

# Hoff & Leigh's Weekend Market Report

## Hoff & Leigh, Inc.

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**All Market Average Office Building Sale Price PSF = \$105.30** (UP from \$105.28 last week.)

We are currently tracking 156 office buildings for sale.

This is 1,652,952 square feet, which represents a total market value of \$174,046,433.

**All Market Average Industrial Building Sale Price PSF = \$84.46** (UP from \$82.82 last week.)

We are currently tracking 143 industrial buildings for sale.

This is 1,621,853 square feet, which represents a total market value of \$136,976,256.

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## Tim's Market Report

While it's not official, (because it wasn't written in the Gazette), last week there was a declaration by someone I know that I'm potentially a very dangerous guy. After I chuckled, I thought, "Wow!" Little Timmy Leigh from Grand Forks, North Dakota; who would have ever thought? I guess I really made him mad. (Most wanted maybe, but dangerous? hardly; I don't even use my concealed weapons permit - yet.) The fact is, I deal with words & thoughts and generally say what's on my mind. I guess honest opinion and truth scare some people. So, I'd say this, "Be afraid. Be very afraid."

"And danger is my business".

(Quote attributed to the world famous cartoon character, UnderDog; circa 1978)

Last week was not the greatest week. I spoke with Fred Crowley who told me that we have an "outrageous potential for inflation" within the next 18 - 24 months. Fred merely stated the obvious and validated what I've been preaching for months. He offered evidence; gas prices are up 60% - 70% from 1 year ago; (He says that if you want to follow inflation, follow gas prices at the pump.); energy costs; transportation costs; home heating costs are all 15% - 20% higher than they were a year ago. The "core finished good index" is 10% - 11% higher now than it was in July. I could talk about the outrageous increase in the aggregate money supply and other obvious indicators but

suffice to say, expect the dollar to depreciate and that you'll need more of "them" to buy fewer goods. Expect high gas prices this summer and expect that it'll cost more to run your AC. (Note to self: My fear is that we have price inflation along with falling commercial building values. If you want to discuss that scary scenario, call me.)

Last week was not the greatest week. I spoke with 2 separate bank presidents who told me that in Colorado Springs, there are now only 3 commercial banks making commercial real estate loans. Each president (independently of each other in separate meetings) told me their expectation is that the Colorado Springs commercial real estate market will "tank" over the course of the summer as lending continues to dry-up and as existing loans come-due and as existing debtors are not able to find new lending sources. Of course there'll will be a negative cascading effect where newly lowered prices drive other building's values down; and which by the way, not only negatively impacts the value of commercial real estate and the personal net worth of commercial building owners, but negatively impacts the city's ability to collect property taxes. (If building's values fall, the tax base falls. If the tax base falls, the city's ability to collect taxes and pay for services falls.) Hmmm. . . I wonder if we can implement extend & pretend?

Last week was not the greatest week. I was on the Big Island and while there, I learned that Colorado Springs is not the only governmental entity grappling with taxation & service issues. Hawaii (the state) is broke. Last week their state legislature floated an idea to steal their version of the LART tax from local taxing entities so they could try balance their budget. The outcry could be heard from Diamond Head to Mauna Lani. The state told the local guys they'd have to find an alternative way to tax tourists if they wanted that money. Wow. That was all I could muster.

Last week was not the greatest week. I mean, come-on; I had a 3 hour appointment with the dentist. How good could that be? My DDS bills himself as painless and mercifully, mostly, he was. But - 3 hours? That's way too much to expect an ADD kid from the snowy, cold north to endure. And to add insult to injury, I got a flat tire on the way to the appointment and had to trudge the last 3 blocks in dull-dread; nearly falling-down in the cold, on the slippery, snowy roadway; not plowed, no doubt because of no likely snow-removal budget for Austin Bluffs. At least I didn't have to dodge a trash can.

And I'm not sure my main man eased my pain. Or maybe that throbbing was just the headache I got after reading the City Council memo titled "Financial Crisis Plan". According to the memo, we (that would be you and me, Bob, and everyone else) are looking at a potential \$27,000,000 million budget shortfall in the 2011 cycle; and \$12,000,000 in 2012 and \$12,000,000 in 2013. Mama Mia – that's a lot of spicy meat-a-balls! And yes, the painted-picture is bleak.

I came away from the memo more impressed with the city manger than I thought I would. Her memo calls for many of the things I advocate. It calls for "city-wide" management restructuring and the reassignment of tasks to eliminate excess costs; it calls for streamlining operations and generally becoming more efficient in the delivery of services. That's good.

It calls for shedding non-essential operations and for an increase in entrepreneurial activities, (which, by the way, is a city management model currently being successfully practiced in other cities), which have not been fully embraced here. This would include outsourcing functions, including for example, fleet maintenance, emergency communications, land use permitting, building inspections, reprographic services, etc. It calls for a greater degree of outsourcing of services.

Tom Peters, “the management Guru” from the 1980’s said it first and I merely repeat his mantra, “Anytime you can flatten the management hierarchy you’re better off.” Ergo, anytime you can remove a bureaucratic hierarchy that limits the quality of communication and service, you’re better-off. That would include outsourcing city services which would allow us to hold 3<sup>rd</sup> party vendors “responsible & liable”, and lessen our operational costs. That’s good.

The memo calls for increasing taxes and a continued reduction in services. That’s not good.

Here’s some interesting out-take reading:

Our potential 2011 budget shortfall is \$27,000,000.

Increasing the lodging tax from 2% to 4% would increase general fund revenue by \$3,000,000

Increasing the auto rental tax to 3% would increase the general fund revenue by \$700,000

Increasing the tax on restaurant sales to 3.5% would increase general fund revenue by \$8,200,000

Implement a sale tax on cigarettes would increase general fund revenue by \$1,600,000

Eliminating the sale tax exemption on our utility bills would increase general fund revenue by \$6,000,000

If you add these less-intrusive (as opposed to increasing property taxes, for example) tax increases and subtract them from the shortfall, you’ll see we still have trouble in River City. “It rhymes with P and starts with T and stands for tax.” And by the way, if we “voter approve” an increase in these taxes, we’re still \$7,500,000 short. Ugh. So how do we cover this short-fall? More taxes; sell assets; Hmm. These are enormous questions with significant implications requiring our best minds; we need bright, strategic thought leaders to become involved.

I have many friends who continue to call for eliminating taxes & services. They want to engage in this great rhetorical conversation about the role and function of government in a post industrial society and I think that’s awesome. But before we huddle in the living room to discuss these deep and divisive philosophical topics, let’s first put the house-fire out.

So, here's a suggestion. Since we have forewarning from the city manager's memo, before we start calling each other names and before we work on tax and spend battles in the Gazette and other public media, let's "gather round the camp fire" leaving our differences at the door, and work toward a common goal. (Say; now there's a novel idea). Let's figure-out (together) what taxes we need to provide the quality and level of services we need; and then we can launch into interesting, esoteric and deeply philosophical conversation (over wine) about the role of government in a modern society.

Houston – we have a problem.

And it's not going to magically disappear.

Ok, so maybe it wasn't a great week last week. But, because I'm an optimist, I think I'll make this week a great week.

(And, by the way, if you want to weigh-in on the state of the world, shoot me an email.)

Warm Regards,

*Tim Leigh*

**Tim Leigh**  
Hoff & Leigh Commercial Real Estate