

# Déjà Vu All Over Again

## An Economic and Real Estate Forecast for 2012

Ted C. Jones, PhD, Chief Economist, Stewart Title

<http://blog.stewart.com/>



Déjà Vu

**“The fact that we are here today to debate raising America’s debt limit is a **sign of leadership failure**. It is a sign that the US Government can not pay its own bills. It is a sign that we now depend on ongoing financial assistance from foreign countries to finance our **Government’s reckless fiscal policies**. Increasing America’s debt weakens us domestically and internationally. Leadership means that ‘the buck stops here.’ Instead, Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership. Americans deserve better.”**

***Senator* Barack H. Obama, March 2006**

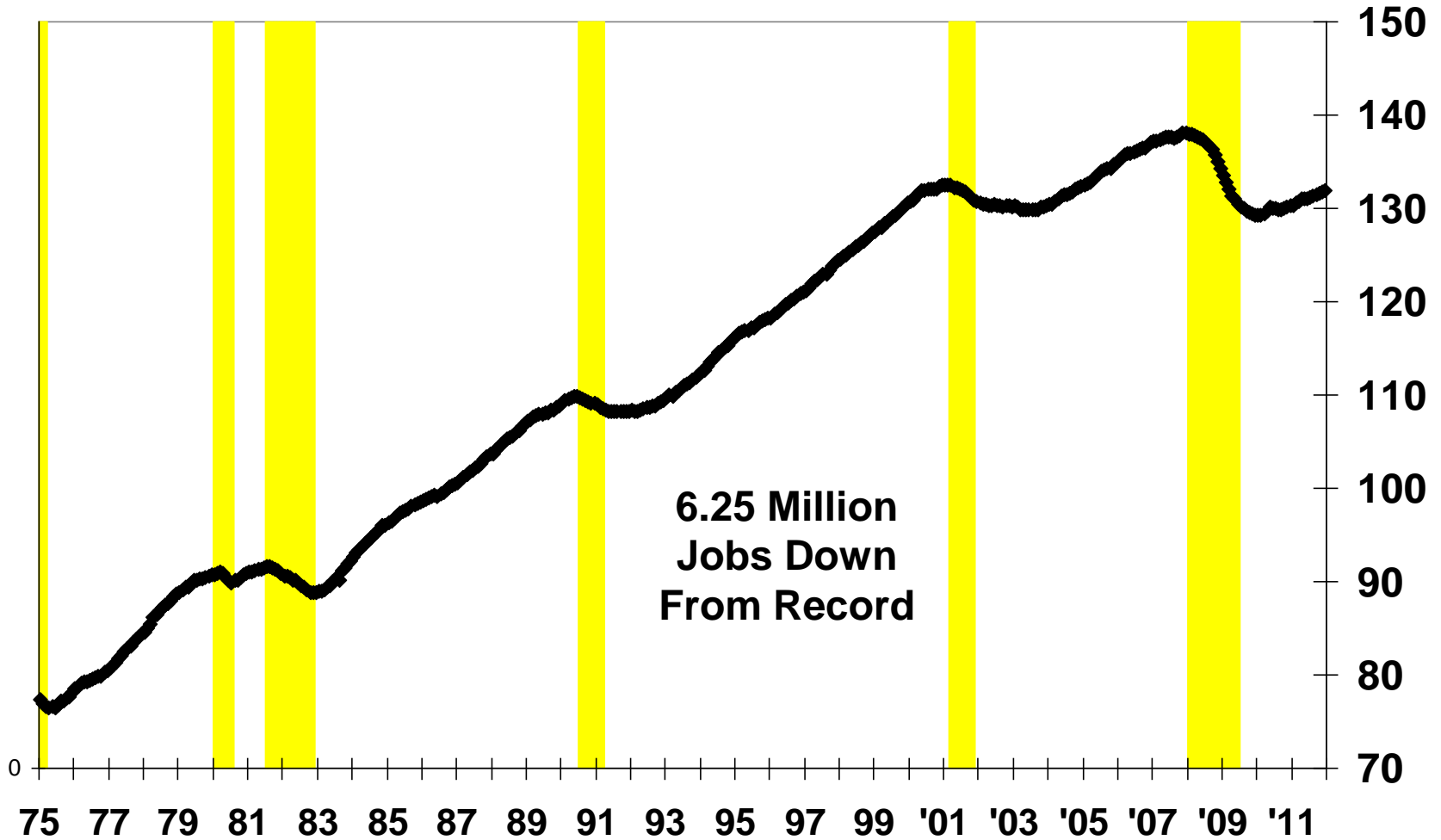
# Mega Themes

- Residential Renting vs. Owning
- Liquidity Trap
- Massive Uncertainty from Washington, DC
- Time to Over-Weight in Real Estate

# U.S. Job Numbers

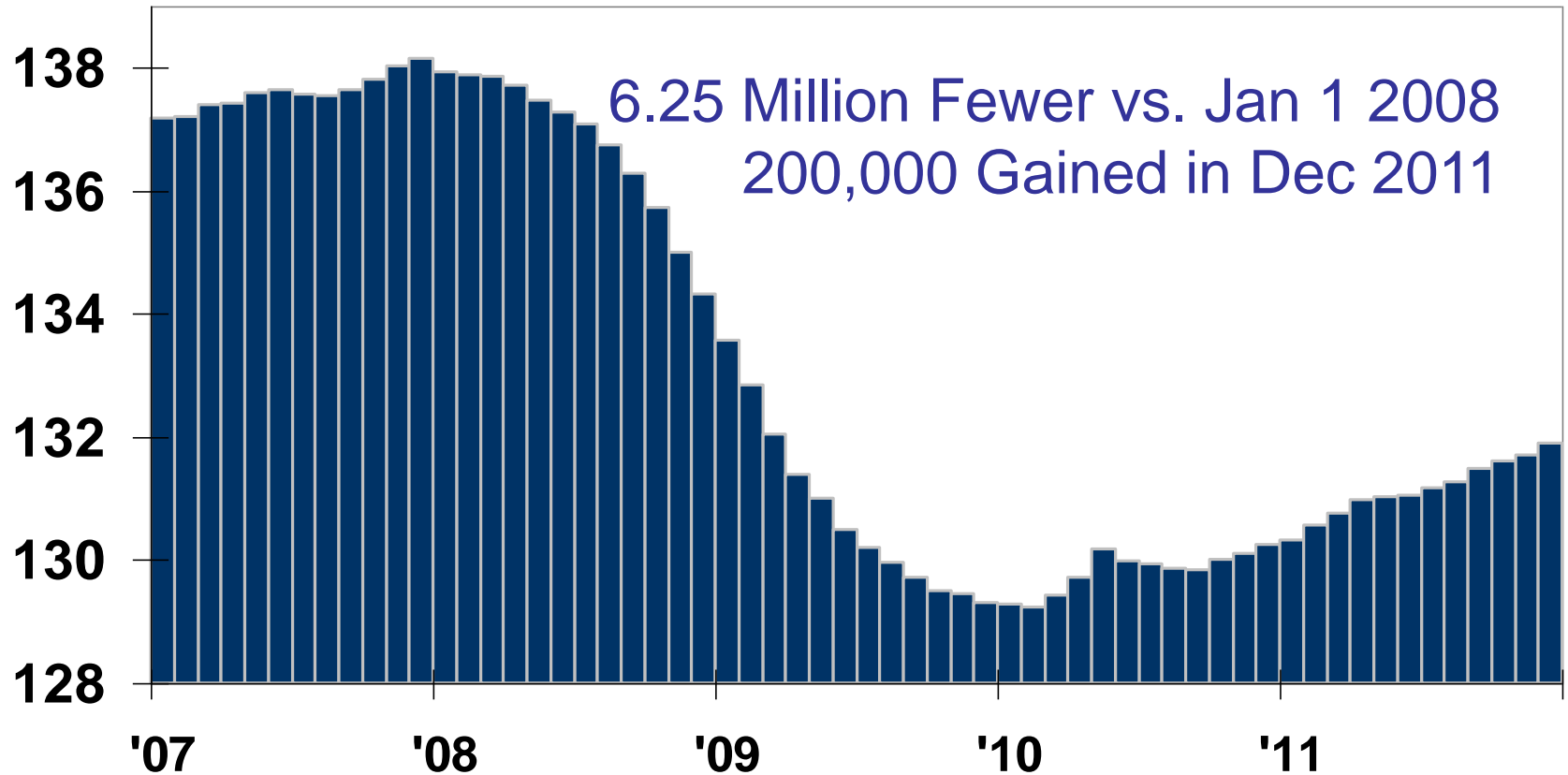
Millions of Jobs  
Seasonally-Adjusted

 Recession



# U.S. Job Numbers

Jobs (Millions) *Seasonally Adjusted*

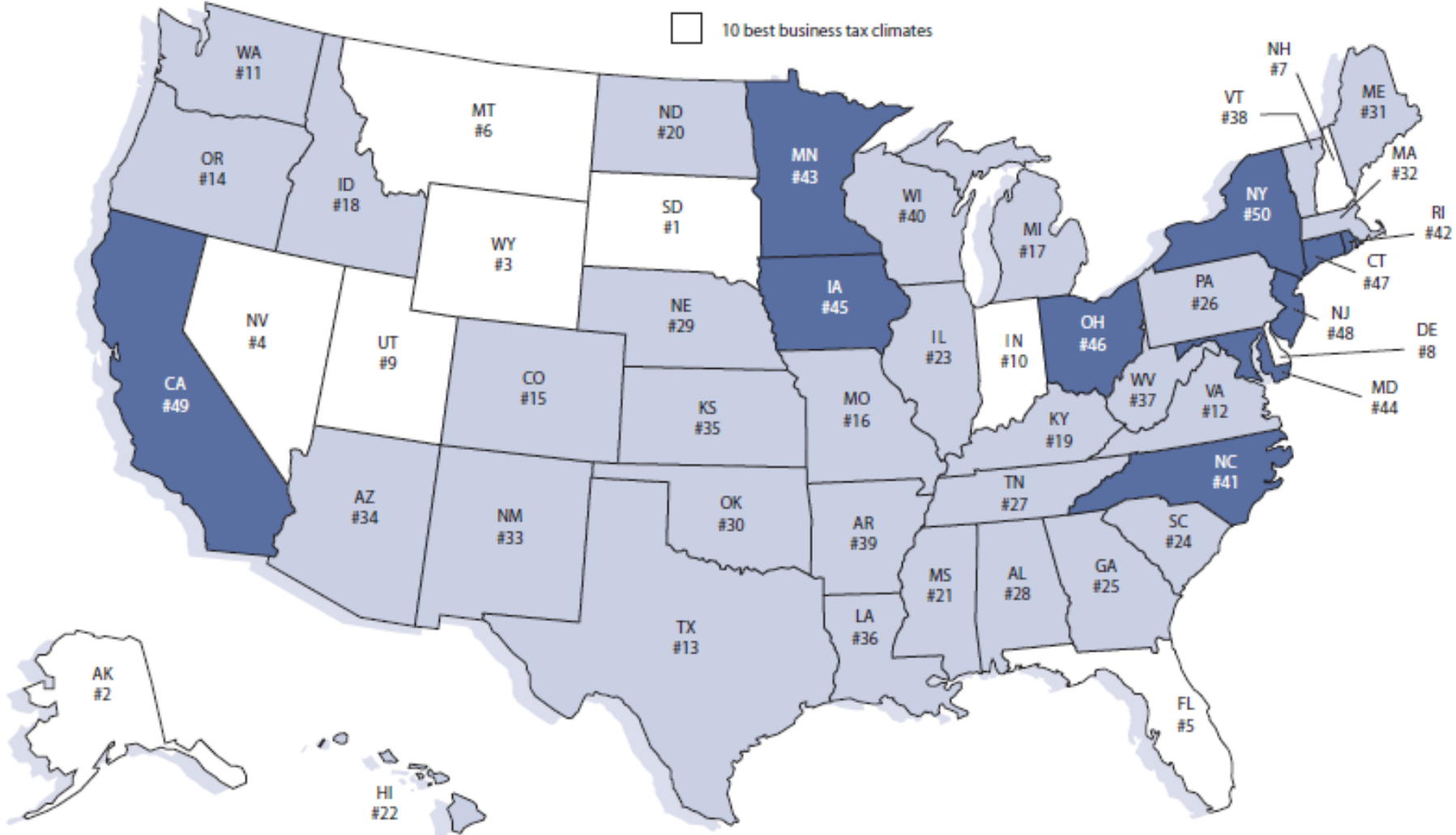


# OHIO – 46<sup>th</sup> Worst Business Tax Environment

State Business Tax Climate Index, Fiscal Year 2011

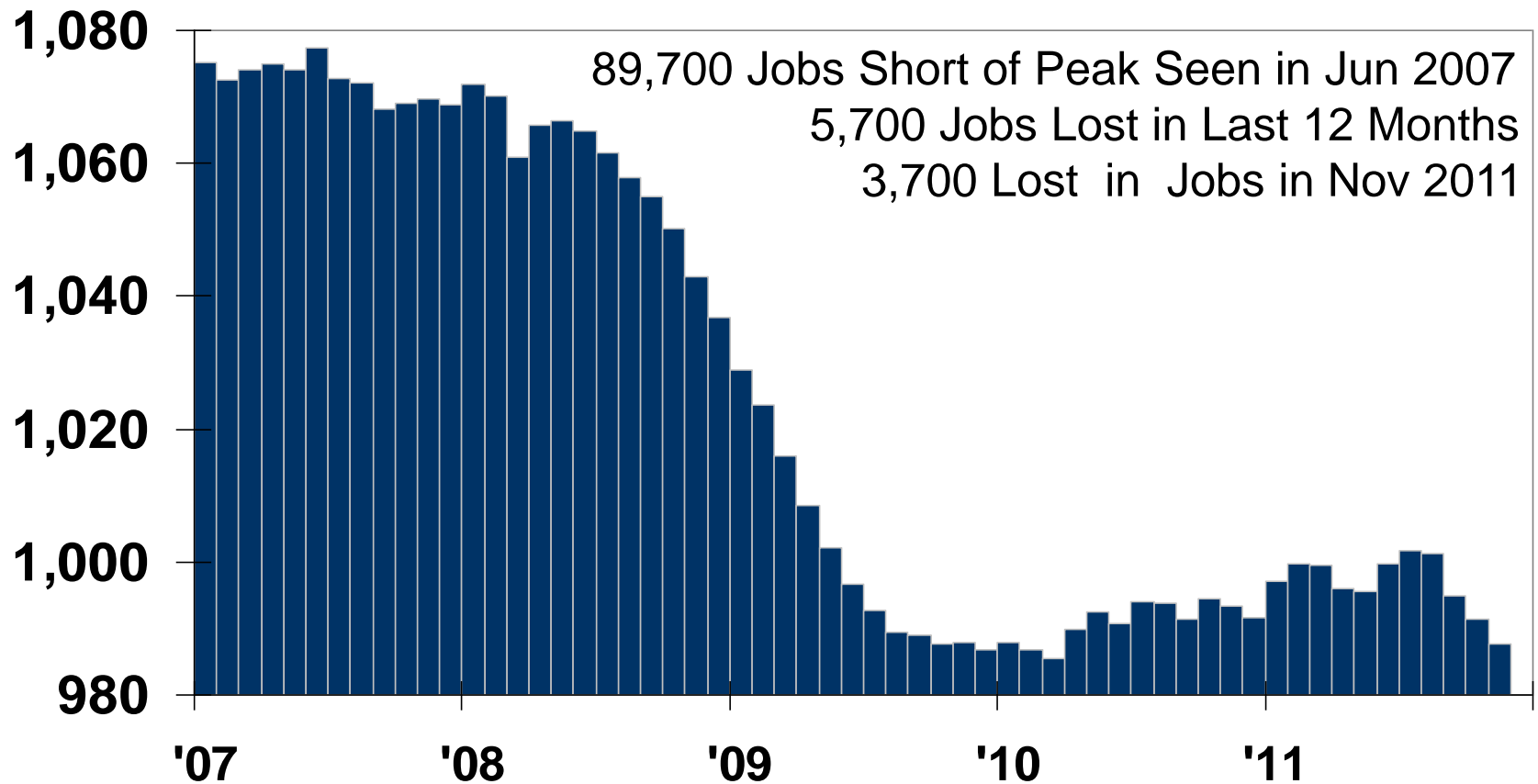
<http://taxfoundation.org/files/bp60.pdf>

