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CELEBRATING 55 YEARS

So far, there is no reason to hold your breath or fidget

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Recent volatility in the stock and bond markets reminds all of us that gradual domestic recovery and the Fed commitment to a low interest rate environment through 2015 do not insulate the national economy from the vagaries of the global economy. Commercial real estate valuations are determined by rates derived from alternative investments in the marketplace. The global economy moves rates in global capital markets and moves local capital impacting local rates. China's economic slowdown and Japan's fiscal and monetary experiments can directly impact rates domestically. Anticipation can cause jitters and fidgeting that can transform, sometimes for a day, the overall rate structure in local as well as the global marketplace.

With the gradual domestic recovery, commercial real estate markets are improving broadly across property types and most geographic markets. The fidgeting in the capital markets has yet to move borrowing, yield or capitalization rates in the commercial real estate markets. Even valuations have continued to improve with property operating income and prospects for short term performance. Most sources are predicting stable rates for short term, 18 to 24 months. However, the markets and rates will respond to global trends and to Fed quantitative easing between now and late 2015. Certainly longer term rates will start to anticipate 2015. Commercial real estate rates will start to react to alternative rates. Fidgeting in the markets will increase during this period.

Monthly economic indicators have been broadly positive during 2013, if only modest in growth and marginally inconsistent. First half data aggregations and revisions from the US Department of Labor and Commerce will be released in 30 days or so. OMB and the Fed will revisit outlooks and forecasts with early data on the first half. Business and academic economists will also anticipate official data releases over the next month with revisions to forecasts for 2013. No financial traumas have been identified or imagined. However, current global and national trends are not robust and economies are fragile. China and Japan could easily become more problematic and probably will.

Rolling twelve month aggregations on the housing market from S & P Case Shiller on the 20 largest metro, as well as local MLS and Realtor Boards, have recorded significantly improving local residential markets First half permits, starts and sales will be reported in 30 days and data will be disaggregated shortly thereafter for local markets. Monthly trends have been generally positive. First half data and second half outlook are expected to be positive.

Finally, commercial real estate will be measured shortly by national and local brokerage firms. The real estate industry follows trends and collects anecdotes constantly and continuously. However, periodic aggregations on the local inventory are important if not paramount to knowing the market and developing the operating forecast.

So far, there is no reason to hold your breath or fidget. Enjoy the summer!

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