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2012 wrap-up and 2013 risk round-up

January 11, 2013 - Appraisal & Consulting

The New Year has a running start with deficit talks half done. All will pay something for fiscal reform. Payroll tax holiday of 2% has expired and a panoply of select tax provisions have also expired or been modified to increase the federal tax yield. Also notably extended were the New Markets Tax Credit and the fixed 9% Low-Income Housing Tax Credit through 2013. The missing parts are spending cuts and entitlement reforms which will be negotiated during the next few weeks. The stock indexes responded strongly to this first step with record gains on January 2, 2013. Local commercial real estate markets have been active leading up to year end. Details of the activity will be reported shortly in 2012 wrap ups by the major brokerage firms. The theme of yield seeking investors and risk measurement will dominate 2013.

Fundamental economic trends continued to marginally improve. The December ISM manufacturing index increased to 50.7, over 49.5 in November, which was marginally higher than expected, even with some mixed messages in the data details. December job gains reached 155,000 edging over employment consensus forecast for December of 150,000 which was supported by early ADP December report. Housing market trends have recorded broad marginal improvement in sales and production. Local gains and announcements for employment and commercial real estate further buoy the start and the outlook for 2013 market place.

The loose money and low interest monetary FOMC policy continue to press downwards on interest rates broadly across the market. Fed and other central bank bond purchases have pushed the private institutional investors into riskier market sectors. Year end commentary reports migration to investment grade bonds, to high yield bonds, to mortgage-backed securities, to what WSJ'S Francesco Guerrera called "strange corporate concoctions such as business development corporations (venture capital) and master limited partnerships (investing in energy stocks)" seeking yields, taking risks. Commercial real estate has benefited from low mortgage rates which have increased liquidity and refinancing. The low cost of capital has also induced some new commercial development activity. Rate compression has re-priced risk dramatically. The investor market has further compressed rates up the risk spectrum, so far without peril. Commercial real estate lenders and investors can still find yield and risk in secondary and tertiary markets and non-core property sectors. The yield-seeking migration of real estate capital is expected to continue into 2013. "Good news debt" has been responsive to recovering real estate markets. Improving fundamentals will reward risk taking in many if not all real estate markets. However, real estate capital will similarly find its way into strange concoctions as well.

Anyway 2013 is here, we have a New Year and a new playing field. Hopefully, no more bungee jumping or vertigo off the fiscal cliff. Most feel strongly the markets are prepared for whatever it takes. Once again, Happy New Year!

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