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Commercial real estate finally records improvement

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The stock market tanked Thursday August 4, 2011 on the uncertainty and risk of possible domestic double dip in the economy and doubts about the Euro debt crisis related to defaults by Italy and Spain, among other major matters. The July jobs report from U.S. Labor Department released Friday August 5, 2011 was better than expected, advancing 117,000 versus consensus before the market nosedive of 85,000. Private sector job gains were healthy at 154,000; and local and state governments continued consolidation trends with a loss of 39,000 for July. Forecasts for the second half of 2011 were revised and re-revised over the early August action with most still expecting improvement in economic growth and sustained recovery.

The lagging commercial real estate sector finally records broad based marginal sluggish improvement. The Research Brief from Marcus & Millichap dated July 29, 2011 predicted continued demand strengthening in primary markets and that the U.S. office vacancy rates in 2011 would decline 50 basis points to 17%. Local commercial submarkets have already recorded broad improvement, and new starts for identified users will soon show in non-residential construction. National collateral activity confirms demand from employment gains in the private sector from office users.

The reconciliation of the Arab Spring, the stabilization of the European debt market and the resolution of the domestic budget and deficit are still major macro uncertainties that tend to dampen plans for hiring and expansion. The spending cuts resulting from the debt ceiling legislation will extend belt-tightening at the beltway and public sector generally. Federal programs funding defense and healthcare sectors, among others, will ripple into private sectors, ultimately impacting local markets. Healthcare employment is already somewhat poised pending the refinement and implementation of the national healthcare program. The financial services sector is still recovering with weakened balanced sheets and pending regulation. Real estate services are still waiting for a rebound from the bursting housing bubble. Government services sector has declined irregularly throughout the recovery and no end has been widely predicted. How can wet afford a stalemate in our national budget after a stalemate in debt ceiling?

With risk admittedly on the downside, forecasts are still for a better showing in the second half of 2011 which will not take much. U.S. GDP grew at 1.3% in the second quarter and grew at 0.4%, revised downward from 1.9%. On the other hand, Massachusetts grew 4.3% during the second quarter, after 2.9% during the first quarter based on Mass Benchmarks from the University of Massachusetts in collaboration with the Boston Federal Reserve Bank.

The macro economic trends that characterize the current national economy are generally favorable even if weak and disappointing. The macro trends of our regional economy are better. And micro trends of our local property markets are improving and the outlook is certainly hopeful because of our job sector distribution and property market conditions. We are working hard to retain and add to the momentum.

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