

Commercial Real Estate Is Alive and Well

eResearch Corporation is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis suggests that commercially-oriented REITs may be oversold.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: [Commercial real estate alive and well](#)

You can also visit Scott Grannis' Home Page for his Blog at the link below:
<http://scottgrannis.blogspot.ca/>



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REITS (e.g., VNQ) have under-performed the broad market (S&P 500) by over 20% since early July of last year, thanks at least in part to concerns that e-commerce (e.g., Amazon) has rendered shopping malls obsolete.

To illustrate this point, one REIT, SPG (Simon Property Group, the largest shopping mall and retail center owner in the country), has under-performed the broad market by over 40% since the end of last July.

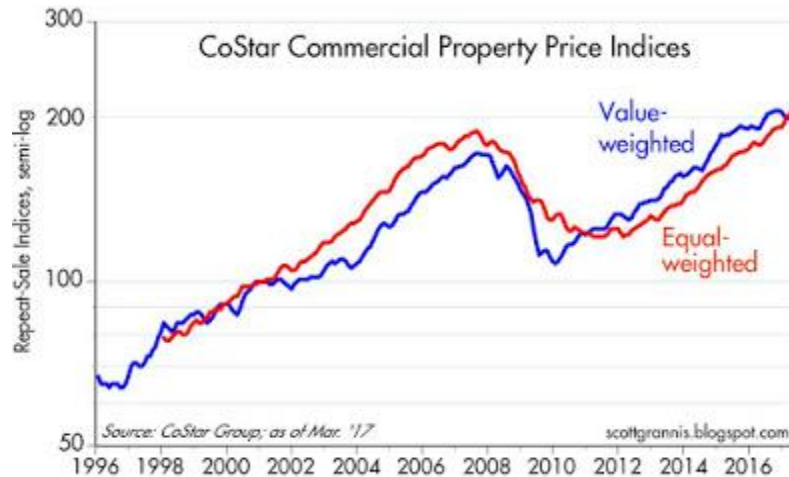
The graph below illustrates the divergences:



According to the latest data (April) from [CoStar](http://CoStar.com), prices for larger commercial real estate properties slumped beginning in mid-summer last year, but have rebounded of late.



Meanwhile, their equal-weighted property price index (which captures the much larger volume of transactions for smaller properties) jumped an impressive 15% in the year ending last April, and has been posting double-digit gains for the past four years:



I point this out because the pessimism priced into REITs in general, and especially those that specialize in large commercial properties and shopping malls, may have reached extreme levels.

Caveat emptor, of course.

BW: See ABOUT THE AUTHOR on the following page.



ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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