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Cycles are determined by repetitive patterns/occurrences

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Cycles are determined by repetitive patterns of behavior or occurrences. The current economic dynamic is different from your grandfather's cycle, it is more global than previously experienced and expected. Accordingly, methodologies extrapolating trends in the domestic, or for that matter the global economy, is less reliable and more complex. Investors in commercial real estate should be nimble! Liquidity and leverage are dimensions of the nimble strategy. Some might imagine the real estate equivalent of laddering fixed income portfolios or timing of equity purchases as a risk averse strategy for capital cycles. Be ready for surprises, and not just traumatic financial occurrences.

Nimbleness is not a new term for commercial real estate investing. However, real estate has been characterized as a long term investment and development with entitlement and construction risks and demands are hardly nimble exercises. Nimble might be better understood as a state of mind. Preparedness and vigilance and diligence are not necessarily sound bites or passwords in the secret handshake sector of institutional investing. The slow pace of recovery and prevailing bifurcation in commercial real estate according to risk have resulted in bifurcated risk/reward opportunities. Nimbleness is a dubious term for successful investing in this risk environment.

Extrapolation will always be a methodology for analyzing future economic uncertainties. However, the caution relating to reliance on simple extrapolation in this current cycle appears particularly well justified. The turbulence and slow growth has already forced apologies and continuing revisions from the forecasters. Extrapolation informed by current and likely trends, flattened by prevailing slow growth, is still a methodology for analyzing a variety of outcomes and for comparative scenarios. The results are instructive for readiness, or nimbleness!

Now, the U.S. economy is in the 2% range for many annual economic indicators. Massachusetts just notched a 4% in state economic growth. The Fed has reaffirmed its intention to maintain low rates through 2014 several times. Cyclical patterns are driven by demographic trends which are fixed in many respects and change at a snail's pace predictably. Pent up demand does, however, unfold in patterns of irrational and unpredictable behavior. Still with these very powerful parameters and the precision and transparency of the pricing of the fixed income market, the commercial real estate markets should be well poised for continued and possibly more aggressively nimble behavior.

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