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"Economic, Capital Markets and Investment Outlook"

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The Appraisal Institutes Massachusetts Chapter held a joint meeting with Commercial Brokers Association (CBA) at the Federal Reserve Building in Boston, on October 6th. The program topic was "Economic, Capital Markets and Investment Outlook." The program offered a panel of experts in the industry who presented to over 60 professionals. The panel consisted of Cathy Minehan, former president of Federal Reserve Boston and current dean of the school of management at Simmons College, William McCall, Jr., McCall & Almy as the moderator, Chris Phaneuf, from Eastdil Secured, Jim Mealey, from Property and Portfolio Research and Greg LaBine, from Holiday, Fenoglio & Fowler. The topics discussed included the US economic forecast, real estate capital markets, commercial real estate fundamentals and the current debt market overview.

Minehan discussed the economic forecast of the United States. She mentioned the past and future trends of the Gross Domestic Product. She stated that the 2011 GDP was estimated to have approximately an average increase of 1%, while 2012 was projected to grow around 2%. New job growth appears to be slowing down for the second half of 2011 while the unemployment rate is also stabilizing in the 9% range. The retail sales indicator shows declining sales for the first half of 2011 along with consumer spending. She did show in her data that inflation still seems in check as the Consumer Price Index is running around 1% for 2011.

Phaneuf, from Eastdil Secured, offered a perspective on the real estate capital markets. The current theme is that activity is accelerating from 2010 to a 2004 level. Prices have increased 25-50% and cap rates are down 100-175 basis points. Sellers are being drawn back to the market as liquidity has increased. This has also caused more volatility. Transactions are continuing to get done, especially high occupancy leased deals. Investors are primarily focusing on A & B assets (Trophy Properties) with leases lasting 3 years or longer.

Mealey, from Property and Portfolio Research, went over the commercial real estate fundamentals. The Boston Office Market rental growth for 2011 & 2012 is projected to be 2-2.5 % annually. It is expected to increase to 6-8% between 2013 to 2015. The value growth for 2011 and 2012 is in the 6% range with expected increases in 2013-2015 from 7-9%. The current vacancy rate is in the 18% range. It is projected to decrease to 14% by 2015. It peaked at approximately 20% in 2010. The main area of office growth for the next 5 years will come from the Technology Sector. The Boston Apartment Market rental growth for 2011 & 2012 is projected to be 5-7% annually. It is expected to increase to 3-4% between 2013 to 2015. The value growth for 2011 is in the 13% range with expected increases in 2012-2015 from 4-5%. The current vacancy rate is in the 4-5% range. It is projected to decrease to 4% by 2015.

LaBine, from Holiday, Fenoglio & Fowler, discussed the current debt markets status. LaBine stated that capital is available from all sources including banks, insurance companies, commercial back securities and Freddie/Fannie. This includes construction loans for quality locations and best in

class sponsors. Sponsorship, markets, quality of product, cash flow integrity, maturing loan balance and reproduction costs are the major factors that are considered in the lending process. Major markets are preferred over secondary markets. Cap rates have moved back to 2005 to 2007 period lows (or even lower) for core assets in major markets. Equity pricing remains attractive on a historical basis and very attractive compared to 2009 and 2008, or for that matter any period.

Overall it was a very informative program. Please join us at our next meeting in Burlington, Mass. on December 6th for our Annual Christmas party. I look forward to seeing you there.

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