- 10 worst business tax climates
- 10 best business tax climates



# Cleveland Jobs

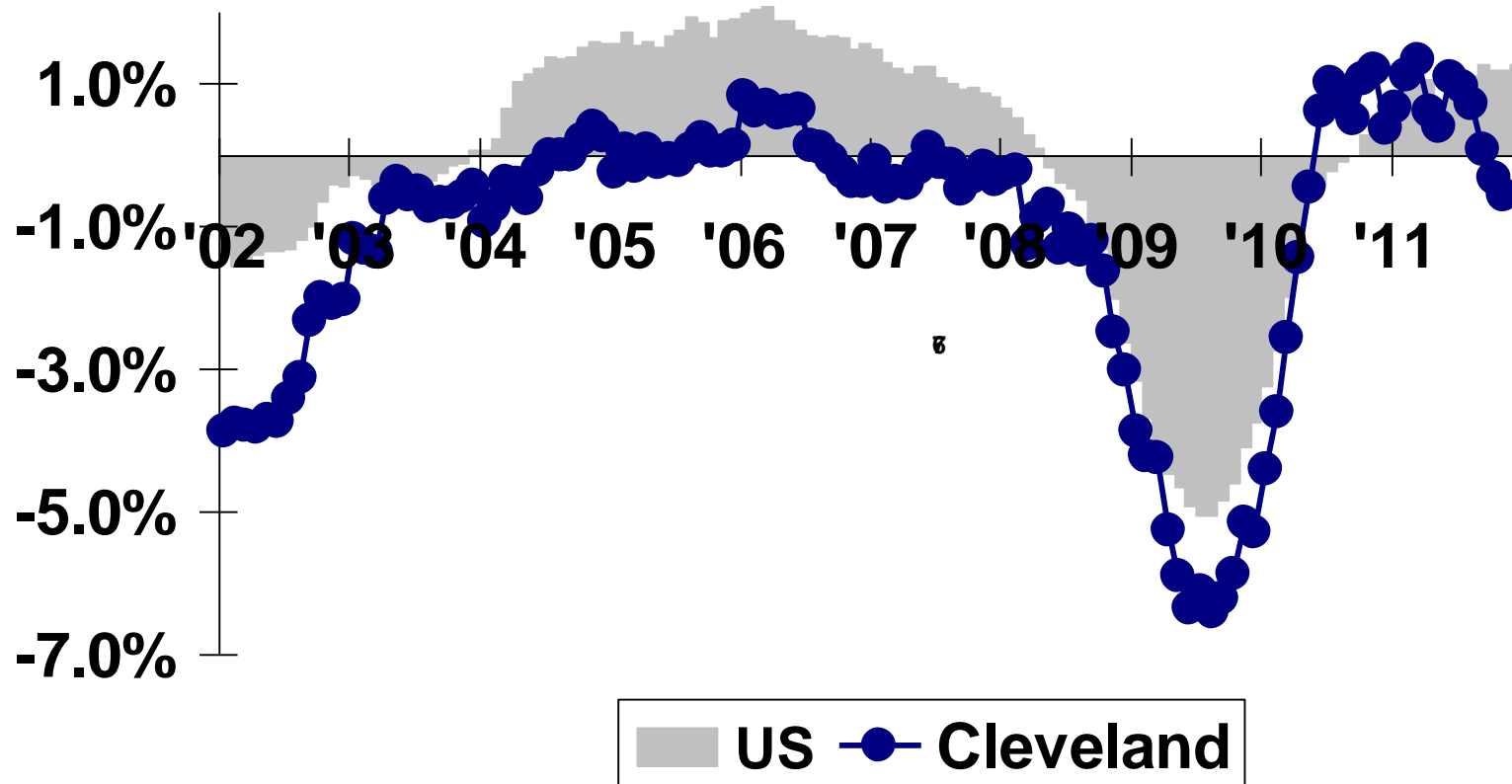
**Jobs** (*Thousands*) *Seasonally Adjusted*



# Cleveland Jobs

## Percent Change from Same Month Prior Year

Not Seasonally Adjusted



# Cost of Living Comparison

## Salary Level Requirement for Equal Standard of Living

Kansas City, KS	\$	86,763	Pittsburgh	\$	98,117
Huntsville	\$	86,829	New Orleans	\$	99,138
Oklahoma City	\$	88,217	<b>Cleveland</b>	<b>\$</b>	<b>100,000</b>
Indianapolis	\$	89,309	Milwaukee	\$	102,675
Omaha	\$	89,980	Minneapolis-St Paul	\$	105,071
Houston	\$	90,427	Atlanta	\$	105,295
Spartanburg	\$	90,623	Dallas	\$	105,766
Nashville	\$	91,294	Denver	\$	106,162
Albuquerque	\$	91,303	Seattle	\$	116,555
Columbus	\$	93,503	Chicago	\$	123,508
Detroit	\$	96,570	San Jose	\$	131,432
Salt Lake City	\$	96,607	Los Angeles	\$	151,007
Jacksonville	\$	96,774	New York City	\$	174,310

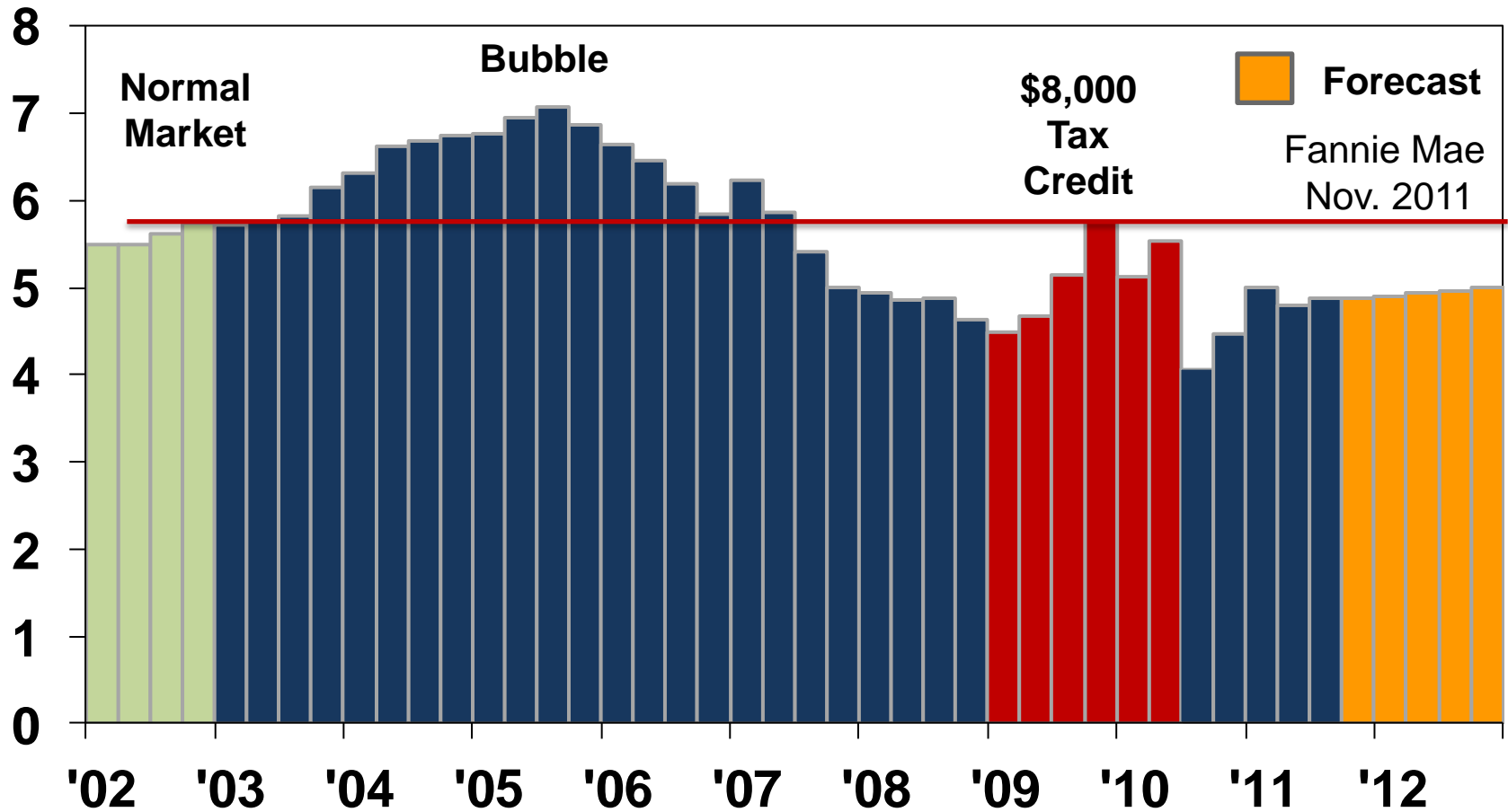
Assumes Living and Working in the Same City

