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Mixed signals, managed expectations: Optimism abounds with plenty of investors and low rates

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It's been another changeable winter. Not quite as mild as last winter. And all this could change (and does) in an instant because it's New England.

Inflation is not a threat, now, and probably increases modestly this year. We'll worry about the longer term effects of "quantitative easing" later.

GDP growth, at 2%, is not really signaling growth but treading water. What are the prospects of getting the economy to 3% and showing some real growth, once again?

DJI is at 13,800+. That took a while. So, will it stay and will it go up more? How much faith is there in the stock market?

Unemployment moves down glacially. Locally, it seems better; probably is. We all know there is plenty of pain still, everywhere.

We have all gotten used to doing with a bit less. Expectations are more modest.

We talk about economic recovery. It's a relative concept. Think "rebound" not "recession."

Optimism abounds in commercial real estate markets based on plenty of investors and low rates. Multi-family markets, triple net investments, medical office buildings all continue to be often asked for flavors. There isn't a lot of "product" out there so there is some dumpster diving into lower tier properties where there should be some deals.

The development market shows livening up. Cautious excitement is contagious. Stuff is being built again. Lenders even compete for deals. Low rates make everything glisten a bit more.

Let's take a look at housing markets.

The Massachusetts Association of Realtors (MAR) reported on January 8th that pending home sales for both single-family homes and condominiums went up for the 20th straight month in December compared to the year before. The number of single-family homes put under agreement in 2012 was up 25 percent over 2011. Pending sales, i.e., homes under agreement are a leading indicator of actual housing sales for the following 2-3 months.

MAR also reported that December 2012 home sales rose for the 18th straight month. Median prices also closed up for the third straight month of year-over-year increases. The year ended as the most active year for single-family home sales since 2005.

More activity is good, right? Clearly, prices seem to be pointing in the right direction. Foreclosures seem to be under control.

The Realtor confidence in the real estate market has gone up compared to the same time last year. Realtors note that real estate markets continue to recover both in terms of sales and price. Continued restrictive mortgage availability with tight underwriting standards is a problem, but Realtors report that loans are frequently available at smaller banks and credit unions. Tight inventories of homes for sale are making markets increasingly competitive.

Homebuilders show signs of optimism. Construction starts have a healthy dose of multi-family activity in them. Empirical observation suggests that new construction is better, but is it good?

The Case Shiller Index indicates a generally hopeful trend.

Tight housing and commercial inventories, growing demand, and low financing rates represent a potentially volatile combination. If inventory doesn't come onto market in sufficient amounts, prices are going to be pressured both by buyers vying for scarce properties and the stimulative effect of cheap money. This bad combination may lead us into another nasty upward price spiral such as was experienced in the last exit from a recessionary period. Add commodity price spikes and a highly uncertain global scene for the fuel for future fires. Let's hope this next year sees some more reasonable relationships of supply and demand: these high and wide swings don't do us much good, just like spikes in the winter weather do us no good.

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