

Should a, Could a, Would a..... Commercial Real Estate Decisions in a Down Market



If you have a magic crystal ball, and you know when oil is going to hit bottom, when commercial real estate prices will be at their lowest and when the economy will start a turn towards growth, this article isn't for you.

For the rest of us: business owners, real estate practitioners and investors, there are opportunities that come with a depressed economy. The question is always "when?" When do you make a move, when do you downsize, upsize, buy that property that is priced well below market, take advantage of low lease rates? How long do you wait? How long is this opportunity going to last? Or how long will the economic downturn last? Should my purchase be buffered for low returns?

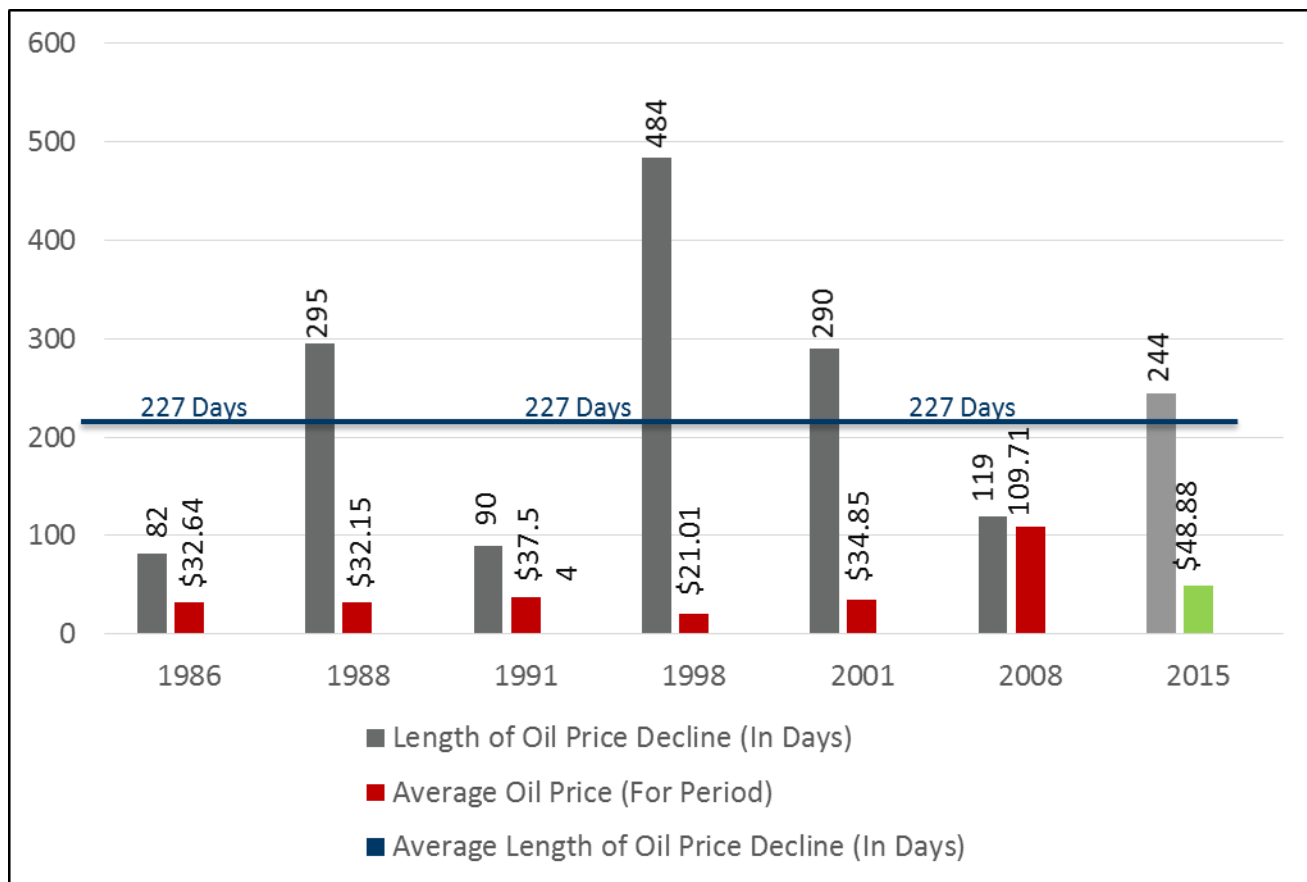
There are analysts who say that it will take 15 years [before oil rebounds](#), there are analysts who are predicting by [2018 crude oil will be \\$130 USD](#). And lest not forget, in 2009 when oil was at its highest, analysts like the International Energy Agency (IEA) were predicting that demand of oil will far outweigh the supply [well into 2020](#) and keep the prices high. Well here we are and that's not the case!

With supply and demand cycles and unpredictable world geo-political dynamics, anything can happen that will change the current economic landscape and oil prices. To summarize, no "expert" can assess the situation or predict with any clarity. So let's look at some actual data from previous recessions and oil price reductions.

Below is a chart (Figure 1) with six major historical events that resulted in oil price reductions and the corresponding duration of the decline in trading days. In Figure 2, below, is a graph that overlays the average days of each decline, the average price of oil during that period of decline and the average length of all of these 6 major recessions and oil corrections, referenced against our current oil price environment (as of January 4, 2016).

Figure 1

Major Oil Corrections Since 1980				
Date	Event	% Change in Oil Price	Length of Oil Price Decline (in trading days)	% Increase in Oil Price 1 Year Post-Low
1986	Saudi Market Share War	-67.2%	82	79.0%
1988	Oil Glut	-43.7%	295	58.4%
1991	Global Recession / End of Gulf War	-57.2%	90	5.4%
1998	Asian Crisis	-59.6%	484	134.5%
2001	Global Recession	-53.1%	290	46.2%
2008	Great Recession	-78.4%	119	134.8%
Average		-59.9%	227	76.4%
Current		-57.2%	242	?

Figure 2


How is this data relevant? How can one benefit from it? Well, we are now over 242 trading days into our current price correction, this has lasted longer than most of the previous events and surpassed the average length of all six previous corrections of 227 days. As difficult as it is for many businesses and our economy, this will not last forever.

This article will not predict when oil will go up to a level that will create a robust Alberta economy, or predict when the market is at the bottom to take advantage of the best real estate opportunities. Merely it provides data from recessions and oil corrections from the past, in order to lend perspective to where we currently lay in this oil correction. As one can see, the prosperous years don't last forever, even if the experts say it will. Similarly, when the economy is depressed it won't stay that way for long, even if the experts say so.

So while vacancies are up, while there is downward pressure on lease rates, and substantial discount sale opportunities emerge, now is a great time to take advantage of our current economic environment. Now is a great time to start to find facilities that offer greater efficiencies for your business as we prepare for the next cycle.

Just don't wait too long, opportunities don't last forever.

For more information on upcoming market opportunities in 2016, please contact:



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