<http://www.homefair.com/real-estate/cost-of-living.asp>

**stewart**<sup>®</sup>

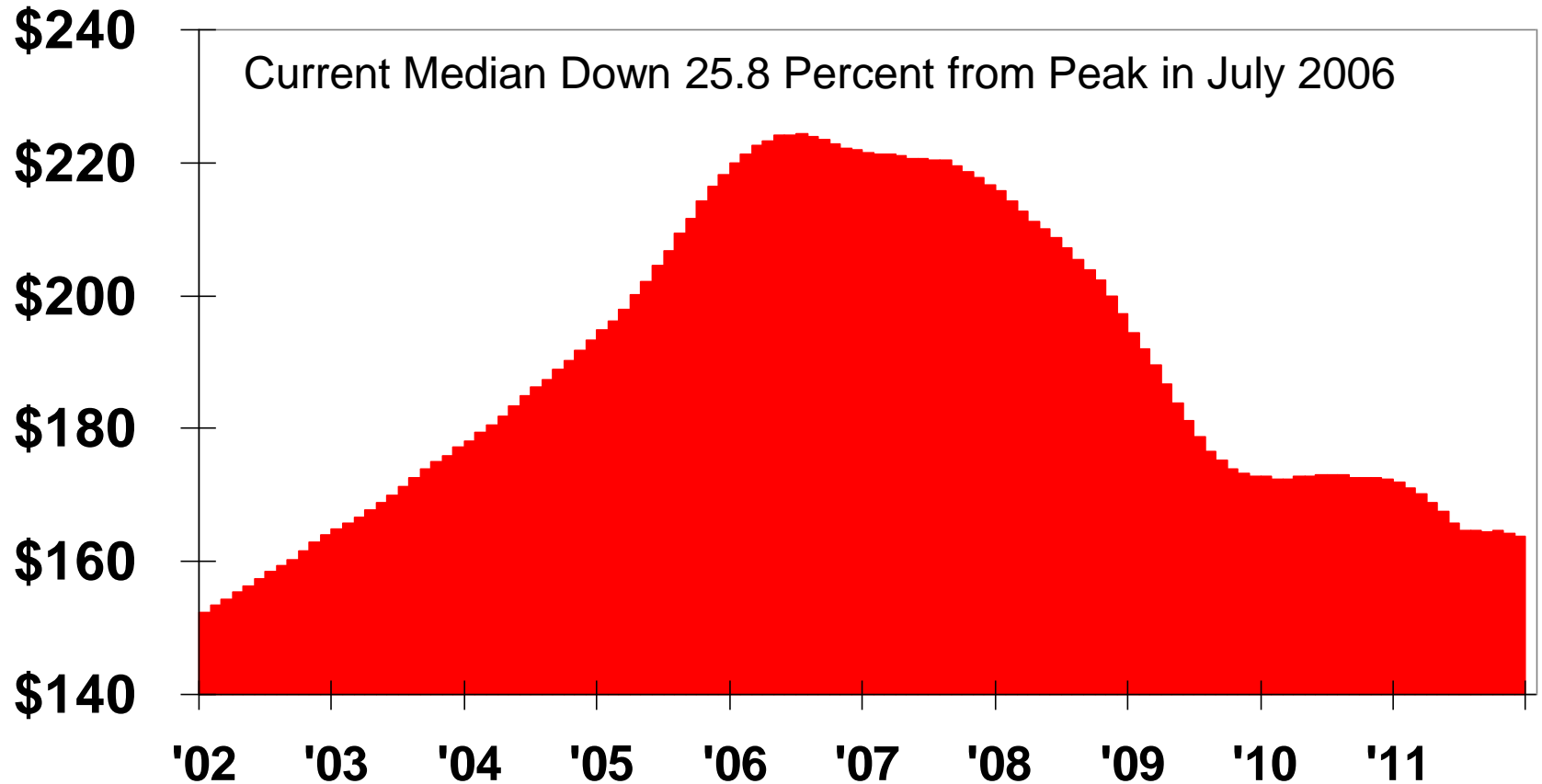
# U.S. Existing Housing Sales

Seasonally Adjusted Annualized Rate - \$ Millions



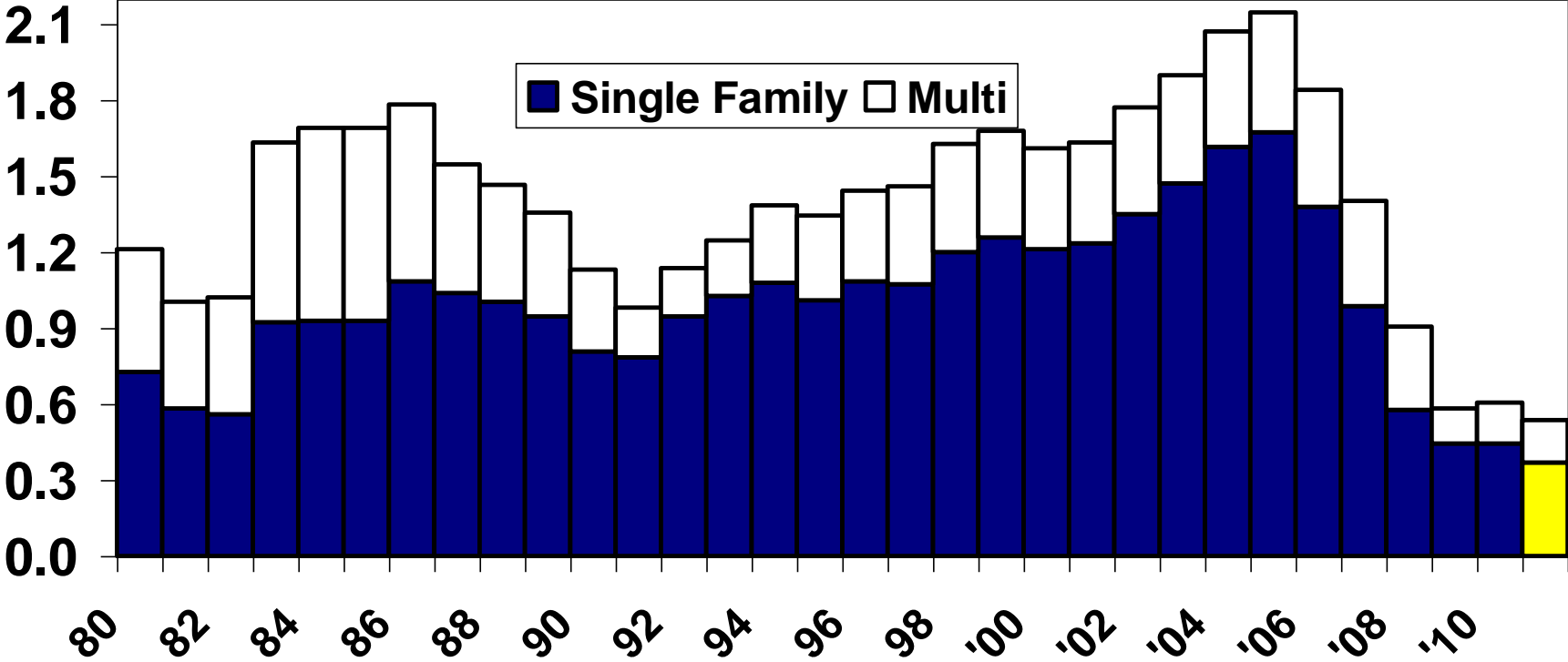
# U.S. Existing Home Sales

Median Price -- \$ Thousands -- Average for Prior 12 Months



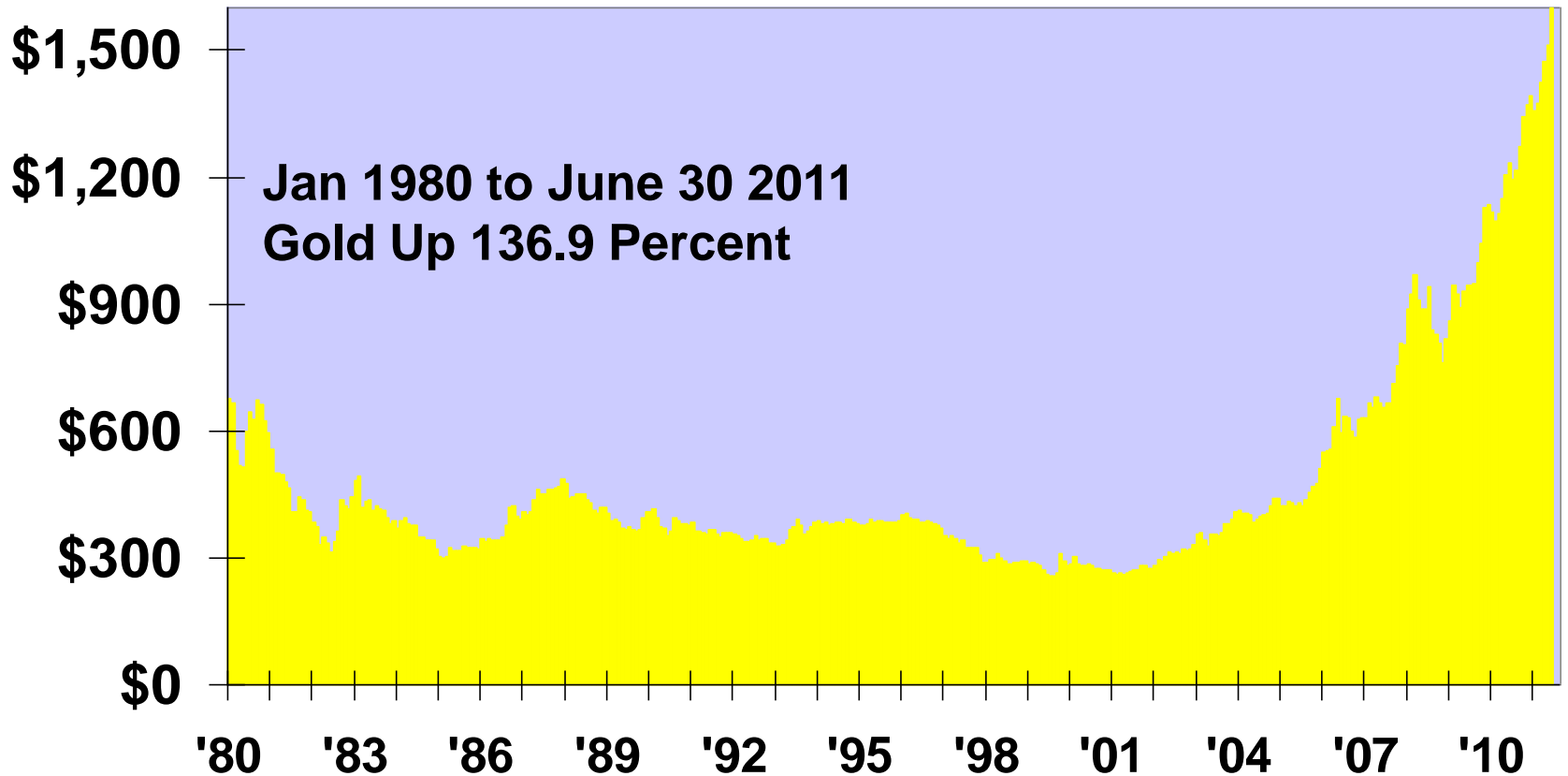
# U.S. Residential Building Permits

Number of Dwelling Units -- *Millions*



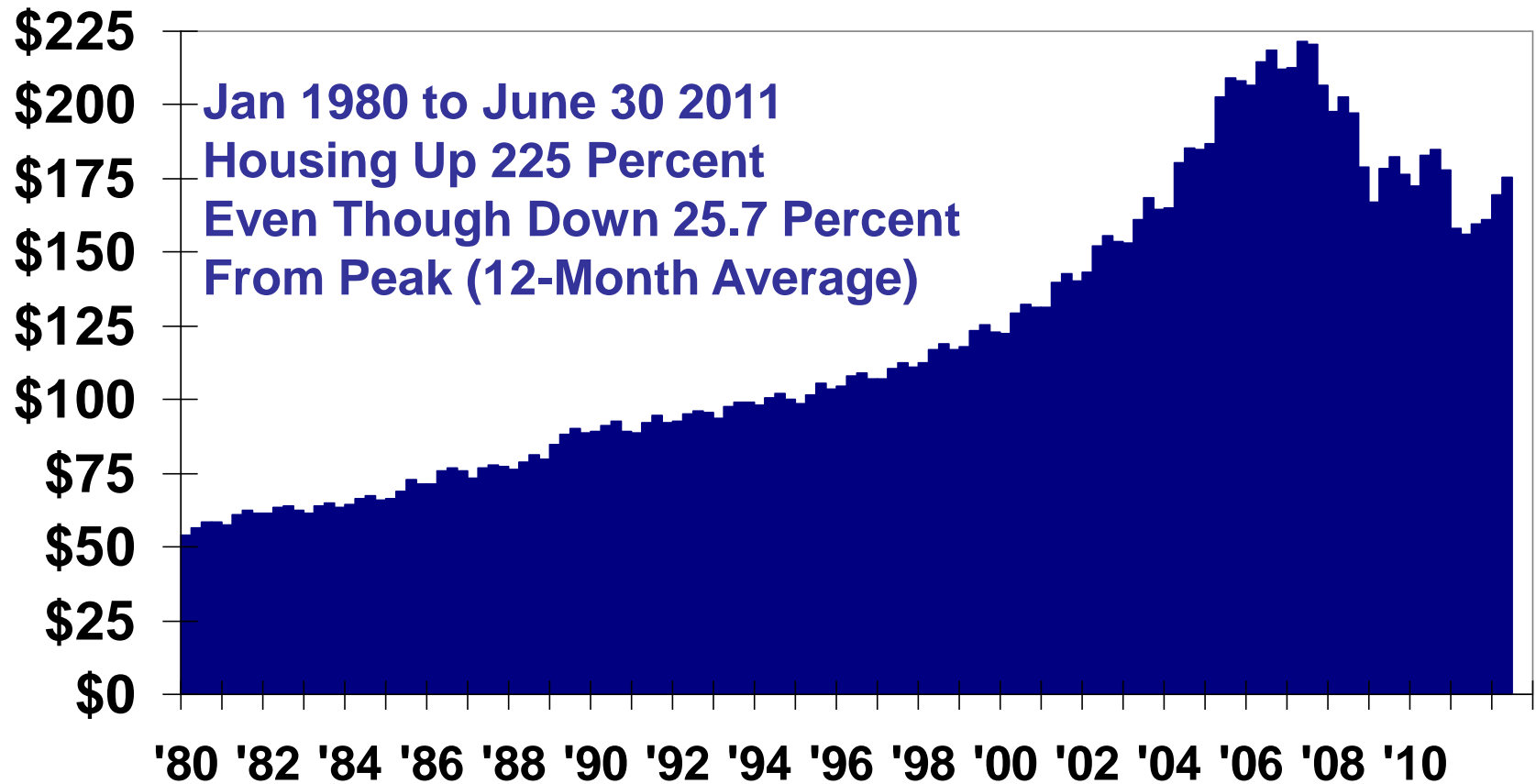
# Gold

Price Per Ounce – *Nominal (Not Inflation Adjusted)*



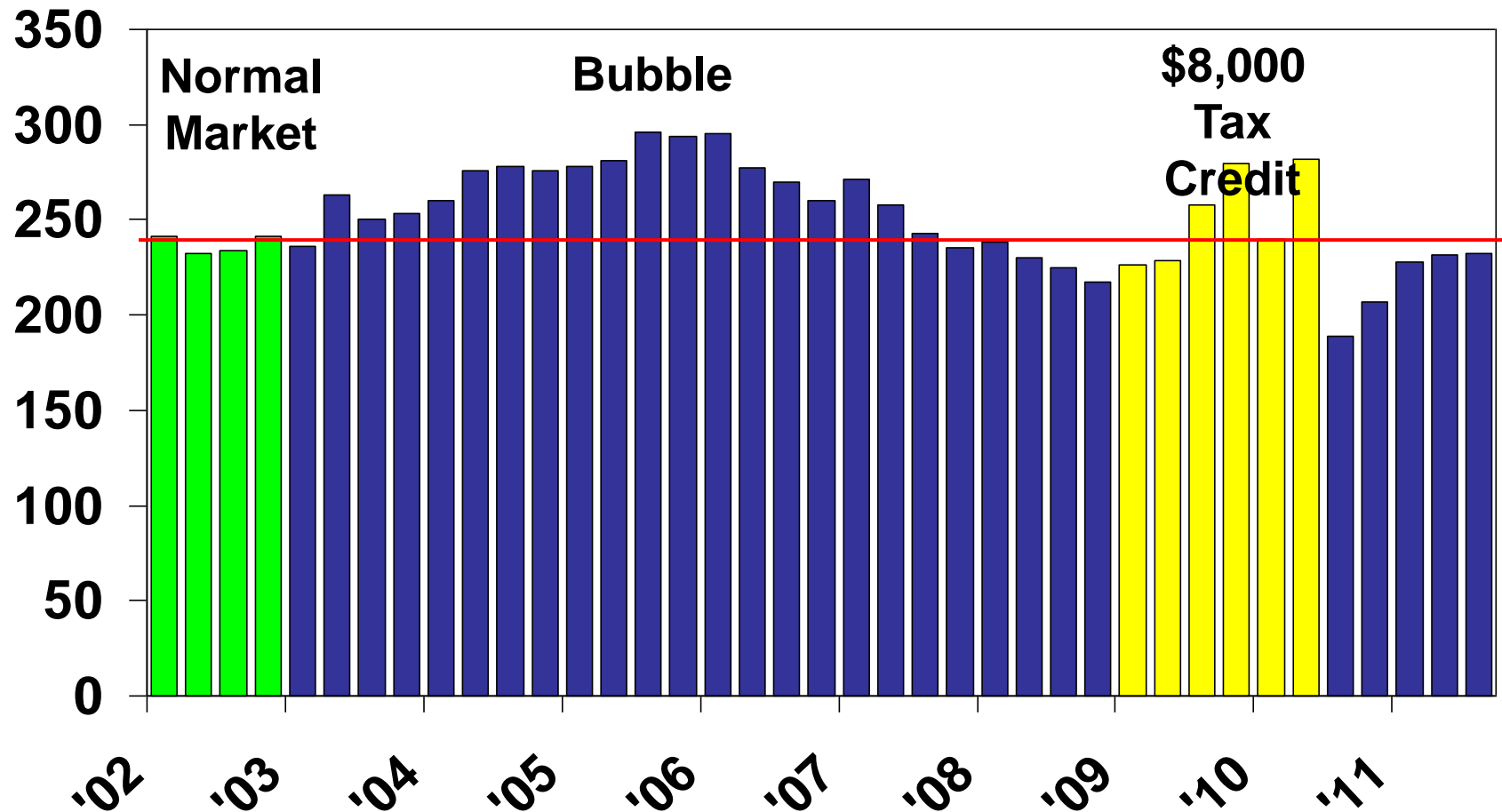
