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RECESSION IN EUROPE

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The economic impact of the events of the past 36 months is far-reaching worldwide. The consequences are a financial disaster of wide-ranging impact. The systemic changes are still occurring throughout the world and the ultimate impact is still playing out.

At a recent meeting in London of the Counselors of Real Estate, the unfolding circumstances were given context by the members from 14 countries in attendance. This unique, on-the-ground insight, together with the newspaper headlines of September 29 thru October 1, 2010, provides a stark view of the realities.

From an operational standpoint, it is clear that most of the countries in Europe are suffering from many of the same things we are seeing here. The real estate market is clearly bifurcated with core properties in premium locations gaining the most attention from equity investors and in the debt market. B and C locations are suffering proportionately. Another common trend is consumer de-leveraging. In plain words, this means that saving rates are increasing and debt repayment is a primary focus in many households. The impact of these two characteristics is felt throughout real estate markets in eastern and western Europe.

The future of government finances and the crushing debt loads experienced in many countries are impacting real estate markets. The British Government has scheduled October 20, 2010 as the date on which the details of their proposals for a new austerity program will be announced. This austerity program is aimed specifically at their £1,000,000,000 national debt and forecast budget shortfalls into the future. The predictions are for as much as a 30% cut in spending coupled with tax increases. An example of specific programs in jeopardy includes the emergency mortgage (payment) subsidy program for the unemployed enacted last year. This program has already been cut back and will likely be even more downscaled in the immediate future. Home affordability in England is also taking a hit with significantly tightened lender guidelines. There are no more interest only mortgages being written. As is the case in the U.S., British banks are taking a much more conservative position in response to increasing mortgage risks.

Several other examples of severe market meltdowns were discussed. Ireland is going through a severe economic re-adjustment. Formerly known as the “Celtic Tiger”, this country is now experiencing the pendulum swing in the opposite direction. Irish banks are, in the eyes of many, virtually nationalized. Headline news in the *Financial Times* was of the €50,000,000,000 bailout program for their major banks. Irish-Anglo Bank, which was very active lending in New England, has in fact, been nationalized. The negative impact of these bailout costs, on a social and financial level, will be severe.

The list of countries with similar problems includes Greece and Spain. Both of these countries have severe national debt crises and are in for hard choices that will involve scaled back social programs, pensions and public employment. They are faced with the ultimate decision of what services do the citizens want government to provide and how will those services be paid for.

It is clear that substantial and costly changes are needed. In the U.S., we have begun to get some encouraging news about repayment of bailout funds, but the ultimate solution is fiscal responsibility as our economy recovers. This time, the recovery may take place over a considerably longer period for many of the most hard-hit European nations.

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