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Conference speaker sees improvement for economy

by Tom Lindley

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Rick Dowell speaks at the Forecast Conference held by the Commercial Real Estate Council Tuesday afternoon while Matthew Bristow and Jim Huntzinger, both sitting on the same panel, listen. (Kendall Brown)

OKLAHOMA CITY – A few rays of sunshine managed to filter into the room Tuesday as real estate investors, brokers and lenders talked about a world turned upside down.

Todd Buchholz, the keynote speaker at the Commercial Real Estate Council's 13th annual Forecast Conference, predicted that consumers "won't crawl back in a hole" and that the economy should improve in the second half of the year, provided inflation is kept in check.

While "mostly doom and gloom" were his watchwords for 2010, Dean Schwanke of the Urban Land Institute did acknowledge this also could be the opportunity of a lifetime for those who have cash.

And local developer and panel member Rick Dowell had some encouraging words for the future of downtown Oklahoma City, coupled with a warning to Washington lawmakers to resist the temptation to hit businesses with a value-added tax or a tax on services.

Based on almost every national economic forecast, not to mention public perception, the crowd at the Skirvin Hilton Hotel in downtown Oklahoma City was a crowd in search of some good news. Or even a hug.

"Our industry is taking some lumps," emcee Mark Funke, president of Bank of Oklahoma-Oklahoma City, said in opening the conference titled "Forecast 2010: The New Normal."

While there was uncertainty about what the industry will look like going forward, Funke said he knew the past four or five years weren't normal "because banks got way out of control and didn't manage risks."

That said, there also was an undercurrent in the room that the stimulus package, the threat of more governmental regulation and the nation's rising debt level could create a "new normal" that wouldn't be good for the country, either.

Before addressing the future, Buchholz said it is important to recognize that the building blocks of the worldwide economy have shifted since the fall of the Berlin Wall and the flood of millions of more workers from Europe, China and India into the workplace.

Buchholz said the recent recession has been magnified by the Federal Reserve Board's failure to take it into account by hiking rates too much, by the Organization of Petroleum Exporting Countries' tightening of the noose by raising prices and by the euro's fall, which made it difficult for U.S. producers to compete.

To make his point of how the world has been turned upside down, Buchholz said he paid $1.07 recently for a Hot Wheels model car, making it worth more in value than all the shares in General Motors.

As for 2010, Buchholz anticipates that commodity prices will remain stable, that the dollar will remain weak and that inflation will remain under control.

Buchholz sees an upturn in the job market in another three or four months, which will benefit commercial real estate, and is encouraged by growing consumer confidence based on higher-than-expected back-to-school and holiday sales.

"I'm not telling you to pop a champagne cork," Buchholz said.

However, Buchholz said consumers are exhibiting some composure after a year of fearing for their jobs and their future.

Long term, Buchholz remains optimistic about "the chance for us to make a better life for our children," provided the U.S. recognizes it must invest in education to compete in the worldwide race for IQ points.

For example, Buchholz said the number of petroleum engineering students in the U.S. has fallen 90 percent since 1981, while the number of agricultural scientists has remained stagnant over that time.

"It's not about the Earth failing us. It's about what we set as priorities," Buchholz said.

Schwanke, senior vice president for publications for the Urban Land Institute in Washington, D.C., outlined key findings in "Emerging Trends in Real Estate," a joint venture between ULI and PricewaterhouseCoopers that provides an outlook for U.S. investment and development trends in real estate, finance and capital markets.

Borrowing from last year's report that concluded there was no quick fix to the economy, Schwanke said there's still no quick fix.

As an example, Schwanke said value declines for investors may eventually total 40 to 50 percent off their 2007 market highs.

The report also forecast a surge in foreclosures, although he said there has been some improvement in the past two months.

Any statistical recovery in the economy will be encumbered by two decades of fake job growth and prosperity based on borrowing and by overleveraged customers, investors, households and government entities, Schwanke said.

Schwanke predicted that any recovery will be slow, that inflation and interest rates will rise over the next five years, that the development pipeline will be very small going ahead and that it may be difficult to get mortgages refinanced in the years ahead.

The report also anticipated an early rebound in the apartment and hotel sectors, while retail investment will remain down and out.

While the survey of the top 45 markets in the U.S. did not include Oklahoma City, Schwanke said it likely will mirror Dallas in terms of terms of having a favorable outlook.

Dowell said the growing prestige of downtown, its central location and the affordability of real estate continues to make him bullish on downtown.

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