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COMMERCIAL REAL ESTATE MARKETS - ARE THEY REALLY THAT DIFFICULT TO UNDERSTAND?

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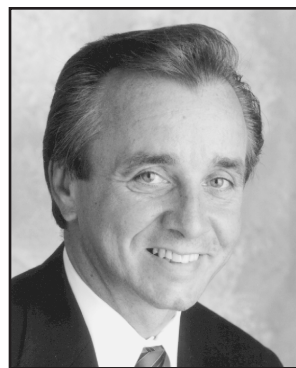
INTRODUCTION

During the 20th Century, the commercial real estate industry has experienced some very extreme cycles, in some cases going from boom-to-bust within less than five years and in others, as long as 15 years. An examination of these cycles suggests that the industry has learned little from past mistakes. The commercial real estate industry of the 20th Century was characterized by high rewards and high risks. One of the industry's biggest problems is also its major asset. Optimists have traditionally dominated the commercial real estate industry, but being an optimist does not mean acting without an understanding of past mistakes or a clear vision of the present and future. Those who have consistently prospered for long periods of time in the industry are few; however, there are those individuals who truly understand and utilize the market dynamics of the past, present, and future. While optimism and market insight are not the only elements of success, they are certainly key elements.

Developing an office building or industrial facility that is pre-leased has little potential risk, provided the tenant is strong financially. During the 20th Century, the major depressions in the commercial real estate market have resulted primarily from not understanding and being able to react to market conditions for speculative development. In some cases, market downturns were the result of events taking place on a national or international scale; in others, downturns resulted from less complex factors such as overbuilding. Not all downturns in the market are national in scope - some are regional while others are limited to particular types of commercial development (e.g., retail or industrial). This article will look at some of these issues by examining the major cycles of the 20th Century and some factors that will influence the inevitable cycles of the 21st Century.

THE GREAT DEPRESSION

New York and Chicago became the focal points for the largest and tallest building race during the early decades of the century. It was not until the beginning of the Great Depression that the boom in central business-district development slowed, eventually coming to a halt. As is the case today, skyscrapers took years to develop, and many were still under construction when the Depression began. By 1933, the country was deeply into the most severe economic downturn of the century with one-third of all Americans in the labor force unemployed, a fact reflected in the demand for commercial space. Real estate foreclosures for all types of properties were at record levels nationwide.



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Dr. Ronald R. Pollina is a nationally recognized corporate real estate broker, consultant and negotiator. In addition to representing corporations throughout the United States for over 20 years, he has served on the faculties of two Universities and written over 50 articles and books. As a frequently quoted real estate economist, Dr. Pollina's opinions have appeared in the *Wall Street Journal*, *Business Week*, *Financial Times of London* and other business publications.