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## **Multifamily sector remains strong in spite of global turmoil**

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Recent news of progress in the euro-debt remedies cheered investors around the globe. Several measures take the pressure off the underlying risk factor that has cast a long shadow over the global economic recovery - contagion. Germany's agreement to allow direct injection of euro bailout capital into troubled banks, treatment of aid for Spanish banks as equal to existing bond holders and easing of government bond buying restrictions comprised a major turn in European dynamics, which quickly brought down the cost of borrowing for Spain and Italy. At the same time, European leaders have agreed to central supervision of eurozone banks, tightening the bond among member nations and, in theory, applying a more consistent approach to resolving financial crises and liquidity shocks. These steps relieve short-term concerns of the spread of Europe's banking crisis by providing much-needed liquidity and at least partially stemming further economic contraction. On a longer-term basis, assuming a consensus regarding the details of the agreement, a more central management of the banking sector should assist in a systemic resolution of the European debt crisis.

In the United States, economic fundamentals have been stronger than the numbers would suggest for quite some time. A more robust, organic expansion has not formed largely due to a lack of confidence by corporate America and a high degree of lingering uncertainty, both of which have been significantly influenced by negative macro headlines. The recent loss of momentum in vital U.S. economic readings drove the Fed to extend Operation Twist (selling of short-term bonds and purchase of long-term bonds) to keep interest rates at generation-low levels as a way to shore up the recovery. Notwithstanding the Fed's move and the disappointing trend lines that led to it, the U.S. economy is on improved footing and could gain momentum relatively quickly should corporate and consumer confidence improve.

While the developments in Europe and extended period of incredibly low interest rates will help move the dial in a positive direction, the macro headwinds are unlikely to disappear any time soon. Assuming the EU bailouts and intervention sticks this time, European leaders still have to address growth measures to fight off their recession and balance much-needed austerity measures. So far, the "too much, too fast" approach has not paid off and debate will rage for some time on navigating this complex dynamic. Perhaps, more importantly, the U.S. political system faces its own election year balancing act with the expiration of the Bush-era tax cuts in tandem with mandated spending reductions slated to begin in January 2013. Higher taxes and lower spending going into the first quarter of 2013 would severely weigh down an already handicapped expansion cycle. The next chapter of the EU debt crisis and Washington paralysis regarding taxes and spending are likely to dominate headlines for the next few months and, although job numbers should improve, hiring is not likely to return to the 250,000 to 300,000 monthly numbers needed to enter a sustainable expansion.

For multifamily real estate investors, this calls for the same prescription of patience regarding fundamentals, an eye on value-creation opportunities, and taking advantage of incredibly low interest rates to refinance and acquire assets. Executing in today's market with these dynamics within a five- to seven-year investment horizon will likely generate an attractive return on capital when compared with many alternative investments. Although the lagging effect of the disappointing hiring numbers in the past few months will likely show up in the softening of absorption levels in the second and third quarters of this year, we should continue to see occupancy gains across all property types. It is possible that sustained improvements in Europe, an extension of the Bush-era tax cuts, and no new shocks for a few months will allow the economy to fire on all cylinders by year end, but by then we will be hearing about rising interest rates, fears of inflation and the inevitable mopping up of the excess liquidity in the system. This is why no matter what the macro issue flavor-of-the-moment may be, a local, market-by-market, property-by-property commercial real estate investment strategy and long-term faith in the U.S. economy remain essential to take advantage of today's marketplace.

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