# Existing Home Prices

\$ Thousands --*Nominal* Average of MSA Medians



# Ohio Housing Sales

Seasonally Adjusted Annualized Rate -- *Thousands*

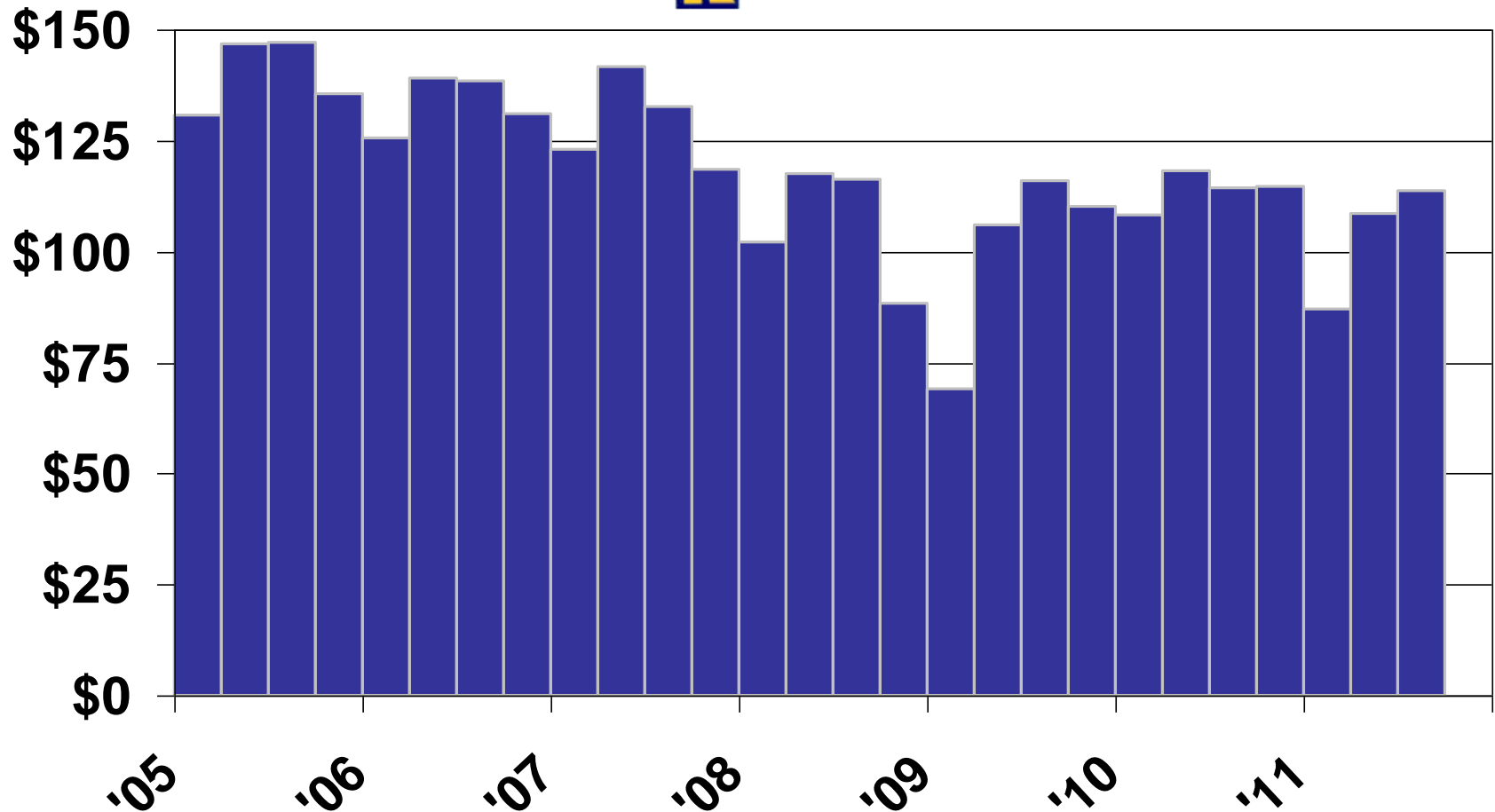


# Cleveland Housing Prices

Median Home Price -- \$ *Thousands*

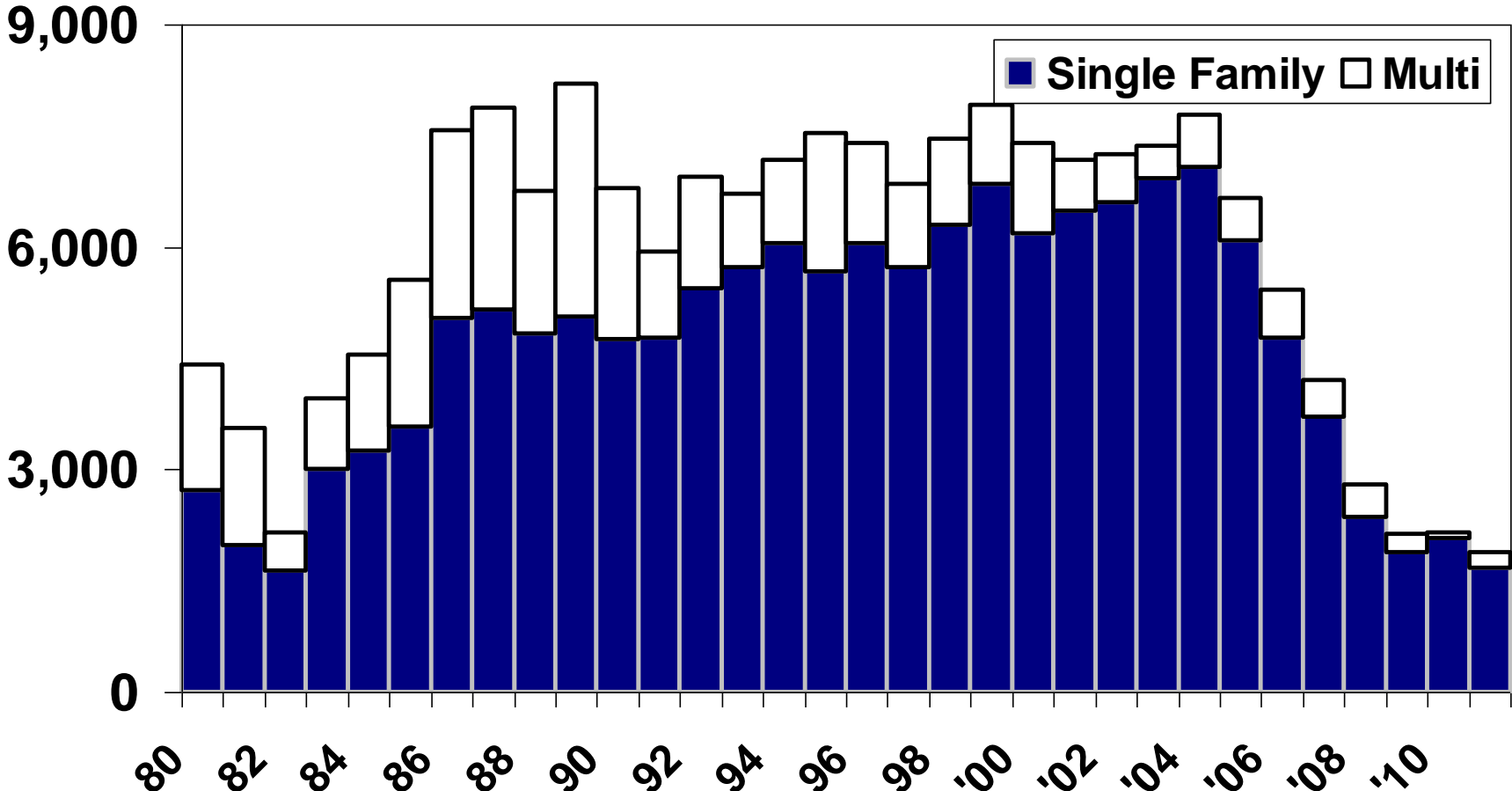


National Association of REALTORS®



# Cleveland Residential Building Permits

## Number of Dwelling Units

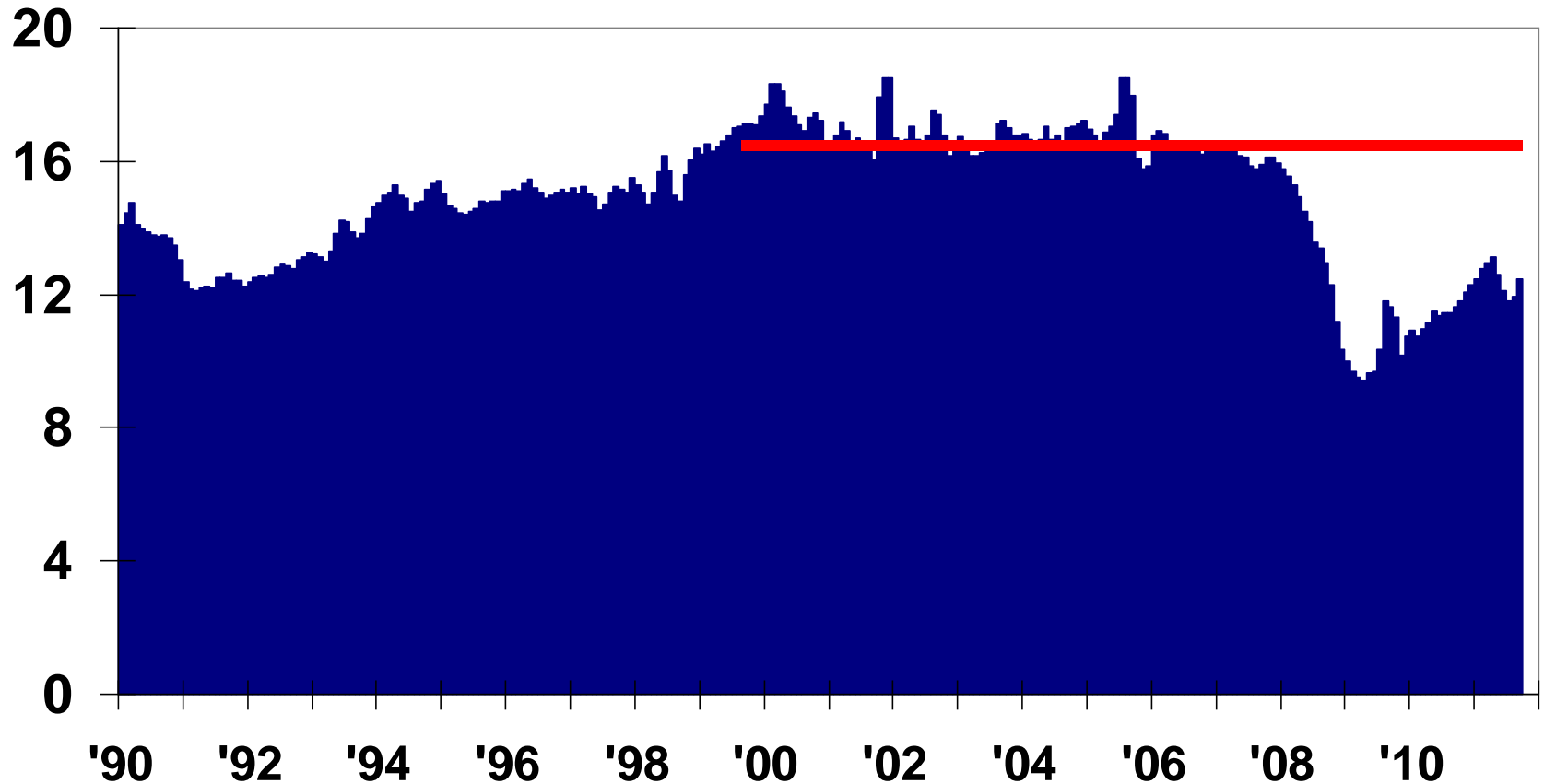


5,700 Lost Jobs vs. 1,899 New Dwelling Units in Last 12 Months

# Light Weight Vehicle Sales

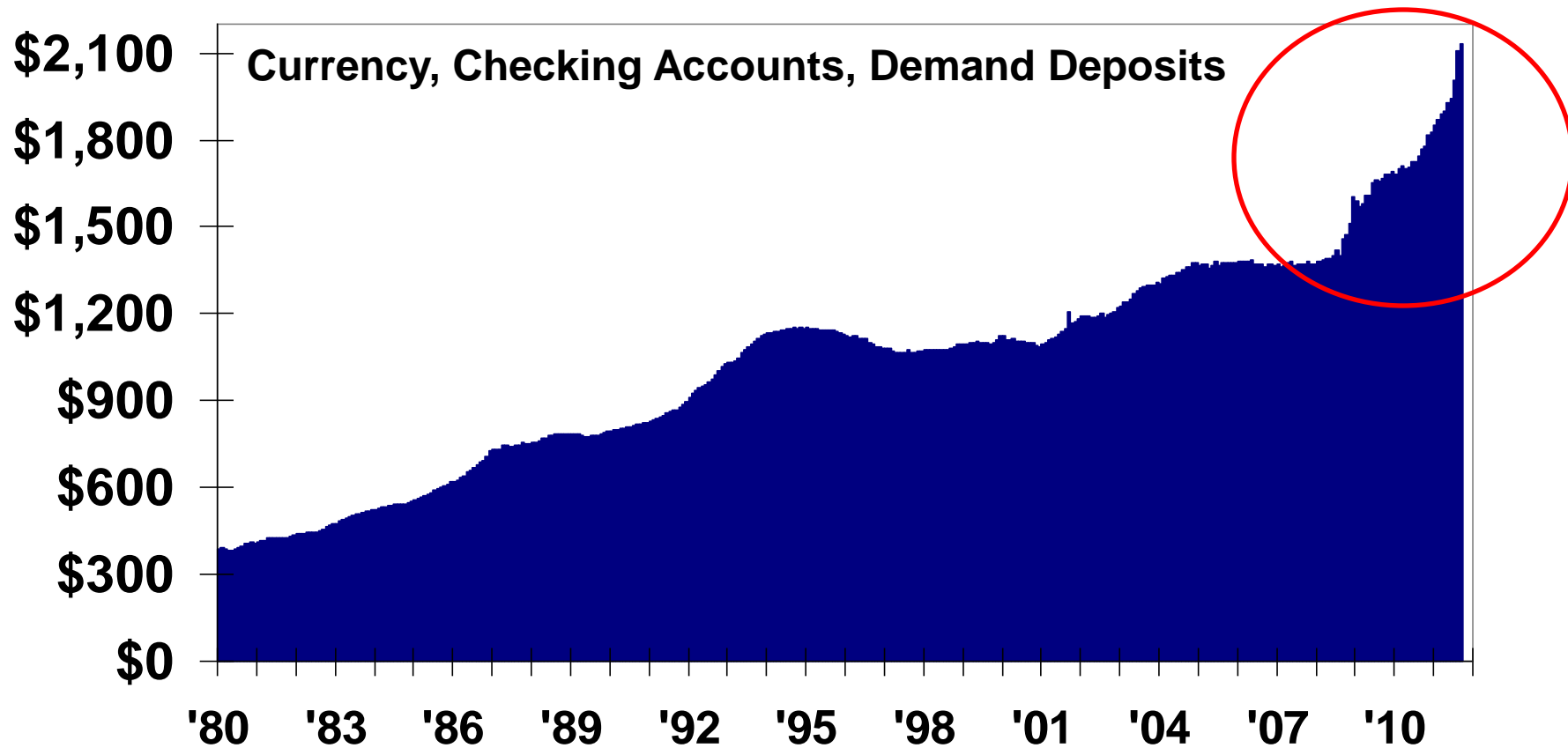
Millions – *Seasonally Adjusted Annual Rate*

