

Real estate markets do not take the summer off

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Real estate markets do not take the summer off. Bankers traditionally rotated through the credit committee in the summer for vacationing members. Deal flow slowed for diligence gathering. The process was particularly frustrating in changing capital markets for buyers and sellers alike. The process has greater continuity now. However, summer and school vacations persist. The fundamental economic improvements thankfully persist as well. Commercial real estate professionals and pundits have predicted for 18 months a broader geographic and deeper risk migration for investing and lending capital. This forecast persists as well, and competitive capital will cause further compression in rates in core and increasingly non-core commercial real estate assets and markets.

The third quarter of 2013 will be more of the same. Slow growth of 2% and might well be closer to 2.5% built on increasing trends in job gains, housing starts and sales, non-residential construction, consumer spending and even moderately in public spending from gains in tax revenues. The stock markets, consumer confidence and economic outlook trend upwards. Capital markets continue to be flush with sidelined capital and yields in commercial real estate are attractive. No time for summer vacation. Summertime is time to go fishing and catch your share.

The next two quarters of 2013 will continue to attract properties for sale and investors to bid. Although commercial real estate professionals and pundits have been predicting an increase in volume of offerings, the sluggish fundamentals have sustained a gap in the bid and ask in the broader and deeper risk spectrum that has prevented a more dramatic market dynamic. Perceived risk and real risk are closing the gap in commercial property markets as fundamentals improve. The liquidity premium is compressing with the improved risk environment. Capital stacking is adjusting to the dynamic markets.

Diligence is still essential to moving through smartly in the market. The basics of sound assets, sustainable location and market position are necessary for sound investment and sustainable returns. What is different in today's market is that everyone is further through the economic cycle. Inflation is more of a risk for the domestic economy, and more of an advantage for commercial real estate investing. Beachcombing is more rewarding. Do not wait for the tides to raise all boats. Get your share and enjoy the summer games!

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