



CELEBRATING  
55 YEARS

# nererj

## **The 2012 forecasts are in and are being revised!**

February 09, 2012 - Appraisal & Consulting

Euro zone troubles continue to impact optimism about domestic recovery. Government cutbacks continue to offset employment gains from the private sector and threaten government funding for private sector programs. However, upticks at year-end in a variety of economic indicators show persistent recovery if not robust expansion. The Fed is so disappointed in the economy - high unemployment and lethargic growth - that it has extended to late 2014 for the new sunset low interest rates from 2013. Inflation target is stated to be a loose 2% and no plans for QE3 or other easing tactics.

The year-end inventory reports from the Boston commercial real estate brokerage community record improved transactional and leasing velocity and are consistently if cautiously upbeat about improved activity in 2012 for the Boston markets. However, mixed messages including bifurcated markets justify caution in optimism. The bifurcation is recorded in distinct differentials in rent, occupancy, velocity and rates of change. The terms and availability of capital are also showing bifurcated patterns of risk assessment. Bifurcation is apparent in downtown commercial office markets: Back Bay versus Financial District, tower versus low rise floors, class A versus class B; in edge submarkets and 128 suburban: 128 west versus other 128 submarkets; class A versus class B and C. The marginally rising tides have not lifted all boats.

The national macro economy must now be considered collaterally supportive for regional economic gains. Massachusetts economic growth for 2012 is forecast to marginally lag the nation. However, both are forecast to be in the range of 2 to 3%. The Euro zone is a major import partner of the state's export-skewed economy and a major origin of tourists. Although the state should continue to benefit from the President's efforts to open international markets to national exports, the weakness and uncertainty across the Atlantic will continue to be a drag on prospects for 2012. European investor activity and multi-national life science activity both appear to persist and expand in the Boston markets.

The economic markets are still in recovery. The low interest rates from FOMC will facilitate leverage and liquidity in the local commercial real estate markets. Credit availability will enable the local property markets to be responsive to the recovering job markets, however sluggish the rates of growth. The patterns of bifurcation will continue to soften as demand expands to fill the overhanging inventory and developers and investors expand their risk assessments. Although the year-end reports from the brokerage community characterized some markets as stagnant for 2011, 2012 generally will not be a stagnant 12 months!

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