3 Month Moving Average



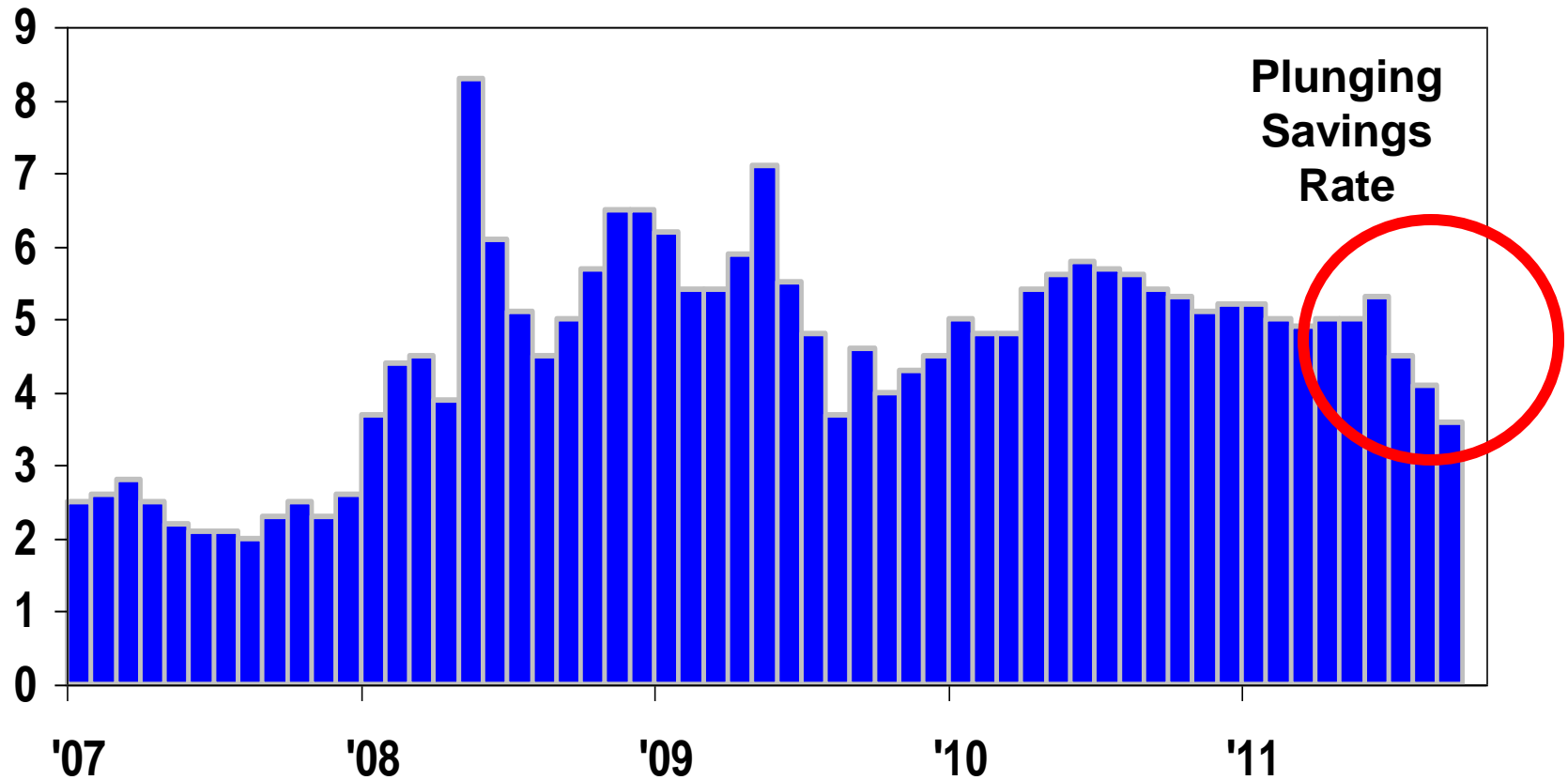
# Money Supply – M1

\$ Billions – *Seasonally Adjusted*



# U.S. Personal Savings Rate

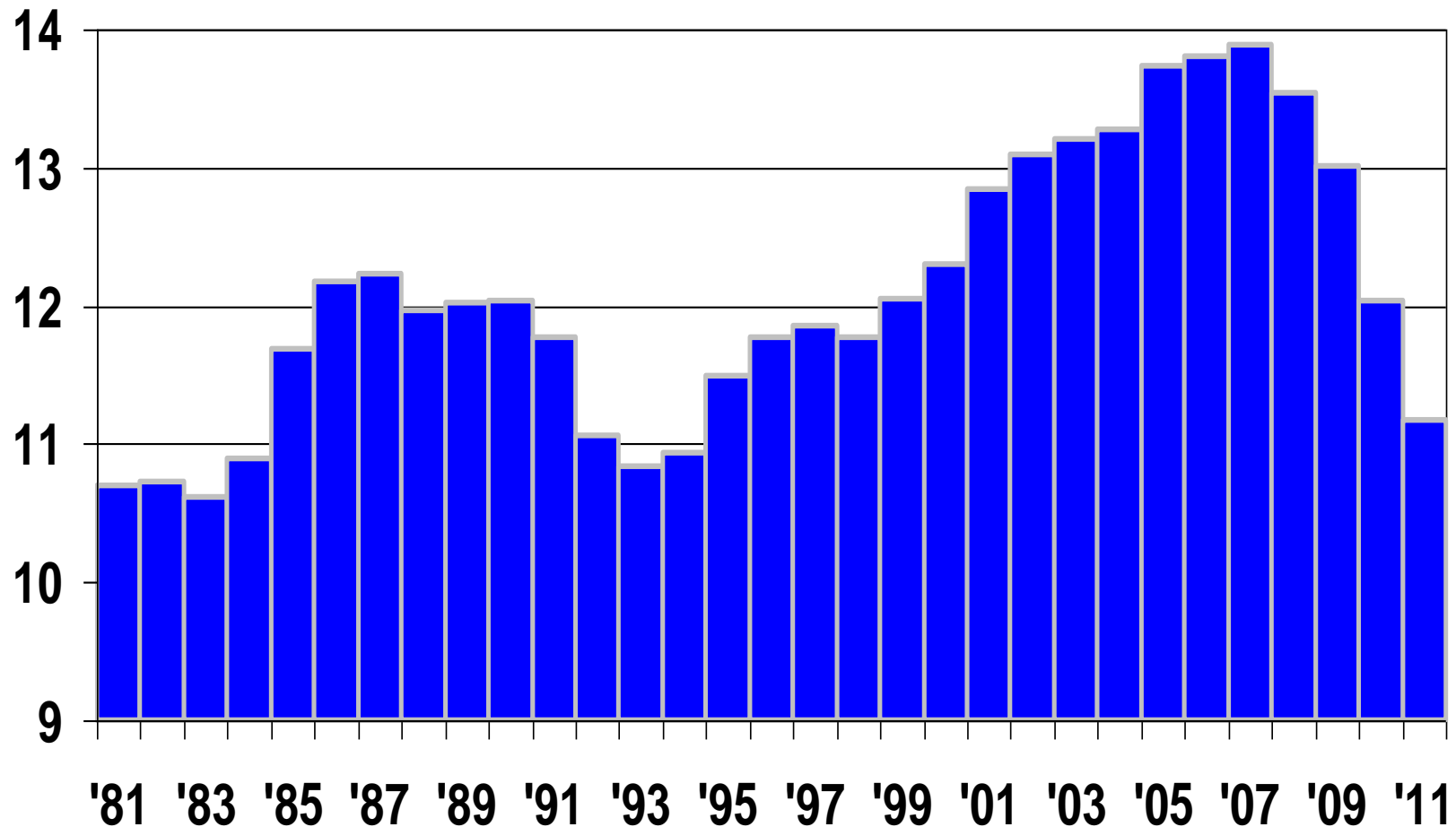
Percent of Disposable Income



# Household Debt Service as a Percent of Household Disposable Income

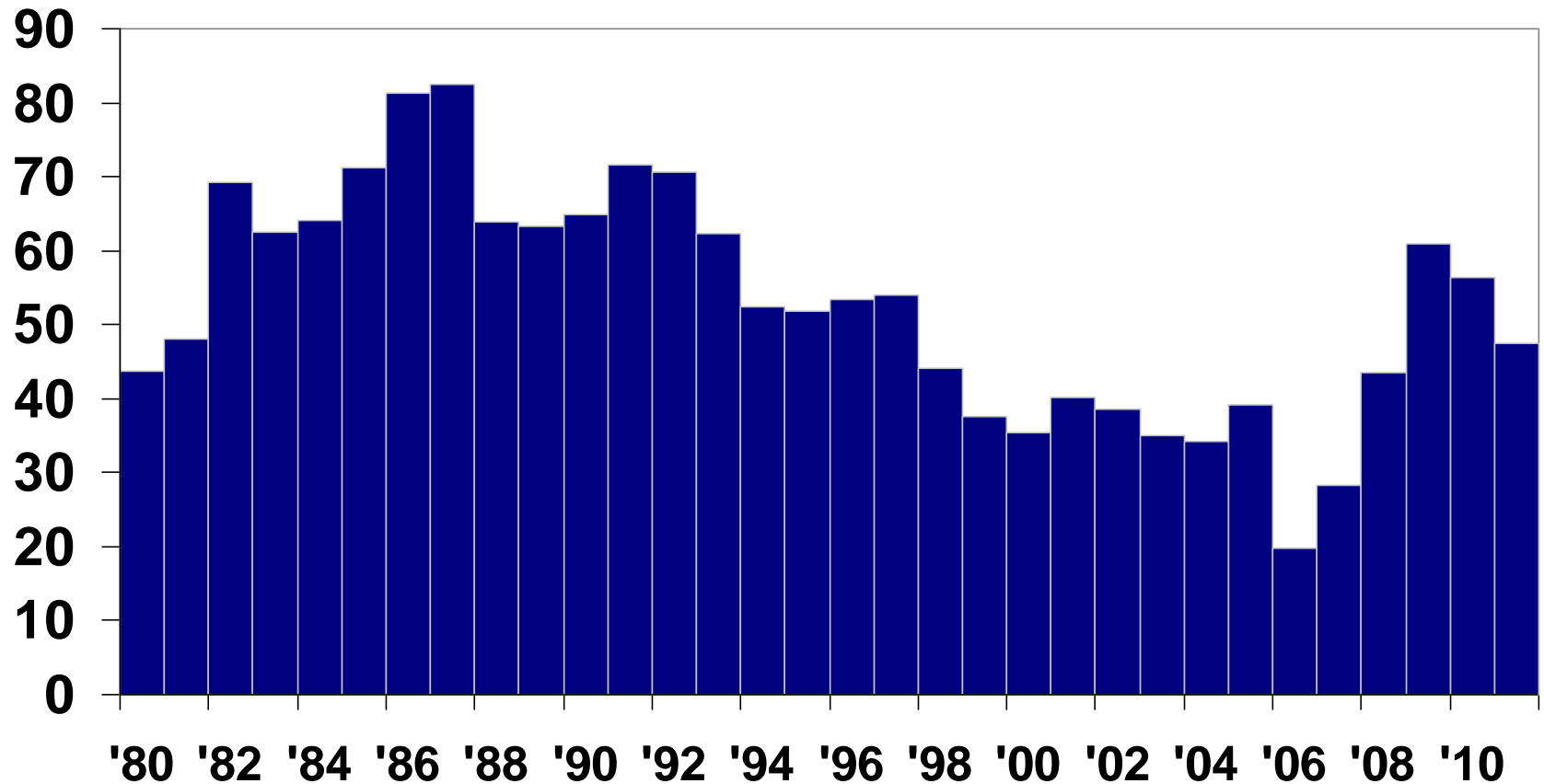
**Percent**

\$15,799 Average Credit Card Debt Per Household



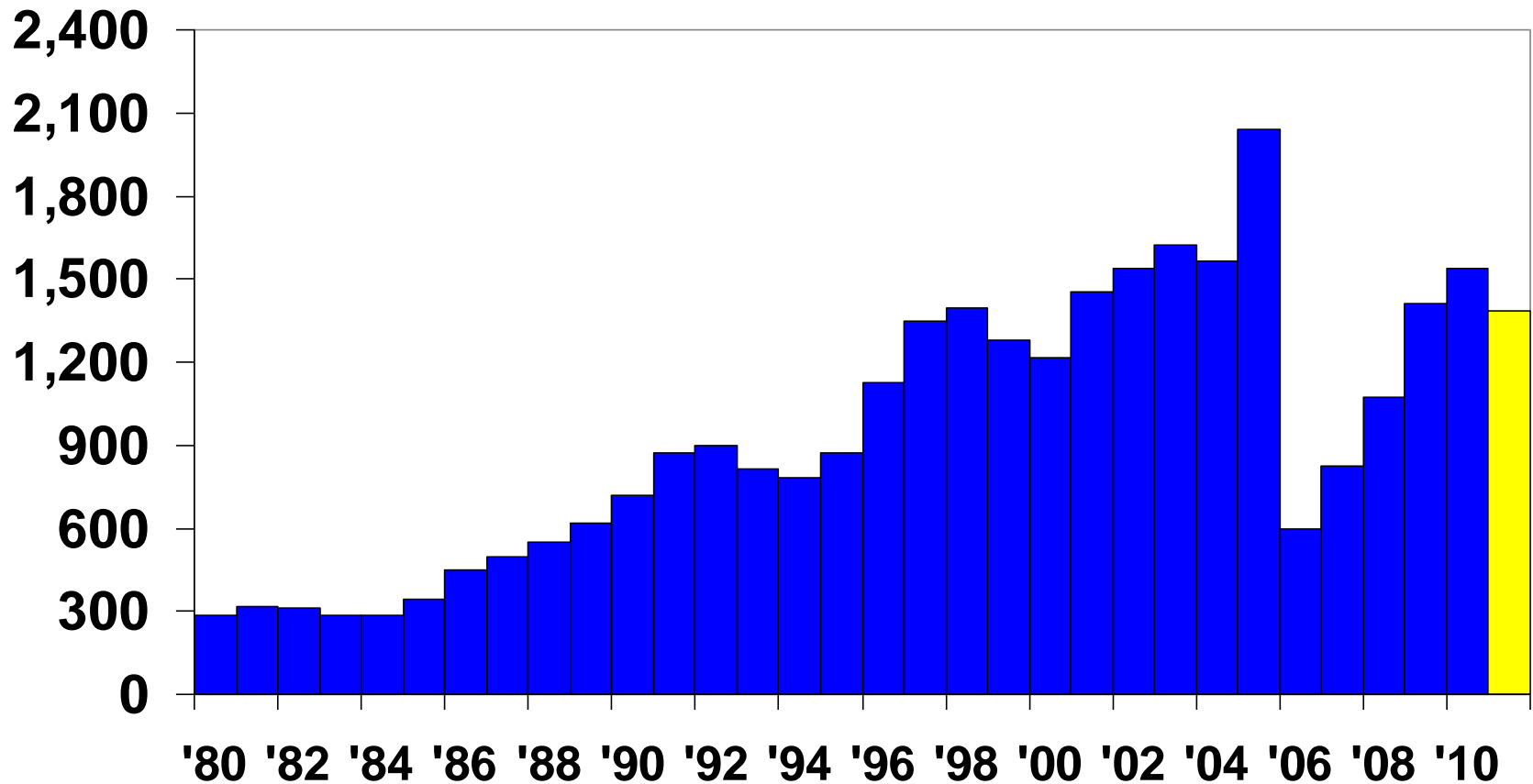
# Business Bankruptcy Filings

Number of Filings -- *Thousands*



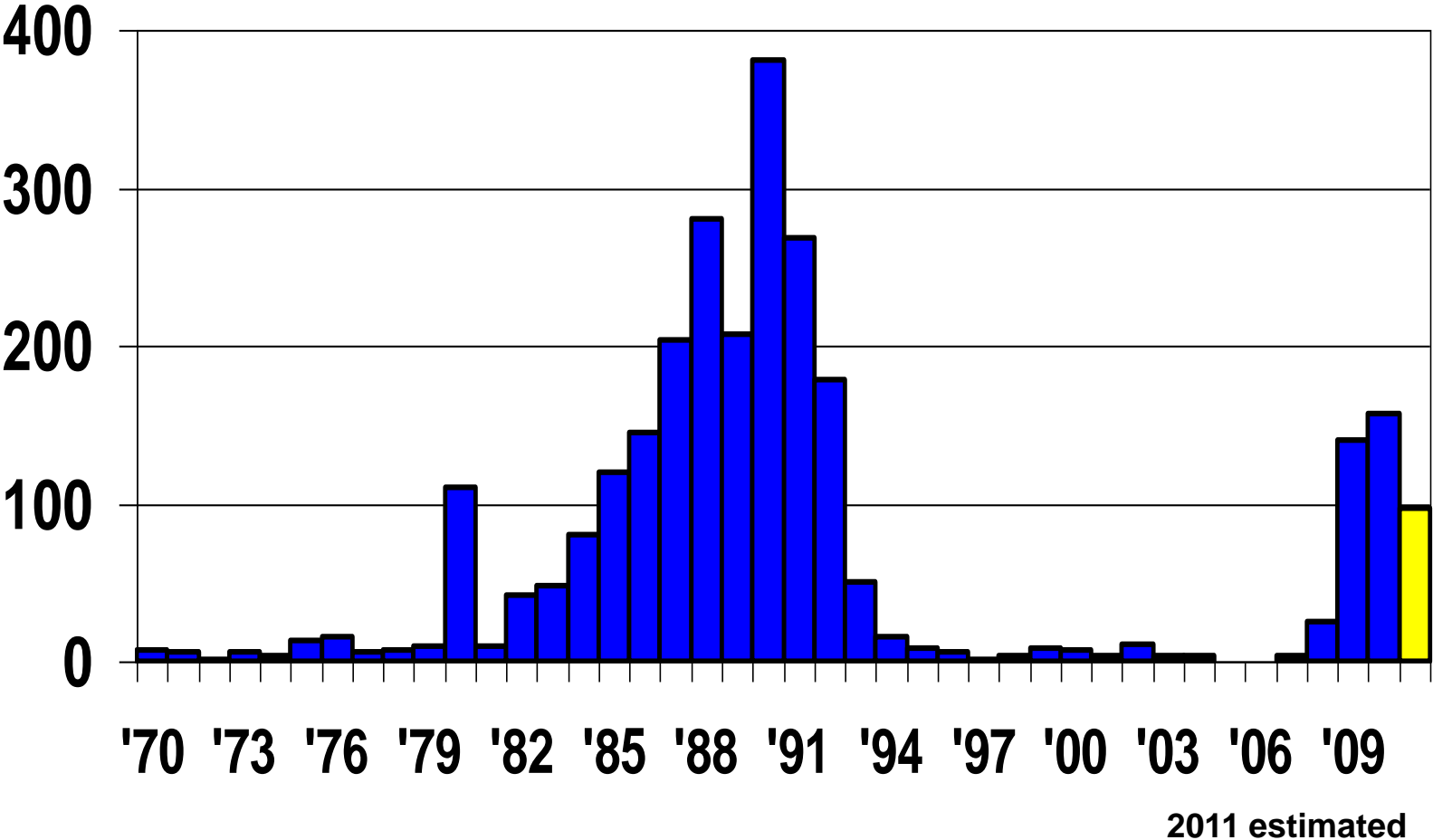
# Consumer Bankruptcy Filings

Number of Filings -- *Thousands*



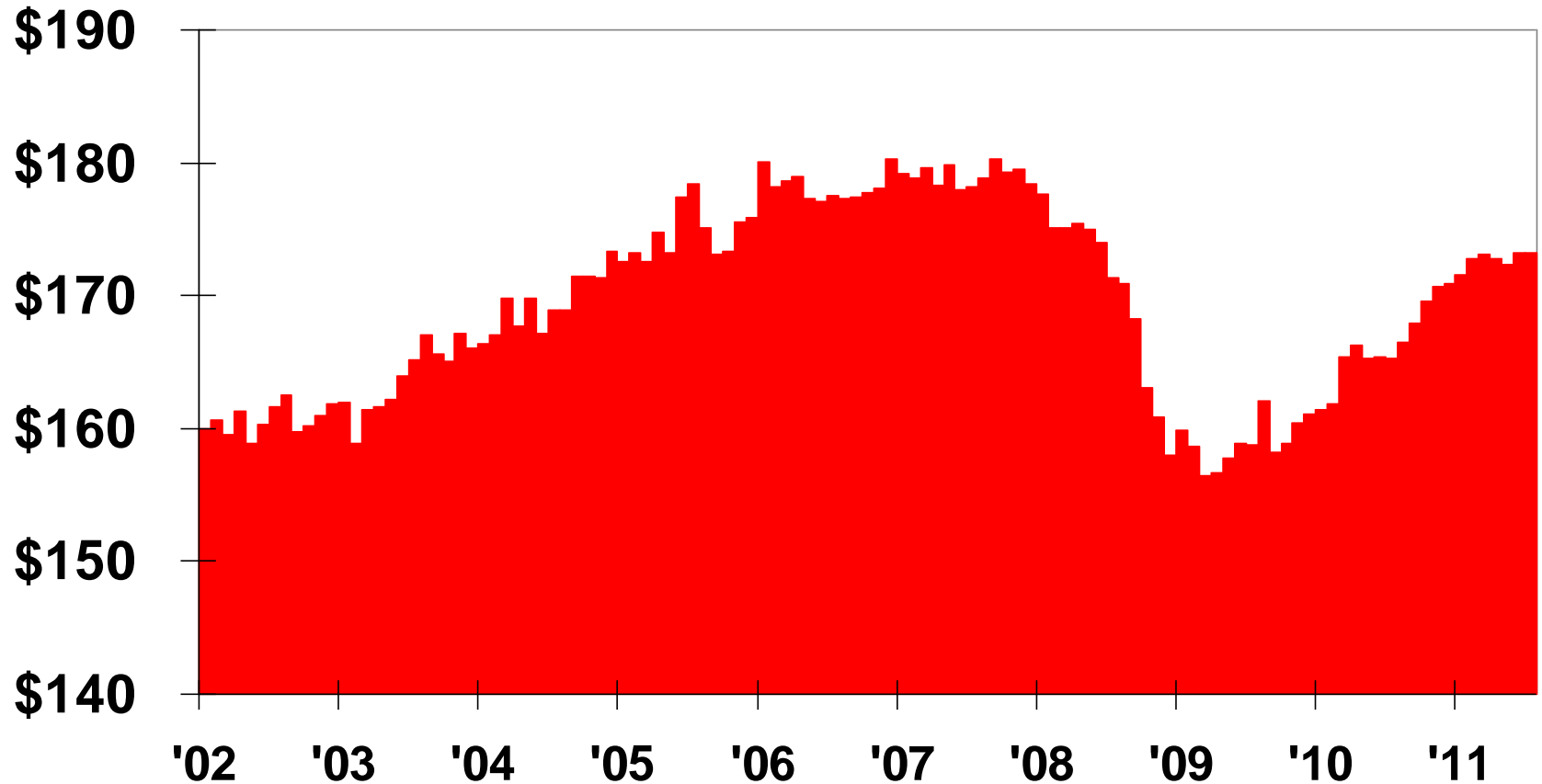
