nerej
CELEBRATING 55 YEARS

The new market is defined by 2011, the New Year

January 13, 2011 - Appraisal & Consulting

The new market is defined by, among other things, 2011, the New Year. 2011 means new allocations for commercial real estate lending from the banks, insurance companies and other capital sources. 2011 means a new starting inventory in the submarkets space data reports and new vacancy calculations. Actually, all is a continuum with somewhat arbitrary marks for time for measurement, comparative analysis, rate of change and trend determinations. Most, if not all, trends are positive in the regional property markets because of job gains and growth and forecasts are being revised upward. The new marketplace is at once more competitive and less speculative.

Beyond these generalities about the economic conditions, investment activity provides the most important data for understanding the local property markets. 2009 and 2010 were both very quiet. The increase in activity in 2010 was insufficient to establish momentum. Investment activity reconciles property market performance and expectations with the domestic capital market and ultimately with the global markets and economy. The less risky rates are well established by government issues, and rates and spreads for corporate credits and credit real estate are further stabilizing. As fundamentals continue to improve as forecast, the riskier real estate is beginning to develop price and rate patterns, but only beginning.

Contingent conditions are dissolving with the passage of time - tax extensions, the election outcome, global debt crisis among other matters. All reduce uncertainty and are consistent with ongoing recovery if not expansion. Nevertheless most commercial real estate trends tend to be lagging economic indicators. Accordingly, with the gradual pace, forecasting performance for real estate with vacancy and weak tenancy is a challenge and underwriting continues to rely heavily on current performance and conditions. Sellers see the future and buyers are restrained by the present.

For November 2010 the unemployment rate for the Boston metropolitan (NECTA) area was 7.4% down from 9.3% in January 2010, and the resident labor force has increased from 2,529,949 to 2,565,159 during the same period. Some pundits are actually describing the local economy as robust. Local real estate firms are already reporting fourth quarter submarket performance and will continue doing so during January. Initial reports are generally positive and forecasts are moderately expansive if not robust. So we are ready for the next day, the next quarter, the New Year!

David Kirk, CRE, MAI., FRICS is principal and founder of Kirk & Company, Real Estate Counselors of Boston, Mass.