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## **Recovery trends prevail: Most indications are positive for 2010**

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Recovery trends prevail. November jobless rate fell to 10%, from 10.2% in October, as employers cut the smallest number of jobs since the recession began. Still many economists expect the unemployment rate to move up again in 2010 because the jobless recovery has been forecast and job formation, if not net growth, has just started. Inventories have been reduced and orders are up. Productivity has increased and growth is measurable and forecast to increase in 2010 the New Year. Massive deleveraging has occurred, and resulting balance sheet improvements for the consumer, business and banking sectors must be considered a positive for the recovering economy. Commercial real estate continues to be a big exception to all the hopeful news, and not surprisingly. Demand in the sector is derived from job growth and the commercial real estate sector activity is a lagging indicator in recovery. Further the burden of the credit crunch still is heavy on commercial real estate.

The November 2009 Beige Book report from the Federal Reserve noted that economic conditions have generally improved modestly since the October report. Eight of the twelve districts indicated some pickup in activity or improvement in conditions, while the remaining four - Philadelphia, Cleveland, Richmond and Atlanta - reported that conditions were little changed and/or mixed. Consumer spending reported up moderately; manufacturing on balance reported steady to moderately improving; nonfinancial service sector generally strengthened somewhat, residential real estate somewhat improved led by the lower end of the market; Commercial real estate markets and construction activity was reported to be, in some cases, deteriorating. Contacts in the First District - Boston indicated nearly uniformly that the region's commercial real estate market continued its downward trajectory including hard work at retaining tenants who are driving hard bargains, softening class A downtown Boston office rents, upward pressure on cap rates, and scarce sales. The adjectives and adverbs above have been lifted from the Beige Book and attracted criticism and invited second-guessing.

The New England Economic Partnership (NEEP) released new economic forecasts on November 10th for the New England states and region. The NEEP forecast acknowledges the dominance of U.S. economic conditions and projects continuing job losses into 2010 with unemployment peaking in mid-2010 at 9.4% marginally below national unemployment peak. Like the nation, the regional economy is showing signs of improvement, and recovery is expected to be slow and weak. For Massachusetts, third quarter 2009 GDP decline of 1.1% annualized versus national GDP gain of 3.5% was a disappointment. The state employment growth will be the strongest in the medical and educational services super sector followed by the information super sector.

The jobs report for November was characterized as a solid report any way you slice it. It followed a week of favorable reports. Of course Massachusetts employment report will be most relevant to our

local property markets. The Beige Book included broad, albeit marginal, improvements across the districts and economic sectors and First District - Boston was relevantly as positive as any in anecdotal commentary. NEEP forecasts are on track without saying so. The evidence is overwhelming. Even for commercial real estate, most indications are positive for improvement in 2010. Happy New Year!

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