# Bank Failures

## Number of Institutions Per Year



# U.S. Real Retail & Food Service Sales

*\$Billions – Seasonally Adjusted*

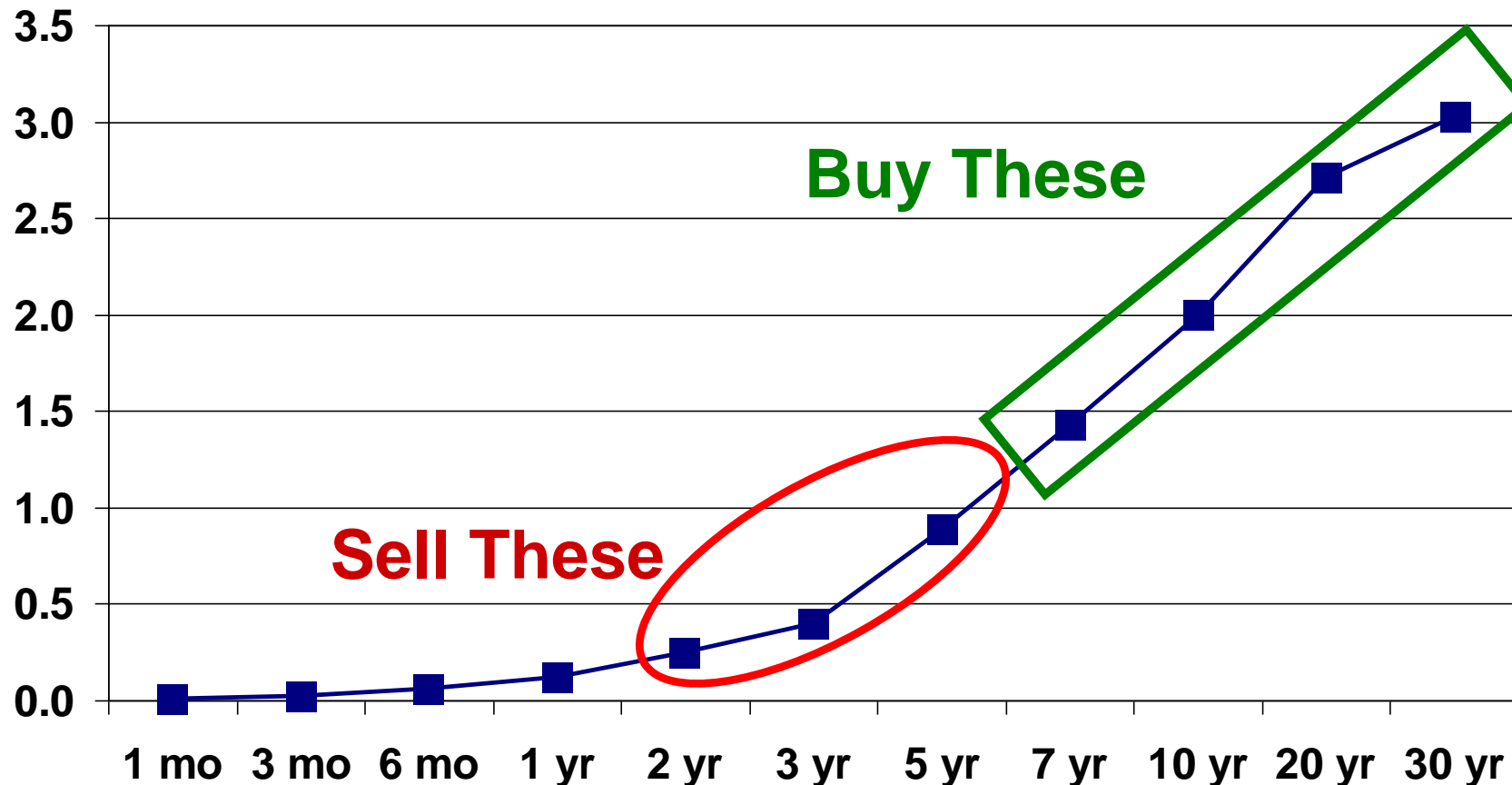


# Operation Twist

**Federal Reserve  
Owns \$1+ Trillion  
of Treasuries**

## Percent Treasury Yield Rates

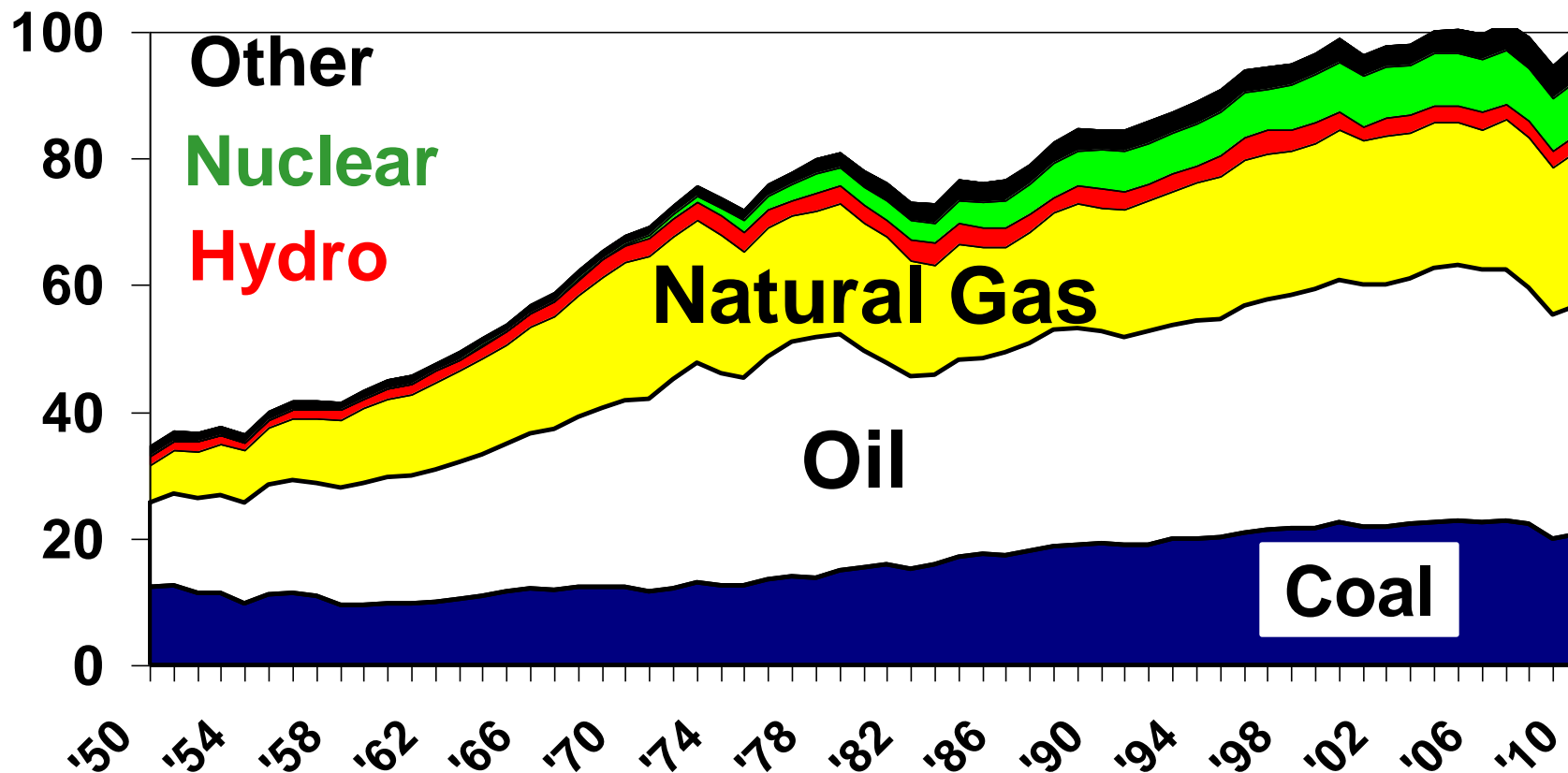
Yield Curve Data as of Jan 4 2012



**Early 1960s Operation Twist Saw  
Long-Term Rates Decline 0.15 Percent**

# US Energy Consumption

Consumption – *Quadrillion BTUs*





-TODAY,  
BOTH REPUBLICANS  
AND DEMOCRATS  
MOVED CLOSER  
TOWARDS  
**RAISING THE  
DEBT CEILING**  
TO REMEDY  
AMERICA'S FINANCIAL  
PREDICAMENT...

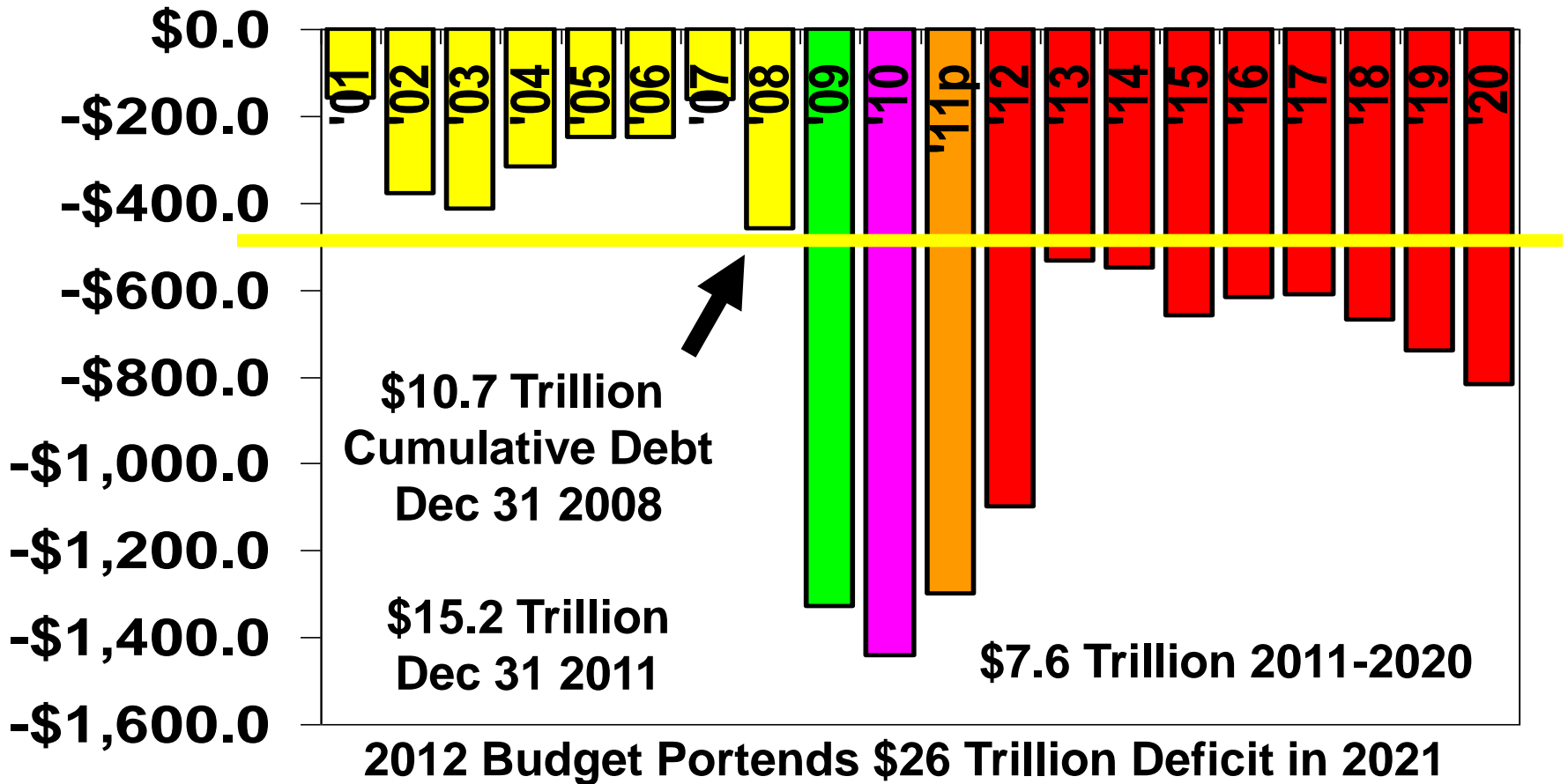


-IN OTHER NEWS,  
BLOOD ALCOHOL  
LEVELS WILL BE  
RAISED TO SOLVE  
DRUNK DRIVING.



