Don't Believe Everything You Hear on the News

By John Fitzmaurice, Principal, JCF Real Estate

Although the market is officially out of the Recession of 2008/2009, much of the news continues to paint a dismal picture for the Midwestern commercial real estate industry, and office in particular. These unprecedented times have left many economists baffled and unable to offer solid predictions on where the market is headed next. As a result, consumers are generally still nervous about making big decisions – particularly regarding real estate – and vacancies remain stagnant.

However, while the consensus remains apprehensive, and even pessimistic, the market isn't as bad as most would believe. Office leasing has begun to pick up pace and the number of tenants seeking new space has also increased – dramatically. Furthermore, the number of tenants shopping for space isn't likely to decrease anytime soon. For the past two years, companies have been waiting out the economy and can no longer afford to continue the holding pattern. As they come back onto the market these users will need one of three things: 1) to increase their current space due to growth or consolidation, 2) to decrease space due to cutbacks or increased efficiencies, or 3) to find new space that enables them to take advantage of today's lower rental rates.

Rental rates for office space throughout the Midwest remain at all time lows and are not likely to show signs of significant improvement until the economy demonstrates sustainable job growth – which is still three to four years away. That said tenants from the small to large, are beginning to take advantage of the lower rates and landlord concessions thereby increasing leasing activity in this sector. This is due in large part to the fact that tenants currently leasing a Class C facility now have the option to upgrade to Class B space for an equal or better rate. Likewise, those in Class B buildings can most likely find Class A space available at equivalent rates.

So while things won't begin booming anytime soon, the picture isn't as dismal as most have come to think – and this is just based on where things stand today. Two additional factors yet to play out will also likely have a significant impact on the Midwestern commercial real estate economy – the mid-term elections and Jamie Dimon. The mid-term elections will undoubtedly impact the economy and the activity in the commercial real estate market. Both Wall Street and Main Street, whether or not they acknowledge the fact, prefer gridlock in the government. Corporate decision-makers and consumers are far more likely to move the economy in the right direction than the government, and for this to happen, we need some modicum of gridlock and improved consumer confidence. After the elections, a level of uncertainty will pass and the commercial real estate market in the Midwest will start to show additional signs of life.

The second factor that will play perhaps the most significant role in improving the Midwestern economy is that the banks must realize that there is money to be made in lending again. It's no surprise that since the financial meltdown, banks and lending institutions have been reluctant to finance real estate projects and deals. However, as soon as the major financial institutions get into the game, the small to mid-size lenders will follow suit and the real estate market will get a jump start. Jamie Dimon, the CEO and President of JP Morgan Chase, can single handedly ignite this fire. A brilliant financial mind, Dimon is the one to watch – as soon as he gets back into the lending game, the other institutions will as well and we'll see a whole new kind of commercial real estate activity taking place.

Again, 2011 won't be a booming kind of a year for the Midwest – but it certainly will be better than most are expecting. We'll see an increase in activity and everyone from developers and brokers, to contractors and property managers will note an improvement. We're fortunate to be in the Midwest – one of the most diverse and sustainable economic regions in the U. S. – but that goes without saying.

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