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Economic outlook and real estate trends for 2013

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The Massachusetts and Rhode Island Chapter of the Appraisal Institute held its first meeting of the year at the Federal Reserve Boston on January 15th. The program topic was "Economic Outlook and Real Estate Trends for 2013." We had the honor of hosting a panel of nationally and internationally renowned experts in the fields of economics and commercial and residential real estate sectors who presented to our chapter in this highly anticipated annual event. Our guest speakers included Sara Johnson of IHS Global Insight who spoke on global, national, and local economic conditions; Bill Crean of CBRE covered the Boston office market; Jeff Rhuda of Symes Development spoke on the residential market; and Vivian Li with the BRA gave a long-term view of development in the city of Boston itself. All of the topics covered are indicators of the overall health of real estate industry in Boston and Greater Boston area.

Sara Johnson, senior research director of global economics with IHS Global Insight, started the program with a fascinating summary of economic conditions on a national and worldwide basis, then covering local conditions. She indicated that another year of sluggish U.S. economic growth is expected and that the U.S. expansion has weak momentum, but is moving forward. The Fiscal Cliff was largely averted, but a coming battle looms over the federal debt ceiling, which will soon become a constraint on spending. Housing and vehicle markets are rebounding, which in turn supports growth. Indicators reflect that services are advancing while manufacturing has stalled. Real GDP for the U.S. is expected to be 1.7% in 2013 and 2.7% in 2014, while Massachusetts GDP is expected to be 1.6% and 2.3% in 2013 and 2014 respectively. Interest rates are expected to rise, with major adjustments expected to start in 2015. Johnson reported that the U.S. is spending approximately 40% more than it is taking in. Actions are expected on both sides of the ledger with regard to the U.S. federal budget gap.

Bill Crean, senior vice president at CBRE, gave a summary of the Downtown Boston office market, noting that the Boston office market is among the top 5 markets in the country for lowest vacancy at 9.5%. Crean reported that Boston had positive absorption overall of just over 900,000 s/f in 2012, a modest increase from 850,000 in 2011. He indicated that the availability rate is 14.8%. The average rental rate for the CBD is \$44 per s/f versus \$42 last year, while the Back Bay market continues to be renting for a higher rate than the Financial District. The Back Bay reflects an average rent of \$52 in 2012 versus \$53 in 2011. Crean also reported that the vacancy rate is significantly lower in the Back Bay at 5.8%, while the Financial District is at 11.9%. The Back Bay reflected negative absorption in 2012 of just under 400,000 s/f. Crean noted that the Boston investment sales market was active with approximately 48 sales totaling \$1.8B in 2012. He forecasts that rents will continue to rise in the Seaport District, an area that is benefitting from several major relocations, including Vertex from Cambridge and State Street and Goodwin Procter from the CBD.

Jeff Rhuda, a market expert from Symes Development, presented on the state of residential

development in suburban Massachusetts. Rhuda stated that there are various notable signs of recovery in the housing market, including 2013 upward pressure on pricing; single-family inventory and condominium inventory being at their lowest levels since 2005; and 2012 being the largest closing year since 2005. In terms of demographics and demand factors, Rhuda pointed out that the "Echo-Boom" Generation is even larger than the "Baby Boom" generation was at similar ages. He concluded with a number of observations on the market: housing affordability is good at present due to low interest rates; there is pent-up demand and relatively low inventory levels, as well as improved consumer confidence. However, these factors are offset somewhat by stricter underwriting standards, slow unemployment growth, and uncertainty on deficit and debt ceiling.

Li, president of the Boston Harbor Association, wrapped up the program with a pictorial "walking tour" of the city of Boston's waterfront and a long-term overview of development that has taken place around Boston Harbor. Li took the group on a virtual tour of the now clean Boston Harbor and skyline, pointing out the billions in commerce that the area supports and growing cruise ship business. Among the many new changes in the "Innovation District" are the renovation of the Northern Avenue Bridge, several notable tenant relocations, and the development of Pier 4. Li's presentation was a reminder of how far the great city of Boston has come in terms of longer term development goals.

Like the above panel event, the Appraisal Institute offers numerous timely programs, courses and seminars throughout the year. AI is a global membership association of professional real estate appraisers, with nearly 23,000 members in nearly 60 countries throughout the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide. Our members benefit from an array of professional education and advocacy programs and may hold the prestigious MAI, SRPA, and SRA designations.

Please join us for the upcoming new Uniform Appraisal Data Aftereffects Seminar on February 27th. This seminar covers 2013 changes to reports submitted through the Uniform Collateral Data Portal to Fannie Mae and Freddie Mac and how to avoid non-compliance.

Check it out on the Massachusetts and Rhode Island Chapter of the Appraisal Institute website. We look forward to seeing there!

Karen Hanlon, MAI, MRICS is the 2013 president of the Massachusetts and Rhode Island Chapter of the Appraisal Institute and executive managing director of Centurion Global Realty Advisors in Boston.