



BOMA Leaders See Economy Slowly Gaining Stability



Kelly, Gorman Report on the State of the Industry in the U.S. and Canada

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TORONTO—Leaders from the Building Owners and Managers Association (BOMA) in the United States and Canada say the commercial real estate industry is making positive gains, despite several years of economic downturn that will continue to present challenges. BOMA International Chairman and Chief Elected Officer John P. Kelly, RPA, executive vice president, Ryan Companies U.S., Inc., Minneapolis, Minn., and BOMA Canada President Hugh Gorman, vice president, Oxford Properties Group, Inc., Montreal, Quebec, delivered the annual State of the Industry addresses June 28 at BOMA's North American Commercial Real Estate Congress and The Office Building Show in Toronto.

"In addition to our job situation improving and continuing signs that our economy is growing, our industry is getting back on track, too," said Kelly, who concluded his one-year term as chairman on June 29. "Granted, it will be a slow process. The real estate industry typically runs a step behind the economy, and office markets lag behind the rest of the industry by as much as 12 to 18 months."

Kelly cited several months of job growth and stable unemployment figures as positive signs for the future. He also addressed concern caused by the offshoring of jobs, explaining that there are two schools of thought on the subject. One says that the estimated 3.3 million white collar jobs that are expected to go overseas over the next 15 years will result in a loss of 500 to 600 million square feet of office space demand in the U.S. The other line of thinking is that 3.3 million jobs over 15 years represents a tiny fraction—only about 2.5 percent—of the United States' current employment of 138 million.

Another indicator pointing to greater prosperity is the fact that future construction has dropped off considerably. "With no new space in the pipeline and economic growth starting to fuel demand, we've likely seen office hit its peak vacancy, meaning positive lease absorption is near," Kelly said.

The commercial real estate market is likely to be affected by members of the Baby Boomer generation who will begin retiring in the next few years. "The difference between the Baby Boomers retiring at age 65 or delaying retirement could mean the difference between developing upwards of 40 million square feet of office space per year if they do step aside, or almost 80 million per year if they stay in the workforce until 2020," explained Kelly.

Gorman reported that the Canadian commercial real estate market has largely survived the last few years of economic hardship and is poised for gains in the near term.

"Most markets in Canada have stabilized and will improve over the next two to three years, even without dramatic increases in overall economic activity," he explained. The results of the technology meltdown have been realized and factored into the market, so there is not so much in the way of shadow inventory that could surface and affect the current trend. I am pleased to attest that the overall condition of key Canadian markets is healthy, with all indicators showing stable or positive signs in virtually every market."

Citing data from Statistics Canada, Gorman commented that the two main risks to the Canadian economic outlook are the uncertainty surrounding the impact of the rise of the Canadian dollar, and the sustainability of the U.S. economy.



“The gains made thus far in 2004 suggest a Bank of Canada rate hike is likely in the fall, to keep inflation at the midpoint of the targeted one to three percent range,” he said. “The non-residential sector continues to be affected by these mixed economic indicators, although there are notes of optimism throughout many sectors of our economy at present.”

Gorman also identified a change in the buyer profile in Canada. An analysis of transactions over \$50 million in 2002 and 2003 confirms that the profile of investors has changed significantly. “We are now seeing less money coming from traditional sources such as pension funds and government, and more coming from offshore investors,” he said.

Founded in 1907, the Building Owners and Managers Association (BOMA) International is a dynamic international federation of over 100 local associations. The 19,000-plus members of BOMA International own or manage over 9 billion square feet of downtown and suburban commercial properties and facilities in North America and abroad. BOMA's mission is to enhance the human, intellectual and physical assets of the commercial real estate industry through advocacy, education, research, standards and information. For more information, please visit the BOMA International Web site at www.boma.org.

BOMA Canada is the voice of the Canadian commercial real estate industry. With strong local associations in each major region in Canada, BOMA Canada is comprised of over 2000 members, representing over 500 million square feet of office space in Canada. For more information, visit the BOMA Canada Web site at www.bomacanada.org.

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