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## **Closing gaps and spreads in the commercial real estate market**

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The Federal Reserve Bank decision to maintain low interest environment through 2013 in response to weakening conditions in the global and domestic economies offers a sustained stimulus to capital markets. On August 31st, the Wall Street Journal Credit Markets commentators Tania Chen and Cynthia Lin observed that if the predictive powers of the steepening yield curve of treasuries hold true, market participants are hopeful about the U.S. economy and the global economy. Anecdotaly, local commercial real estate market activity has improved during 2011 and aggregations for the third quarter 2011 are expected to show further improvement.

Ray Torto, CRE global chief economist for CBRE sat down with the New England and Upstate New York Chapter of The Real Estate Counselors on February 3rd after the last snow blast that collapsed some roofs in the Commonwealth. He used a sailing starting line metaphor to characterize competitive capital reaching deeper into risk spectrum during 2011. While capital crowded the windward end of the line on starboard tack for core investments during 2010, the capital fleet will be settling for riskier investments along the line off the mark, and some might well try port tack from the leeward end of the line or elsewhere to avoid the starboard crunch to windward. Further, not all boats will rise with the tide as the markets continue to improve with the broadly forecast job growth and economic gains in 2011. In response to a query on how transaction activity will play out during 2011, Torto offered that more participants with more capital will add to the competition and pricing, and sellers and lenders will be increasingly realistic about the ask and the bids will rise. Commercial real estate activity in the greater Boston markets has appeared to follow the script.

The recapitalization of commercial real estate has proceeded gradually. Lenders and investors have taken large losses, with and without fanfare. The recovering fundamentals of demand and balancing inventory in the real estate markets and favorable and competitive yields in capital markets have attracted new replacement capital. Transaction and financing velocity have provided risk markers for existing and new investors and lenders. Spreads are compacting. The fragile economic growth and concurrent job gains appear sufficient to support continuing marginal improvement in the commercial real estate markets.

Local real estate firms and data service firms will be reporting on third quarter activity in October. Aggregations are always helpful for momentum and momentum improves predictability. The counselors will hold their annual meeting in Washington, D.C. on November 2-5, 2011. The congressional panel will be finalizing recommendations for the budget and deficit reduction. Commercial real estate performance data will be an agenda item. The economy and the capital markets will be general sessions. Aggregations will be in handouts and in the business issue forums. The counselors might well be happier in Washington, D.C. in November than we have been in three years!

David Kirk, CRE, MAI., FRICS is principal and founder of Kirk & Company, Real Estate Counselors, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540