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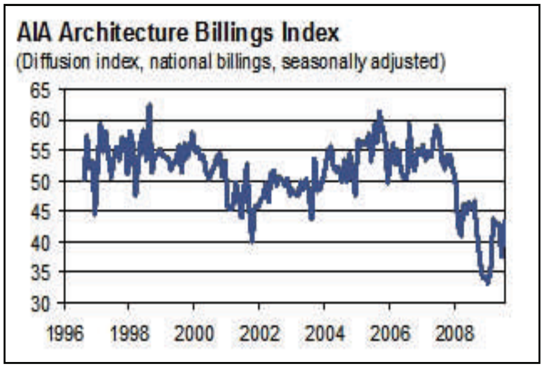
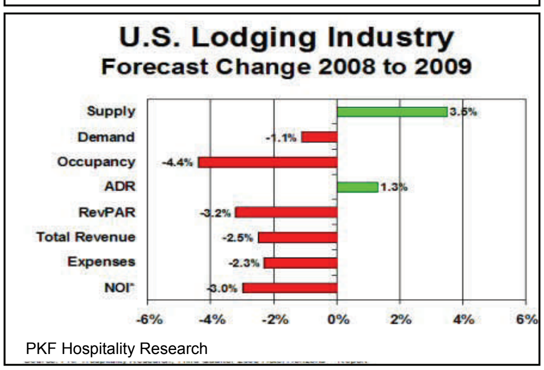
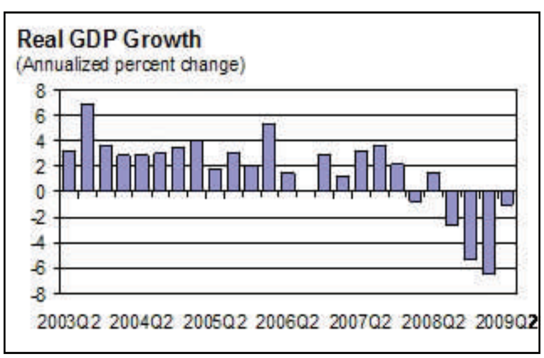
Real Estate Economic News and Insight

Economic Perspectives





PKF Hospitality Research



IHS Global Insight | Lodging Data PKF Hospitality Research

Economic Digest — Week of August 17th

A review of select real estate and economic reports from the preceding week

August 25, 2009

Housing starts nationally slipped 1.0% in July to 581,000 units (annualized). Single family starts were up 1.7% while multifamily starts tumbled 13.3% to an all time low of 91,000 units. At the same time, building permits, a leading indicator of construction starts in the short term future declined 1.8%. Nevertheless, there is both good news and bad behind these headline numbers. Single family permits actually rose 5.8% to an annual rate of 458,000 units. Single family permits are up 33% since January. Looking forward, we should see single family housing starts improve over the next few months. While starts will improve, recovery will still be slow — perhaps two to three years.

The bad news is on the multifamily side where permits tumbled 25.5% to an all time low of 102,000 units. Both permits and starts are down 70% from a year ago. The multifamily sector is being battered by the extraordinary number of both single family homes and condominium units available for rent. The only good news in the multifamily numbers is they can't sink much lower. Recovery will be a multi year process.

The **Architecture Billings Index** is a leading indicator of construction spending in the short term future. The index is produced by the American Institute of Architects based upon a survey of its member companies. It presumes an architect will be involved in most projects. A score above 50 indicates an increase in billings. The index for July rose 5.5 points to 43.1 which still suggests no demonstrable increase in billings and by extension, no rise short term future rise in construction spending. The index has been below 50 for 18 months. The short term outlook for private commercial construction remains grim.

The lodging industry is experiencing the worst market conditions since the early 1990s. Revenue is declining by double digit percentages as hotels bear the brunt a dramatic slow down in business spending and personal travel. According to New York based Real Capital Analytics, there are roughly 1,000 hotels in distress with an aggregate loan balance of $16.8 Billion. Unlike the early 1990's when lower end hotels and motels were most seriously affected, today upscale hotels are impaired. In what is widely referred to as the "AIG Effect," businesses are avoiding the upscale tourist destinations for meetings and conventions. That has had a profoundly negative effect on destination resorts, particularly in Central and South Florida as well as Las Vegas.

Is the recession ending? The Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research (NBER) is responsible for dating the peaks and troughs in the business cycle. An important point is that the BCDC reports. It does not forecast. As a result, often times a recession is over before it is officially declared. With the current recession, the committee decided in December 2008 that the recession had actually started a year earlier in December 2007.

Judging by recent comments by BCDC members, it does not appear they are ready to declare an end anytime soon. BCDC Chairman Robert Hall said the other day that the group will "wait for activity to surpass its previous peak." He added that the group will "have to reconcile positive GDP growth with shrinking employment." While the economic free fall has slowed, it does not sound like an official end will be declared anytime soon.

Commercial Mortgages. An extraordinary $36.1 billion of CMBS (commercial mortgage backed securities) loans have been moved to s**pecial servicing (Special Assets)** so far in 2009. According to Fitch Ratings, the total could top $100 billion by year end,