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Commercial real estate is a viable asset class and economic conditions over the long term are positive

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As we head into 2008 there are mixed signals for the industrial real estate market in central Connecticut. If this were a weather forecast it would read partly cloudy with clearing expected. While not dismissing the potential for continued problems as a result of some of the currently know risk factors, my belief is that 2008 will turn out better than 2007, which was a good year. The most often cited risk factor is sub-prime lending and its impact on the credit and housing markets. Record high prices of oil, recent declines in the level of manufacturing activity and a presidential election year fuel the uncertainty. All of these have the potential to decrease consumer and business spending. Our future is linked to the national economy and Connecticut typically lags several months behind. However, national unemployment is low at 5% and positive economic growth is forecast for 2008 for the country and the economy over time has the potential to absorb these risk factors.

Decreases in consumer or business spending could impact industrial real estate on the user side. Home sales generate purchase of a variety of building products (flooring, cabinets, fixtures, appliances etc.) as well as services. All of which require raw materials, manufacturing, shipping, warehousing and installation as do retail sales and business investment in equipment. Decreases in spending would decrease demand for products and services and therefore real estate. While not immune, the Connecticut market is fairly stable in regard to both rents and demand. We do not experience the appreciation and velocity of the national markets but we also do not experience the lows. New construction has been either build - to - suits or experienced developers building "spec" at a pace that is being absorbed by the market. The markets are not oversupplied and in some cases may be under supplied with modern facilities. The impacts, if any, would be a delay in demand till later in the year.

Sub-prime lending problems in the residential market impacted the credit markets for commercial properties, especially the conduit market. Conduits appear to be having difficultly pricing loans as well as securitizing them. Banks and Life companies are still sources of credit. Credit is available although underwriting and terms have changed and may not be as aggressive as they were previously. Experienced investors are still able to secure financing. Investments deals have been on an upward trajectory for several years with prices increasing and cap rates decreasing. Buyers have taken advantage of available credit with a focus on cash flow after financing or capital appreciation with a short time horizon. Items such as credit quality of tenants, building value and the local market have not been weighed as heavily. Demand will continue but there will be re-pricing as the market begins to differentiate between deals with a more detailed examination of these items, especially on the marginal transactions. Changes in the credit markets may eliminate some buyers and lenders for that matter. However, there have been a number of buyers on the sidelines that may take their place.

Market activity is the signal that I give the most weight to after 14 years as a commercial real estate broker in forecasting the future direction of the market. While the factors outlined above impact the commercial real estate market, the Connecticut market sends its own signals via activity and they are currently positive. In the coming year we expect demand for smaller buildings (20,000 +/-) to continue to be strong for purchase by local companies. Buildings are in short supply and prices have appreciated but are still below costs of new construction. Warehouse facilities with good clear height (24' or greater) will continue to be highly desired by the market. Land that is subdivided with utilities and infrastructure is also difficult to locate in certain categories. On the investment side there have been a number of success stories in commercial real estate over the last decade. Credit is available, commercial real estate is a viable asset class and economic conditions over the long term are positive. We also expect demand to continue for investments.

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