# Federal On-Budget Deficit Forecast

\$ Billions – *Baseline (\$10.7 Trillion Total Debt 12-31-08)*

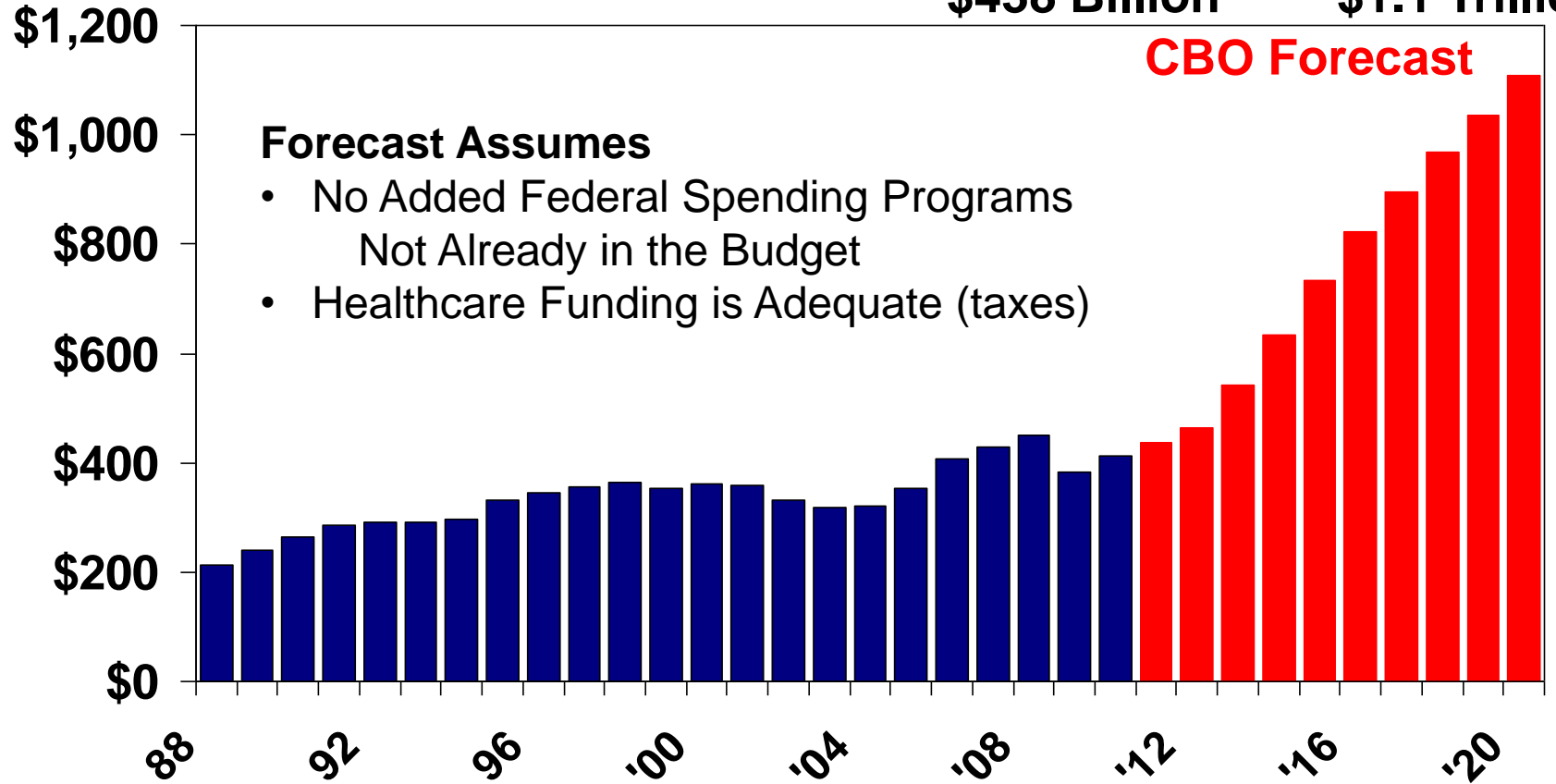


# Interest Expense on Federal Debt

\$ Billions

2011  
\$438 Billion

2020  
\$1.1 Trillion



# U.S. Income Taxes 2008

**Tax Payers**

**Percent of All Taxes Paid**

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**Top 1 Percent**

**38 Percent**

**Top 5 Percent**

**59 Percent**

**Top 10 Percent**

**70 Percent**

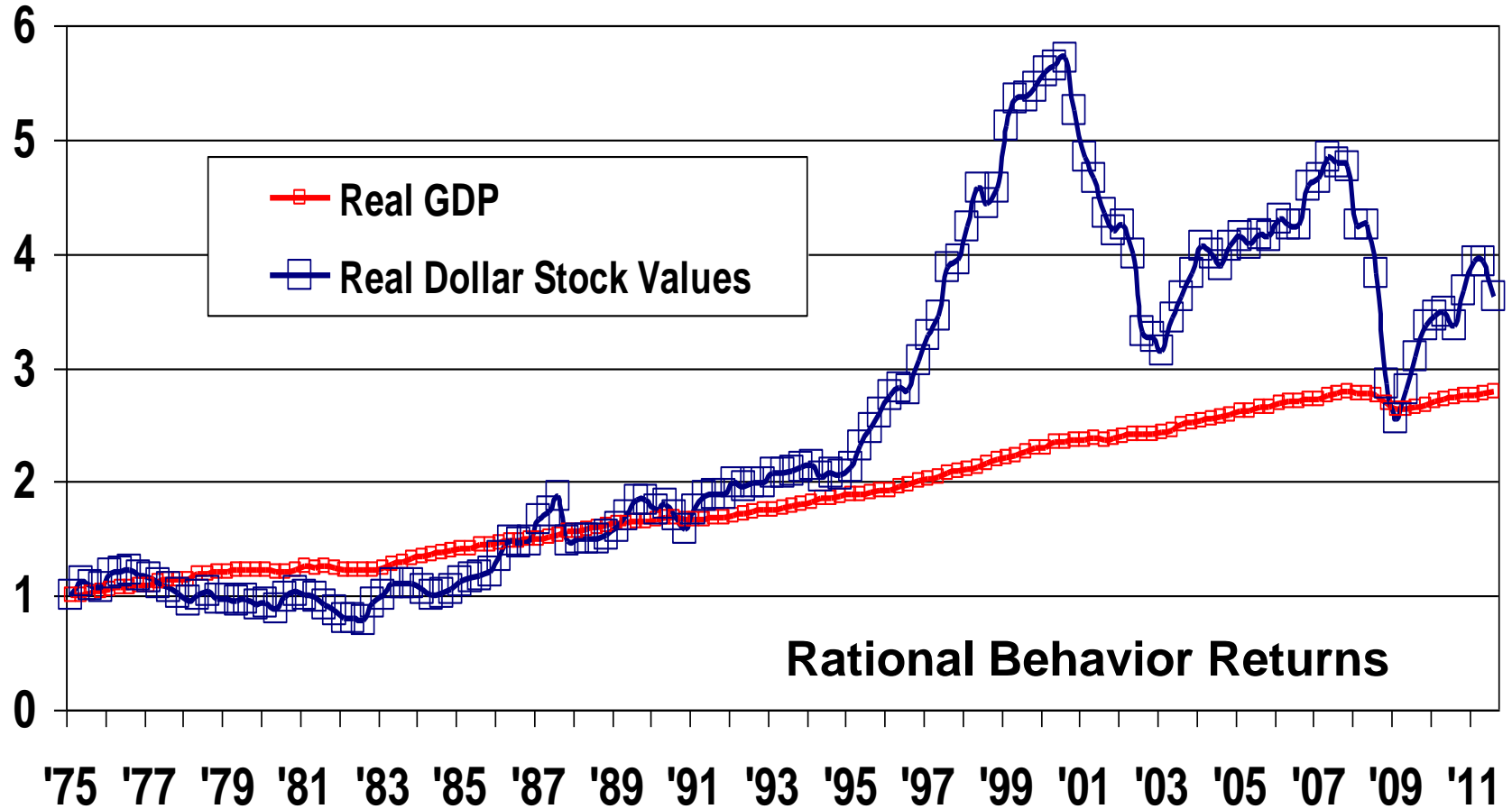
**45 Percent of Taxpayers Paid \$0**

**51 Percent of Taxpayers Paid \$0 2009**



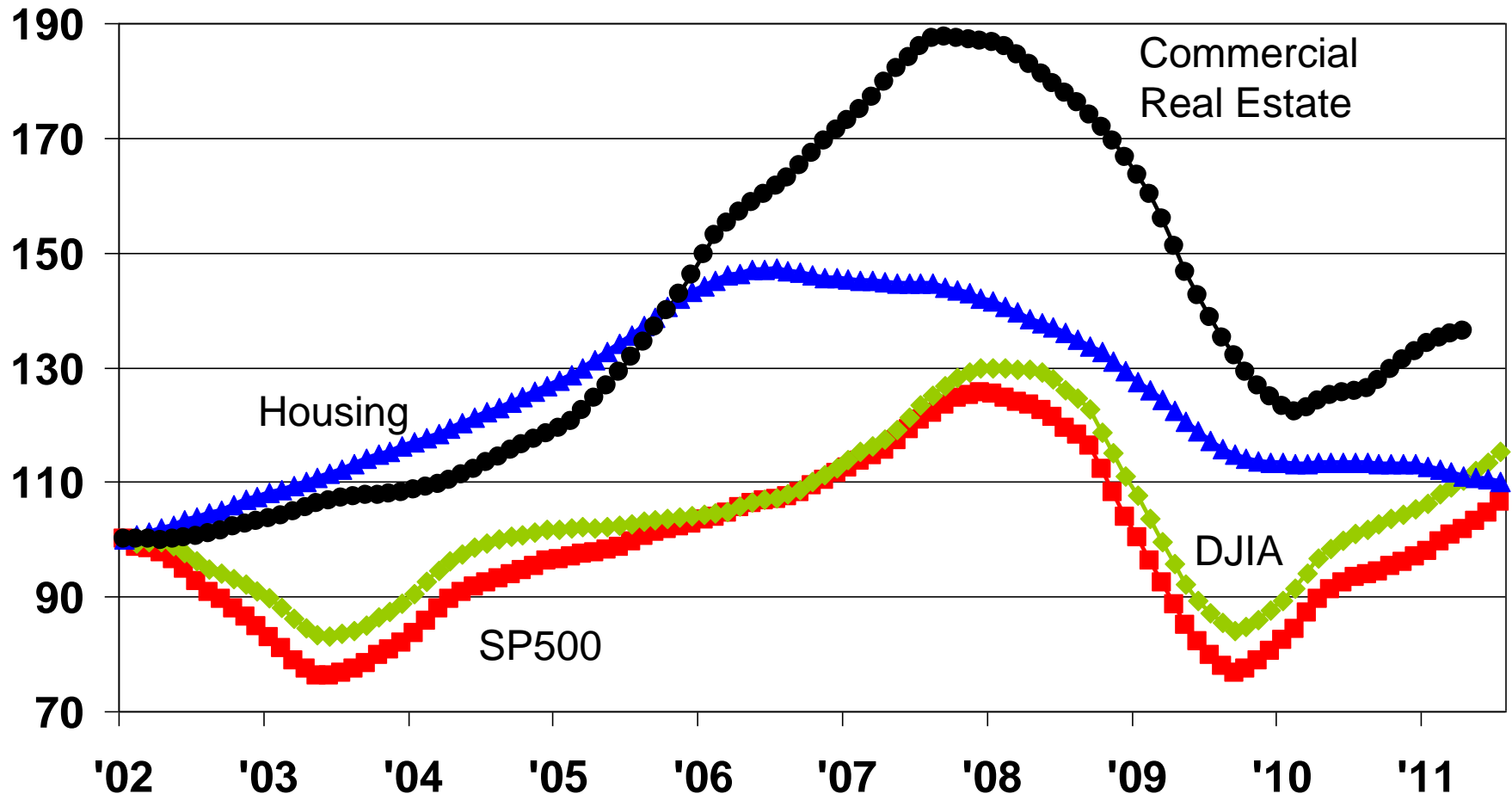
# Stock Values vs. GDP

Index 1975 = 1.0



# Home Prices and Stock Market Performance 12-Month Moving Average

January 2002 = 100    *Quarterly Commercial Data Modeled to Monthly Returns*



—■— SP500    —◆— DJIA    —▲— Home Prices    —●— Commercial Values

NCREIF, S&P, Dow Jones, National Assn of Realtors



# Real Estate

## Commercial Sales

	\$ Billion	Percent Change
2007	\$ 557.8	
2008	\$ 181.6	-67.4%
2009	\$ 54.4	-70.0%
2010	\$ 120.0	120.6%
2011	\$220 Billion	<i>(Ted's Forecast)</i>
2012	\$250 - \$270 Billion	

