of valuation methodology, did not consider themselves a part of the problem during the bubble years or now! Check for substance beyond a list of transactions completed! Hint: ask them to show you their copy of the Code of Ethics and explain to you what anything you pick out means! Then do your own research to see if its true!

Vic's Opinion of What to be Wary of?

Lenders... Find those who won't allow you to over-extend yourself, its that simple!

Media... Try to filter the drama out of news releases and look for hard facts from traditionally reliable, third party institutions. Ex: A press release from the National Association of REALTORS® should be viewed with a jaundiced eye! (But if the PR comes from an organization like the Rio Grande Foundation who has no members, that is a totally different thing altogether!)

Vic's Opinion of What to be Wary of?

Info-mercials ... Are you kidding me? Never, ever, ever buy anything from anyone about real estate you saw doing an info-mercial. Not even their E-Z, How to Book for one low price of shazam... \$19.95! plus two free steak knives... NO!

Internet Scams, The Deposed Treasury Minister from South Africa and sometimes your family members!

“Under All Is The Land.

Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization.

REALTORS® should recognize that the interests of the nation and its citizens require the highest and best use of the land and the widest distribution of land ownership. They require the creation of adequate housing, the building of functioning cities, the development of productive industries and farms, and the preservation of a healthful environment.”

Preamble to the Code of Ethics, National Association of REALTORS® 1913 to 2009