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Mid-year view: What lies ahead for the R.E. market

July 15, 2010 - Front Section

As summer arrives for real, a look at how the commercial and residential real estate markets have performed for the first half of 2010 helps provide context for the second half of the year.

Global markets continue an uncertain recovery faced with significant risks. On the minds of investors are such issues as continuing concern over government finances in a number of European countries, Chinese efforts to cool the pace of real estate investment domestically and concern that another global correction in the finance markets is at hand. Despite these concerns, investment capital continues to flow into Asian markets, European markets and into an improving domestic U.S. market. All these are signs of a growing strength of the recovery.

Domestic commercial real estate markets have begun to show life after a long dry spell. There is talk and signs of a return of a CMBS finance market. Only time will tell if the investment community is willing to again accept risks presented by these pooled mortgage investment vehicles. On the transaction side, particularly in the local Boston market, there are signs of life. However these well publicized initial transactions appear limited to the Class A property market in most instances. Reports are that competition has been heated for stable, fully leased investment properties. There has also been spirited competition for troubled properties that have strong upside potential. These trends are not as apparent in the Class B and Class C commercial and retail sectors.

The S & P/Case-Shiller Home Price Index shows that although most markets improved this spring, there are no solid signs of a sustained recovery. The Greater Boston market has faired better than most posting a 4.9% increase over the 12 months ending April 2010. The major concern in this market is the "hangover" impact of the homebuyer tax credit over the previous nine months. Concern is focused on the fact that accelerated activity resulting from this tax credit may have "stolen" sales from the second half of 2010. The answer to this question will likely be told in the September/October/November time period after the end of the summer doldrums.

So what does this mean? The positive signs in all three markets are clearly an indication that recovery is occurring, although at a much slower pace than hoped for. The major question for many investors (and consumers) is whether we will experience a double dip recession. Although opinions vary on this question, I don't see this occurring in the Greater Boston or New England market. There clearly is the potential in certain western and southern states for this to happen, but it will likely be a local occurrence and of limited duration.

Having survived a very difficult two-year period, there are many signs for optimism going forward. Stay tuned.

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