

Some Parting Questions

By Blaze Cambuzzi, High Associates Ltd.

Perhaps you are already aware I will be going back to school this fall. I was accepted into American University's Kogod School of Business Masters of Science in Finance and Real Estate program. I know what you are thinking . . . "With such a booming real estate market, why on earth would he ever do such a thing???" That is perhaps more sarcasm than was necessary, but I am trying to set a soft tone for this newsletter. I have always believed that the best way to learn something is to begin with a question, so it is with this belief that I have elected to go back to school.

Below are some of the questions I have regarding the industry, and the world for that matter. I certainly have opinions but not any concrete answers. Maybe you share my thoughts; but if you've read enough and are stopping here, let me get in a quick message . . . *thank you C&I Council! I have truly enjoyed meeting each of you and being a part of this fine organization. Long before news breaks about a redevelopment project or a new company locating here, that information was probably on one of our desks. This group has done more to expand the economic base of Lancaster County than any stimulus package could ever achieve. I am really proud to have been a part of it, so thank you!*

Question 1:

If the commercial mortgage backed security, CMBS,

market was the fountain of capital that filled the gap created by the savings and loan collapse, what will fill the CMBS gap now that it too has collapsed? I am not sure what bucket is out there holding a trillion dollars of capital targeted for commercial real estate. Therefore, the real question is, what will the cost of capital be in the future. If there is no clear source, then funds must be lured in and that will likely happen via higher returns. Therefore, a higher cost of capital results in lower property values. Of course I can think of dozens of answers to this, none that good, so maybe we should skip this one for now . . .

Question 2:

What can be done with buildings that have no historic value and no present utility? A quick examination of the commercial assets in this market should suggest there are a few assets that may be placed in this category. Is adaptive reuse sustainable? It is a comforting thought but not always a successful course of action. As a history buff, I appreciate the preservation of our heritage, but where is the balance between historic value and economic value?

Question 3: (Rhetorical)

If the trinity of real estate taxing bodies—school, county and township—are all experiencing budget problems while simultaneously the state is doing the same, what is likely to

(continues on page 2)

2009 C & I COUNCIL BOARD OF DIRECTORS

Bob Ramsay,
President

283-0600
rramsay@naicpi.com

Christine Sable,
Vice President/Secretary

735-6172
csable@horstrealty.com

Joe Maser,
Treasurer/Budget

283-0600
jmaser@naicpi.com

Blaze Cambuzzi,
Immediate Past-President

209-4010
bcambuzzi@high.net

Craig Portner
Membership

519-3182
cportner@uncb.com

Deepa Balepur
Newsletter

560-9700
deepab@comcast.net

Althea Ramsay
Programs

295-6510
ramsaya@burlepark.com

Brian Beahan,
Special Events

517-5000
aes1@altenv.com

Kurt Schenck
Special Events

291-2284
kschenck@high.net

Some Parting Questions *(continued from front page)*

happen to property taxes? Secondly, when property tax increases, what type of pressure will be exerted on rent? No matter where you live, your respective “Trinity” has spent a lot of money and committed to spending via debt instruments for many years to come. So if the debt markets are tight, where do you think they will get money?

Question 4:

When the dust settles and the real estate market establishes a new

normal, what will the valuation metrics be? Are elaborate pro formas based on multiple variables better than just a simple capitalization rate? Or perhaps the financial models are not elaborate enough; would they be better if multiple regression was used to determine correlation coefficients? Then

those coefficients could be compared to existing projects to identify how consistent a pro forma really is.

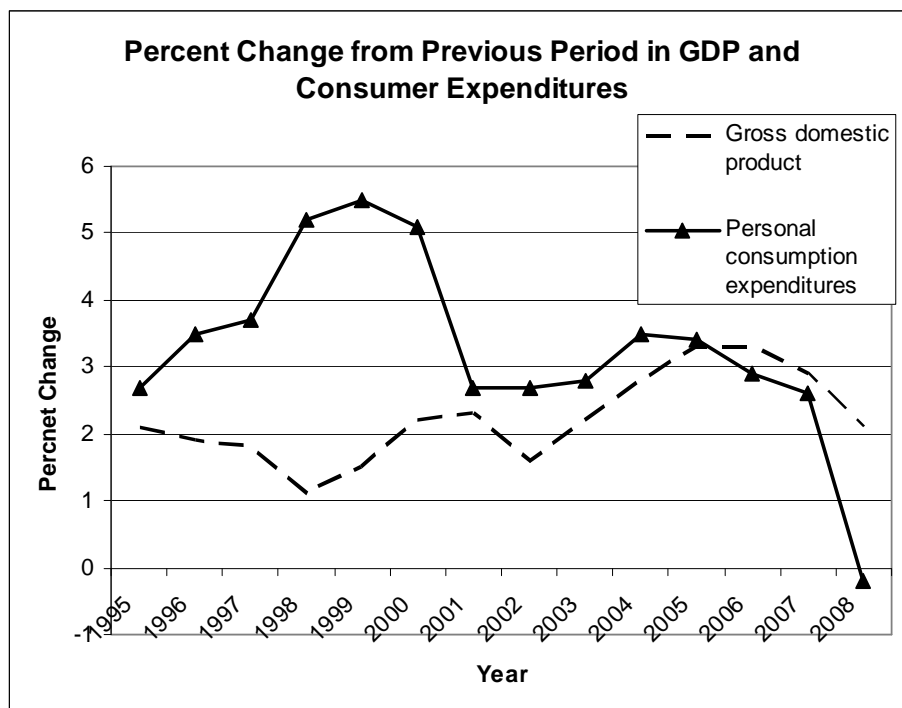
Question 5:

If you are like me and believe the dollar’s weakening position in the world is coupled with our ever-increasing position as a global debtor, should annual rent increases be tied to CPI? If we experience high levels of inflation, will leases tied to annual increases suffer to those tied to the CPI?

Question 6:

Are there any balloons ready to burst now? What about

unsecured consumer debt? Life, as in business, often derives its success from cash flow. The consumer has spent at a pace of \$’s per month, meaning that few people consider the cost of the car only the monthly payment. How many monthly bills did the average consumer have in 1980? How about today? Consumer debt is potentially fearful, but only when monthly cash flow becomes negative for an extended period of time. Are we at that point yet?



Question 7:

What does the chart on this page tell us? What if I told you that Personal Consumption makes up 70 percent of GDP, would you go back and look at 2005 and possibly say, “Hmmm, that can’t be sustainable . . . can it?” Between 2005 and 2006, GDP was flat, but the growth of consumer expendi-

tures, CE, shrank. GDP is still growing but at a slower pace; however, CE has turned negative. Consider your thoughts from Question 6 above and couple that with those in your mind now. What do you think?

Question 8:

How do I stay in touch with Blaze now that he is leaving High? What will his e-mail be?
BlazeCambruzzi@gmail.com

Take care and thanks!