

When the Levee Breaks

ACG members discuss where the next asset bubble may be forming

The most over-hyped segment is healthcare, but parts of healthcare may be "under-hyped." What does that mean? Healthcare is one of the few real growth opportunities, because of the bulge-bracket of aging baby-boomers. One oft-cited statistic is that 13,000 individuals will turn 60 each day, for the next 20 years. Additionally more people will be using more services under the new healthcare legislation.

The challenge is that three things are likely to come out of this. Healthcare is expected to increase significantly as a percent of GDP, which will cause pricing pressures on providers of services and ultimately on equipment and supply companies. Secondly no one really knows how the payer system will react - especially Medicare and Medicaid, but private pay as well.



Donald J. Feldmann

Finally no one knows what the new regulations will do to the system. The opportunity is that if you are the low-cost alternative for services and equipment, and your services or equipment provide a real benefit to the healthcare consumer, you probably have a great opportunity.

One of our clients provides a low cost equipment alternative to healthcare institutions, which should be a unique opportunity. So healthcare is overhyped, but you can win by being selective.

—Donald J. Feldmann, President and CEO, Rippe & Kingston Capital Advisors

For decades, manufacturing companies have

set up related party entities to own and lease back the manufacturing facilities. This structure



John P. O'Connor

has provided both tax and leverage benefits. With the past real estate boom, many companies leveraged the related party owned real estate to fund corporate development projects. As market values decline and business slows, the challenges of the renewal process will include lower real estate values and lower rent levels. Both of these factors could limit financing options going forward.

Also, in a transaction situation, buyers may be less willing to assume the related party facility lease which could leave the seller with less rent or a vacant building.

—John P. O'Connor, Partner, Plante & Moran, PLLC

The next asset bubble is US Government debt. The price of US Government debt has risen and the yield or interest rate on that debt has fallen to unprecedented levels. The US Government bond market is the largest fixed income market in the world and when rates rise and values fall this will be the asset bubble of all asset bubbles. The US Government is spending money like a drunken sailor and has increased the annual deficit from \$300 billion to more than \$1.5 trillion. Total government debt has also ballooned to more than \$12 trillion.

The US does not have this money and dur-

ing the next few years, interest rates on US Government debt will rise rapidly and the value of Treasury bills, notes and bonds will fall in tandem. This government spending cannot last and I believe it will blow up in the next few years with massive increases in interest rates to attract buyers for our debt. When this occurs, the price



Joseph J. Ori

of Treasury securities will fall dramatically. Many institutions have been buyers of Treasury debt for safety, yield and because there is a general skittishness in the world. They however, may be very disappointed when rates start rising. The

10-year Treasury Note is currently around 3.9% and could rise to 5% or more which would equate to a loss of 30% in bond principal.

—Joseph J. Ori, CPA, CFA, Senior Vice President, Commercial Real Estate, NRC Realty & Capital Advisors, LLC

In my opinion, it appears asset bubbles in real-estate, stock and currency markets, especially in Asia, are a concern. The major reason for that is the very low interest rate of the US dollar and the fact that some economies in Asia that are rebounding faster out of the global downturn are helping investors to borrow in dollars and invest in real-estate, stock, and currency markets.

According to the Wall Street Journal, The World Bank warned in November 2009 that the sudden reappearance of billions of dollars in in-