# Q<sup>3</sup>

# Quality

- **Location**
- **Property**
- **Tenants**

# Mortgage Bankers Association Office Building Washington, DC

**Purchased 2007**

**\$79.0 Million**

**Sold Feb 2010**

**\$41.3 Million**

**Loss**

**\$37.7 Million**

**47.7 Percent**

# Mortgage Bankers Association Office Building Washington, DC

**Purchased 2010**

**\$41.3 Million**

**Sold Feb 2011**

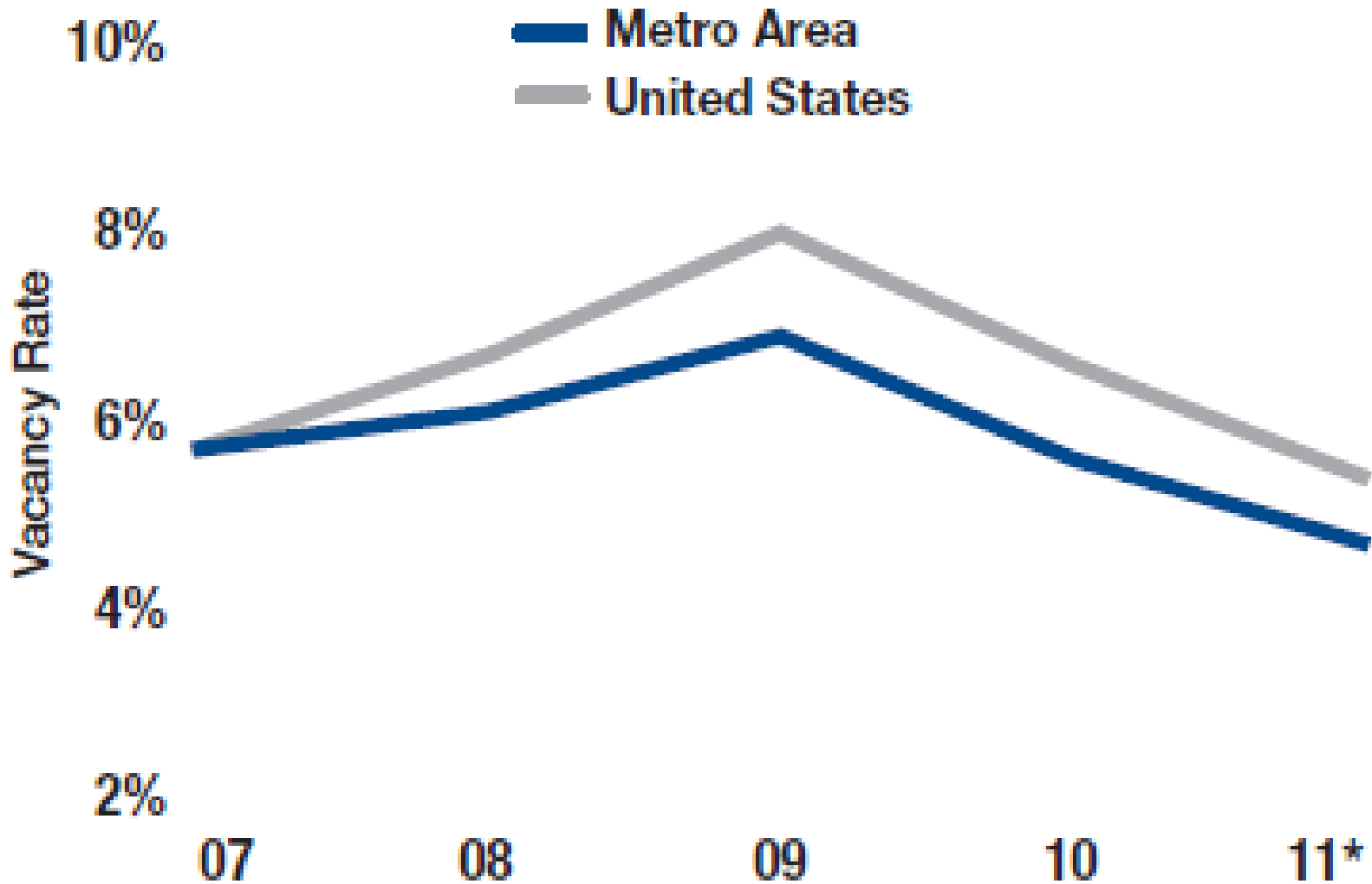
**\$101.0 Million**

**Gain**

**\$59.7 Million**

**145 Percent**

# Vacancy Rate Trends



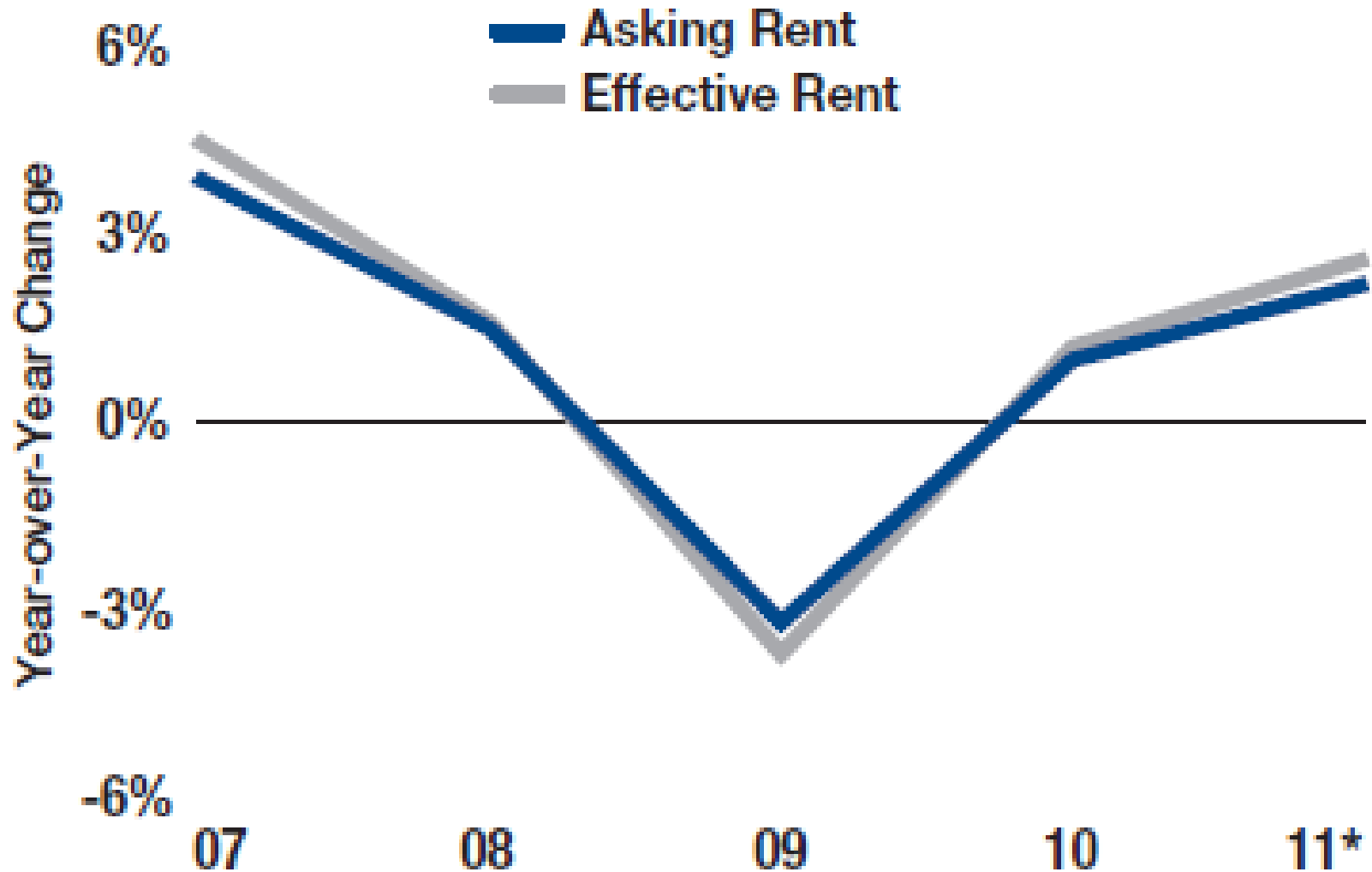
\* Forecast

Sources: Marcus & Millichap Research Services, Reis

# Apartment

Marcus & Millichap

# Rent Trends



\* Forecast

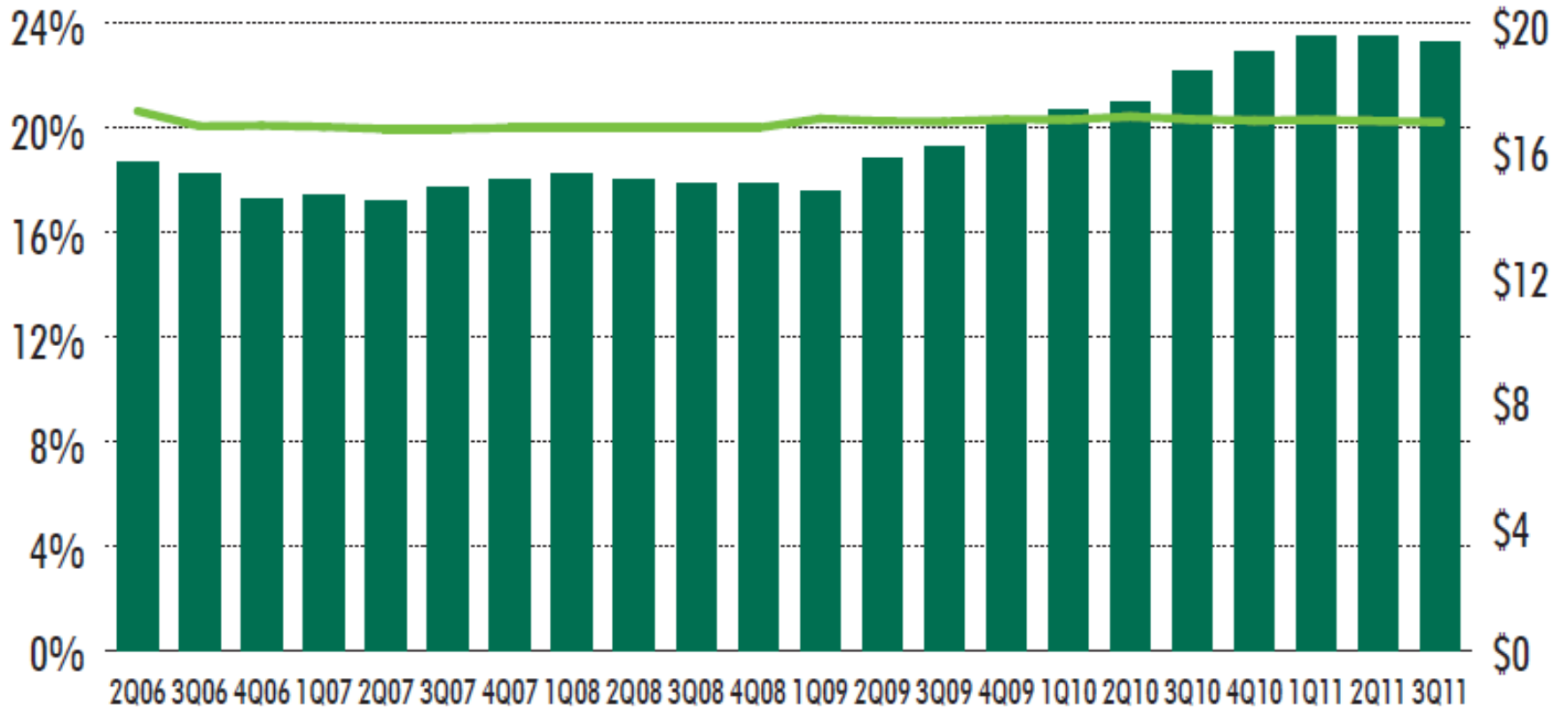
Sources: Marcus & Millichap Research Services, Reis

# Apartment

Marcus & Millichap

## Vacancy Rates vs Lease Rates

Vacancy Rate 23.3%  
Lease Rate \$16.85

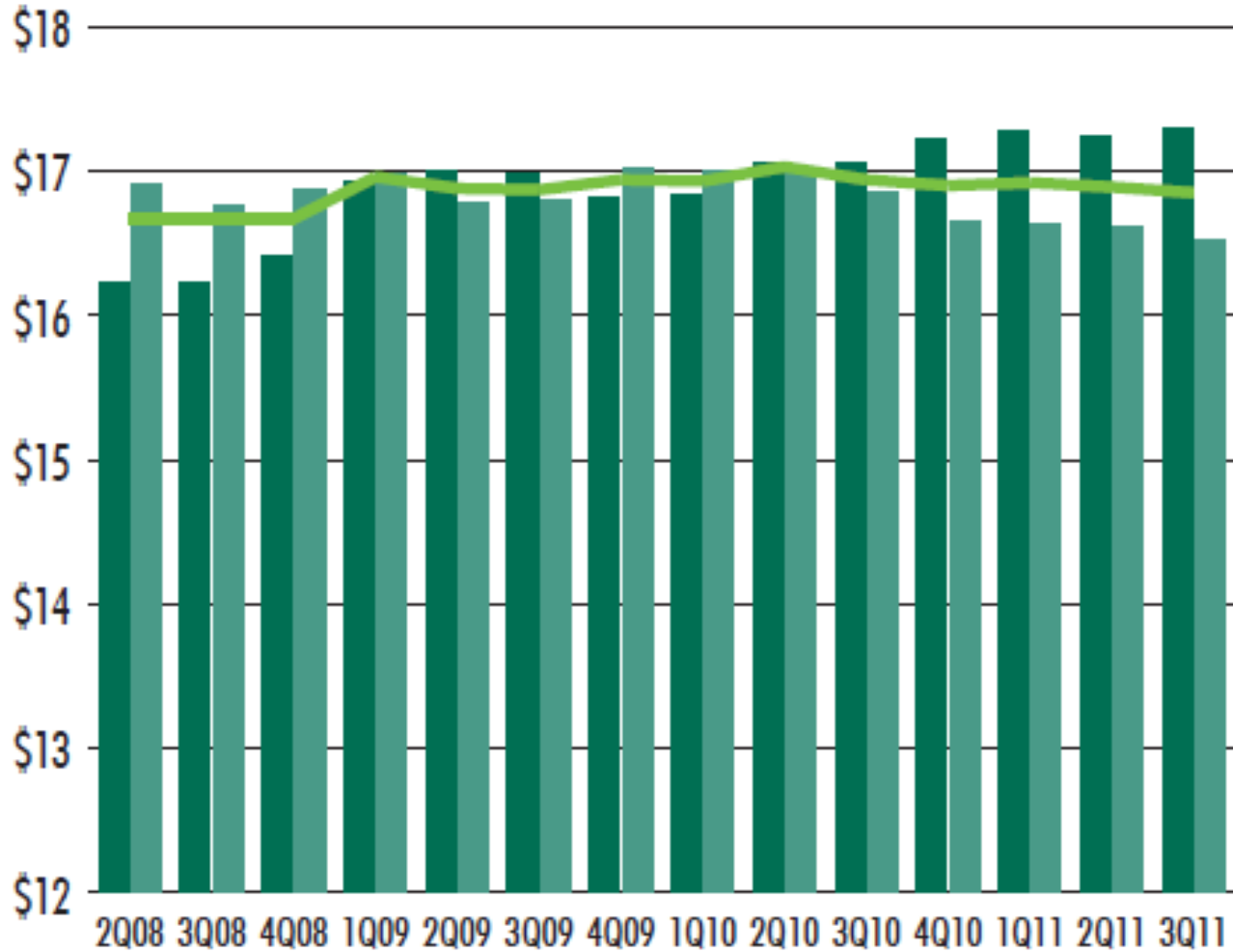


**Cleveland Office**

**CBRE**

# Average Asking Lease Rates

CBD \$17.30  
Suburban \$16.53  
Overall \$16.85

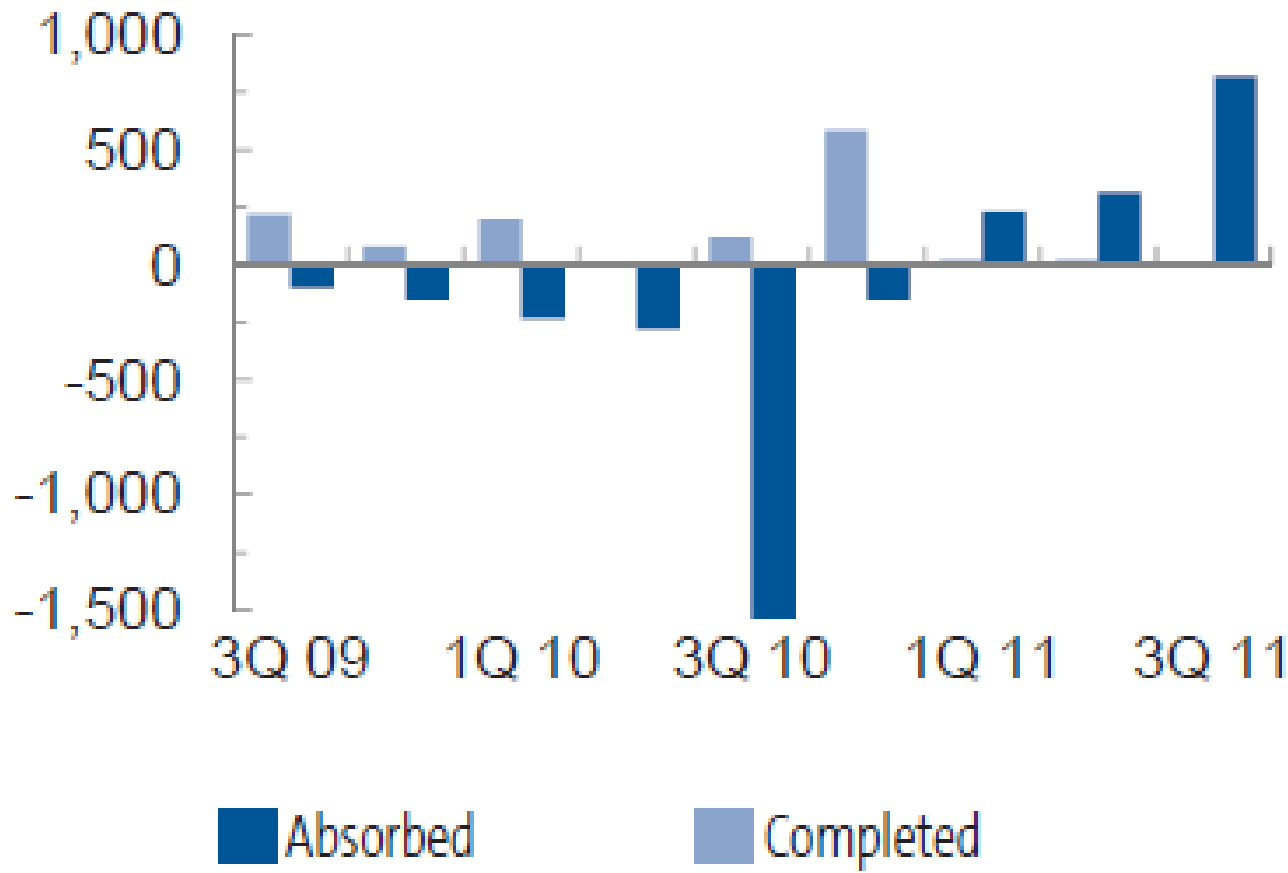


# Office

# CBRE

# Industrial

## Completions vs. Absorption (in Thousands of SF)



# 2012 Economic Concerns

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- Wall Street—Washington DC—Liquidity
- Jobs – *Stimulus Did Not Work*  
**GDP = Consumption + Investment +  
Government Spending + Exports - Imports**
- Cold War II—Terrorists
- Rural Land Bubble
- Liquidity Trap
- Energy: US Imports 50+ Percent of Oil
- Real Estate-Autos-Credit Cards-Banks





**Ted C. Jones, PhD Chief Economist**

**Stewart Title Guaranty Company**

**<http://blog.stewart.com/>**