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## **New England economic partnership releases forecasts for region**

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The New Year celebration is only a few days away and forecasts will be headlining in the media. Most of us are making and revising forecasts continuously based on the flow of data bits. However, anniversaries do mark special forecast releases and requirements like budgets as well major planning for resources including real estate. Undeniably, the slowing of the economy increases vulnerability and risk of recession. However, current economic activity appears to justify cautious optimism for sustained moderate growth. A few recent data bits are offered below.

The New England Economic Partnership (NEEP) released new economic forecasts for New England Region and each of the six New England states on November 13th. The forecast for the period ending 2010 continues to be for slow growth, and marginally weaker than NEEP spring 2007 forecast.

The Real Estate Cycle Monitor authored by Dr. Glenn Mueller released its Third Quarter Analysis which showed most markets in Expansion, phase II, and only a few regional property markets in Hypersupply, phase III, of the property cycle. The Monitor forecasts moderation but positive income growth in all property types for 2008. All the Boston property markets are in late Recover, phase I, or early Expansion, phase II.

Ron Kaiser of Bailard, Inc., speaking at The Counselors annual meeting in San Francisco on October 29, 2007, offered a compelling and comforting argument for a continuing low interest rate environment in his observations on "The Long Cycle", comparing real estate and the stock market over time.

For me, these three sources, along with other public and local market resources, represent sufficient rigor and reason related to our local property markets to be cautiously optimistic about 2008.

Supply and demand are simple concepts and the basis for any cycle considerations in a forecast. However, the complexity of the global economy, the housing market contraction and credit crunch have been enough to baffle the Federal Reserve in its rate-setting, so why not the rest of us.

Ron Kaiser was talking about interest rates, cap rates and real estate investments. Kaiser has been analyzing yields on stocks, bonds and real estate for some time. The Long Cycle examined 5-year bond and real estate yields, using a variety of series and surrogates, going back to 1916! More focus was expended on more recent data and comparative performance of the three investments types. Kaiser also describe "gamma", the secret weapon, the extraordinary entrepreneurial effort in real estate investing that can be the differentiating component for real estate investing. Kaiser summarized his findings with several "themes to ponder." Among them were the following:

- 1) 5% interest rates are normal by historic standards;
- 2) historically, real estate and stock yields have been comparable to each other and twice the bond returns;
- 3) moderately low cap rates should remain with us for years, absent some major shock;
- 4) real estate business should be good (in 2008), just maybe not great.

Do not forget the gamma in your tool box, quoting Ron Kaiser, and Happy New Year!

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