

## **Double dip - Mixed signals - Dire predictions**

October 13, 2011 - Front Section

The more one reads the prognosticators and forecasters, the more confusing it gets. We certainly are in a time of widely different opinions on where the economy is headed and, in particular, where the real estate markets are going. The word of the day seems to be 'double dip' - right into another recession. The reality is that, although over a year ago we were declared done with the recession of 2008, this is probably best described as a technical ending. From a practical standpoint, the economy still suffers, millions of people are out of work and job growth is anemic at best. Therefore, no matter what you call it, we continue to be in a weakened economy and slow recovery is the best hope in the short run.

Optimists believe that we will begin to see significant growth in GDP in 2013 or possibly 2014. In the interim, bouncing along the bottom of a trough is the best description of our condition. In the face of these forecasts there are a number of mixed signals, particularly in the real estate market.

There are many different positions on the part of those who comment. On the one hand there are reports of continued chronic vacancy and musing about whether existing buildings have reached the end of their economic life and will never again be occupied. At the other extreme are reports of the Class A Office Market in Boston, Cambridge and the Route 128 Corridor being in excellent shape with decreasing vacancies and increasing rents. Many feel that the level of rents in the Class A Market, combined with the limited supply, will spur new construction - higher rents now justifying the investment.

There are certainly bright spots appearing. One example is the relaunch of the NorthPoint project in Cambridge/Somerville. Magic Johnson presided over a very public announcement of this re-launch. His Canyon/Johnson Urban Funds has acquired the property in partnership with several local and New York based partners. This is a 44-acre rail yard redevelopment project that has been stalled since 2007. Many of the obstacles that created this delay have now been cleared and it appears that this large, mixed-use project will now proceed. The office and lab market dynamics in nearby Kendall Square bode well for the office/lab components of this project. In addition, the housing and retail components are being re-worked to meet today's requirements.

This example is contrary to the many dire predictions being put forth. Clearly, the high tech and biopharma sectors remain strong. Without doubt, there is hesitation in certain sectors, but the trend is clearly positive in many areas. A recent survey of the nation's bankers revealed that nearly half of the risk management officers are much more pessimistic. This group sees home prices continuing to flounder until the end of the decade. It is reported that the conclusion of this group is that 2007 price levels will not be seen again until 2020. In thinking this through, that may not be a bad thing since it is clear that the 2007 levels of pricing in the local residential market were part of a bubble that burst in 2008 and 2009. The consequences have not been pretty.

Reading the signals, signs and forecasts is not a simple process. However, in my opinion, there are

enough positive indicators to feel optimistic in the short and medium term. The largest uncertainty is when we will return to a sense of economic confidence. Resolution of the political stalemate and a clear plan to resolve the ongoing fiscal issues in our economy must occur before we can move on. We have been at the bottom of cycles before and recovered. There is no reason to think that this won't occur this time around, although it may appear in a different format - a new normal. Jonathan Avery, MAI, CRE, is president of Avery Associates, Acton, Mass.

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