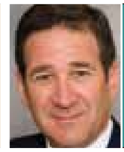

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10 Predictions for '11

Be on the lookout for market trends that could affect — or change — your business

THE REAL ESTATE INDUSTRY AND THE ECONomy have come a long way since the dog days of 2009, and the country appears to be in the midst of a moderate recovery that seems likely to continue well into this year and beyond.

There are hopeful signs for the economy. The stock market seems to have found its footing. Trophy commercial properties are selling for premium prices. Interest rates are near 50-year lows. The employment situation has begun showing signs of stabilization.

Concerns remain about the investment climate, however. Asset prices have been increasing — not because of a solid economic foundation, but because of government-induced stimulus and inflationary monetary policies around the world. In this environment, it may be as important to focus on return *of* principal as it is to focus return *on* principal.

For many, a new year brings new resolutions; for others, a new year means a chance to look ahead and consider what will happen. Commercial mortgage brokers must be aware of shifting economic winds, as they can affect everything from property values to credit availability. It's hard to say at press time in January what the coming year will bring.

Nonetheless, here are 10 predictions for the remainder of 2011:

1. **Unemployment will decline but remain painfully high.** Economist Arthur Okun's research found that unemployment is 50 percent correlated to potential gross domestic product (GDP). In other words, for every 2 percent increase in GDP, unemployment decreases 1 percent. This past third quarter, GDP bumped along at about 2.6 percent, so it's hard to see unemployment (at 9.4 percent this past December) falling much below 8.5 percent by the end of the year.
2. **Inflation and interest rates will remain low.** There's plenty of slack in the economy, so rates likely will remain essentially unchanged until the fourth quarter. Although the Federal Reserve Board may believe it can ratchet up interest rates at the first hint of inflation, this may be easier said than done in the face of high unemployment and the approaching 2012 presidential elections. The good news is high unemployment gives the Fed cover to keep short-term rates low.
3. **Consumer credit will continue to decline.** Frugality is here to stay. Consumer credit shrank by $12 billion this past August, the seventh straight month of declines. The expiration of the first-time homebuyer tax credit played a part. The biggest factor, though, is declining credit-card loans. Tighter scrutiny by card issuers combined with household deleveraging will continue through this year and beyond.
4. **Recent positive retail news won't last.** A solid Christmas for retailers followed strong November retail sales, which increased 7.7 percent from 2009. Auto purchases increased 17 percent this past November, marking the 11th increase in the previous 12 months. There's pent-up demand, and consumers may be buoyed by improvements in their stock and retirement portfolios. Consumer spending is fueled primarily by wage and salary gains, however. Any signs of a housing double-dip, stagnant labor markets or a softening stock market could herald the return of thrift.
5. **Housing will roll over (again),** further strengthening the multifamily market. There is weakness in new housing starts, sales volumes and prices, pending sales and new home-mortgage applications. The inventory backlog, at 6.3 million homes this past August, represents 23 months of supply at current sales levels. Another 5 percent to 10 percent decline in home prices this year seems more than likely. Multifamily housing may be the major beneficiary, as many of those who have lost their homes and credit ratings to foreclosure will be renters for the foreseeable future. This, coupled with increasing demand from "echo boomers" and immigrants, will drive occupancies and rents for years to come. In addition, multifamily has had virtually no new supply, and new developments will be scarce this year.
6. **Mid- to high-end housing prices will be hard hit.** It's tough for home-buyers to get jumbo loans. High-end sellers haven't been slashing prices, and buyers haven't been budging for a couple of years. Creative mortgage brokers who help their higher-end clients get hard-to-find loans could make a fortune in this environment. Also, it's a good time

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for owners of high-end homes to sign leases on luxury condos.

7. **The mortgage-interest tax deduction will be scaled back.** The fiscal deficit commission proposed a laundry list of suggestions for reducing the budget deficit, including a modification of the mortgage-interest deduction, especially caps on the amount and exclusions for second homes. A soft housing market, further declines in high-end home values and legislative pressure on homeowner tax benefits could further help the rental market.
8. **Dozens of municipalities will default on their bonds.** State and municipal governments' fiscal challenges will make headlines this year. The National League of Cities reported in a recent survey that more than 70 percent of its members have made personnel cuts and 68 percent have canceled or delayed capital spending projects. It also has been predicted that several cities and states could go bankrupt this year, potentially leading to federal bailouts.
9. **The Euro will fall.** In early 2010, the Euro was worth $1.45. It was worth $1.36 this past January, and it seems destined to retest last year's $1.19 low. It likely will continue to decline as investors conclude that sovereign debt from Ireland, Portugal and Greece (and perhaps Spain and Italy) can't be financed without steep hikes in interest rates.
10. **The consensus may be wrong on the stock market.** Sentiment for stocks is wildly bullish. *Barron's* "Outlook 2011" issue had 10 out of 10 strategists calling for an up market this year, with the average forecast for a double-digit advance and a range for the Standard & Poor's 500 of 1,250 to 1,450. Not to be a naysayer, but that kind of "group think" can be dangerous.

Only time will tell.

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