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CCIM FORUM PRESENTATION  
COMMENTARY ON "STATE OF REAL ESTATE"

Presentation November 20, 2002 by John S. Baen, Ph.D.

I. Big Box Retail 2000/2001 Big Box Office/High Tech Building

1998--Future Effects of Technology on  
Profession/Fees

1999--Effects of Technology on Real  
Estate

2000--Available Technology Retail

2001--Available Technology/Urban  
Form and 9/11

2002--Where Are We Now? Real Estate  
Post 9/11 and Dot.Com Meltdown

Growth 1992-2002 based on all of the following:

1. Technology Effects/Productivity
2. Immigration
3. No Terrorism
4. Cheap oil and gas

\* at risk for 2003-2013

"There are two types of forecasters--those who don't know, and those who don't know they don't know."

II. 2002 Big Box Offices/High Tech Building  
by John S. Baen, Ph. D.

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1. Reduced Demand/Occupancy have dropped due to:

- economy
- lay offs (travel agents, stockbrokers, insurance agents, etc.)
- transfer of professional jobs overseas

2. Prices have dropped, often below replacement costs
3. Technology effectiveness/loss of “middle men/women”
  - computers
  - laptops
  - less staff required
  - direct marketing by product suppliers: stocks, insurance, banking, etc.
  - less business travel/operating style
4. Overseas transfer of customer service reps, software engineers, etc. to India.
  - 25, 000 Engineers @ 200 sq. feet = 5 million sq. feet
  - 25, 000 Engineers @ \$75,000/yr. = \$1.9 billion
  - \$1.9 billion at 40 % IRS tax = \$750 million loss in govt. funds
5. People efficiency in new economy = less office space demand for office workers and service suppliers:
  - fewer on-site staff
  - higher productivity per staff
  - compensation bonuses based on new income structures
  - do more with less with fewer people
  - less time in traditional office space (cell phones, wireless email, digital/video phones and meetings, big screen training)
6. Loss of capital value/improvements
  - “high-tech” designs
  - hardware
  - equipment
7. New automated manufacturing without people (no human health building standards)
8. Shorter supply chains and less inventory storage
9. Shrinking profit margins with:
  - prices falling
  - increased competition
  - more/better information
  - reduced overhead
  - fewer workers
10. more office work conducted in:
  - homes
  - cars
  - anywhere
11. No new dot.com technology wave on the U.S. time horizon.

12. the real online availability of visual movies, sales, meetings, training reducing "need" for office interactions.

13. Threats of terrorism

14. Rising costs traditional office space--total occupancy/cost for tenants

- security
- insurance
- property taxes
- increase government design/taxes criteria

### III. The Hope for the Future of Real Estate

- CAP rates follow interest rates (Fed rates have dropped 80% in one year)
- Inflation prospects
- investors fleeing stocks/bonds
- tax benefits of real estate vs. other "financial investment alternatives"
- longer term investors
- cash flows and modest appreciates will out-perform stocks, bonds and savings accounts
- "safety" of U.S. as a place for foreign investments and capital
- new sources of jobs and credit for our economy to boom again ("new wave of technology"?)
- increased/sustained legal immigration
- defeat of terrorism in the U.S./world