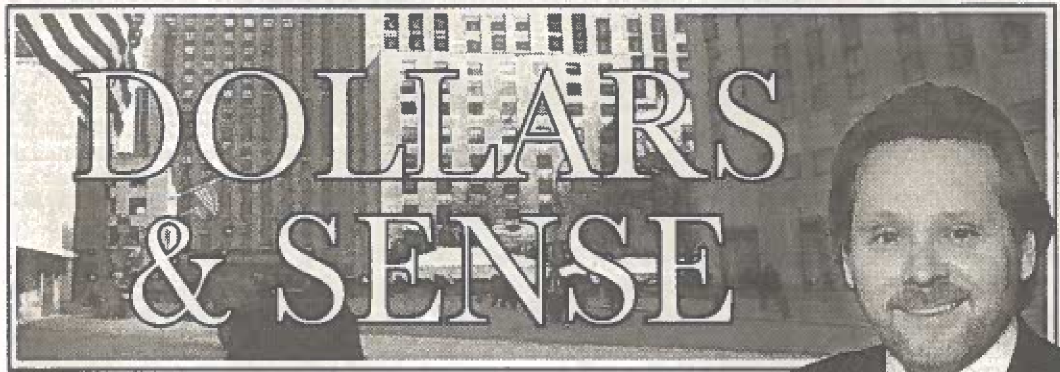

With Bob Knakal

Not knowing hurts

Q: *Today, many market observers point to the tremendous amount of uncertainty in our economy. How has this amount of uncertainty impacted the commercial real estate sales market and what do you see happening moving forward?*

A: You are correct that there is a significant amount of uncertainty which is impacting many areas of our economy.

The fact is that uncertainty is the enemy of capital investment, risk-taking and economic expansion.

The majority of the uncertainty has been caused by a lack of clear direction in tax policy, uncertainty about the magnitude of cost increases in our new healthcare law and a lack of understanding of the ramifications of the new financial regulation package.

It is not clear if there is even one single person in the U.S. who actually knows what the economic impact of healthcare will be.

The new financial regulation package is equally opaque. Sarbanes Oxley burdened corporate America with 16 regulations which had to be complied with. The new package has over 200 of these requirements. Given the sheer size of the potential impacts here, and the lack of transparency, it is nearly impossible to project what costs will be moving forward. Without this clarity, capital investment decisions cannot be easily made.

While companies are sitting on trillions of dollars on their balance sheets, they are not putting that capital to work as the uncertainty is causing inertia. Our marketplace has gone into a "bouncing along the bottom" mode caused by government panic and a disregard for economic rules.

We have seen nearly every single economic indicator performing multiple standard deviations below long-term averages. The only sector performing above historical trends is real profits in the financial sector caused by such low interest rates.

The uncertainty has impacted commercial real estate most notably in two ways.

The first is that it has caused firms to hire new workers at a pace much slower than is normal as the economy comes out of a recession. As I often write, no other economic metric more profoundly impacts our real estate fundamentals than employment. We need job creation to enhance our underlying fundamentals and without corporate confidence, job creation is likely to continue on its sluggish pace.

The second impact is that many sellers are rushing to beat the expected increase in capital gains tax rates by selling before the end of 2010. We have received many assignments which must close by year end as these clients believe they will be facing higher gains tax rates if they wait until 2011.

If the present rates are allowed to increase as they are scheduled to on January 1, the federal rate will increase from 15% to 20%. This does not include any potential increases in state capital gains taxes.

We are hopeful that after the mid-term elections that, at least, tax policy will be clearly defined. Unfortunately, it could take years before the true impact of healthcare and financial regulation are made clear.

The more the private sector understands what the future looks like, the more capital investment and the more job creation we will see.

Those things would help our real estate fundamentals significantly.