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## **Patterns emerging in the local property markets**

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The local property markets are starting to reveal patterns of economic activity, and capital will soon further clarify the metrics of the recovery. At the New England Chapter of The Real Estate Counselors (CRE) on March 2nd, chapter member Ray Torto, CRE described the macroeconomic (employment) chronology from trauma 18 months ago (banking crisis), to operating suite for remedial surgery (FED intervention), and finally to recovery room. Torto, chief economist for CBRE Torto Wheaton, moved through national trends on property markets (office, industrial, retail, multifamily and hotel), including comparative historic recovery patterns in inventory, vacancy, occupancy and absorption. Torto's forecast and Boston market segments provided focal framework for a lively open-mic on trying to reconcile recent transactions with current and short term forecast conditions. The counselors will be in Seattle May 25th-28th for the mid-year meeting to continue the reconciliation and refine strategies to exploit the recovery.

Torto has an outstanding track record for tracking the property markets and integrating his data with the macro economy, capital markets, and local trends. The market makers around the room recited recent activity, and queried how it will change. Although sluggish job growth will continue to dog absorption in all property markets and dampen occupancy and rents, the bottom has been established and rising fundamentals will soon lift the pricing and values from the current bottom. Several offerings have been withdrawn because of little or low-balling interest. In six months or so interest and pricing will improve. Renewals are running 50% because landlord and tenants are unable or unwilling to fund the costs of the move and fit up or share them amicably. The renewal rates are likely to increase in this market. Capital formation is likely to improve dramatically, and commercial real estate will recapitalize itself at a significantly reduced level.

The 2010 prognosis for the capital markets was aptly described by experts at the REFA members only luncheon on March 4th. The MBA Wrap-up included what was said and what was not said at the recent MBA meetings. The meetings have been restructured to include council formats as well as reactivate Advocacy & Policy activity at the MBA to provide an effective private sector interface with the public sector during regulatory reform and implementation. The panel, moderated by David Douvadjian, of Meredith & Grew, included Michael Berman of CWC Capital and MBA chairman-elect, Milad Jamali of, Genworth Financial, and Marilyn Mawn, J.P. Morgan. Life companies will generally increase 2009 real estate allocations for 2010 because of rate compression in the bond markets, and other portfolio considerations. CMBS issuers are taking applications, and the term sheets are being issued for multi-borrower securitized pools. Underwriting and diligence is predictably tight including reserve cash management, but the metrics are varied and familiar providing for a flexible and competitive funding for most property categories. Funding could reach or exceed \$10 billion from the major CMBS issuers in 2010. Newly formed mortgage trusts and debt funds are expected to be a significant factor in 2010. The servicers are experiencing dramatic

increases in existing CMBS defaults in 2010 over 2009 and the trend is expected to continue during 2010. The new CMBS market and other sources are developing terms and products to respond to the recapitalization of defaulting loan volume from the existing CMBS portfolios, the banking sector and other sources. The prognosis for 2010 is much better than it was for 2009.

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