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IREM annual Economic Forecast Breakfast was held January 19th

February 03, 2011 - Owners Developers & Managers

The Boston Chapter of IREM held their annual Economic Forecast Breakfast at the Phillips O'Colony House on January 19th. Doug Koch, MAI, AICP, Director of Consulting Services from RSM McGladrey, Inc. and Tom Leyden, CPA, Director, McGladrey & Pullen, RSM McGladrey, Inc. presented the topic.

The presentation covered National, New England and Boston Real Estate, office, multifamily and retail. The discussion began with a look at the unemployment rate as of October 2010, which was more favorable for the Massachusetts area at 8.1%, in comparison to the nation at 9.6%.

Most economists believe inflation is not a near term factor with the Consumer Price Index remaining on a downward path. The Boston Fed Chief, Eric S. Rosengren has predicted solid growth but not enough jobs. The Nation has seen a 4% annual growth, but housing will drag instead of lead the recovery. Massachusetts looks better than the Nation with lower unemployment rates but Mass has seen a 20% decline in housing values since 2005 but incremental recoveries since 2009.

The local economic outlook for Office in regards to transactions in 2009 reflected the number of Trauma Assets was much less than anticipated. Early 2010 the market saw mostly an appetite for core trophy assets. Late 2010, the market for non-core assets began to see more activity. Boston office vacancies increased between 2007 & 2009, with 2010 leveling off near 10% in downtown and near 15% for the metro area. Boston is performing much better from a national perspective in this area.

In regards to rents, both asking and effective rents both decreased in 2010 but not as much as seen in 2009. In regards to development, for the majority of 2011 most markets will not see much in the way of new development; Boston included. New Development will most likely be slow and managed to balance with increasing vacancies and decreasing rents. Tight underwriting by Financial Institutions will limit growth. The active markets will be gateway coastal areas, 24 hour downtowns, university settings and inner suburban infill sites. In summary, Boston is well positioned nationally.

In regards to Multifamily, Boston has limited new construction during 2008 and 2009. 4th quarter 2010 national apartment vacancy was 6.5%, down from 8.2% in late 2009. Boston vacancy declined from 6.4% in 2009 to 5.5% in 2010. Asking rents are 1.7% lower in 2010, with effective rents declining 3% as operators work through vacancies and concessions. Boston is expected to gain only 1,800 units in 2011, as development rebounds but hardly at the level of the mid-2000's.

Boston retail market performing much better than the nation. 2011 vacancies are expected to remain stable or decline with continued economic recovery. Effective rents are projected to increase 1.8% through 2011.

The challenges to recovery continue to be record high household debt as a percentage of the GDP, lingering High Unemployment, tight credit lending standards, high foreclosures, U.S. Debt and Local and State Deficits.