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Appraisal Institute and CBA hold timely real estate forum

October 17, 2013 - Spotlights

The Massachusetts and Rhode Island Chapter of the Appraisal Institute held a joint meeting with the Commercial Brokers Association (CBA) at the Federal Reserve Boston on October 1st. The program topic was "Real Estate Forum: Capital Markets and Economic Insights." We had the honor of hosting a panel of nationally renowned experts in the field of economics and the commercial real estate sectors who presented to our chapter and our co-sponsor, CBA, at this highly anticipated annual event. The keynote speaker was Cathy Minehan, former president and CEO of the Federal Reserve Boston and current dean of the School of Management at Simmons College, who spoke on global, national, and local economic conditions. Bill McCall, president and founding principal of McCall and Almy, served as moderator with expert market commentary. Greg LaBine of Holiday Fenoglio Fowler (HFF) spoke on the state of the debt and equity markets; Aaron Jodka of Property and Portfolio Research (PPR) covered the Boston office and apartment market; and Chris Phaneuf of Eastdil Secured spoke on the capital markets and commercial real estate investments.

Minehan led the program with a fascinating summary of economic conditions on a national and worldwide basis, then covering local conditions. She stated that the U.S. and world economies face somewhat less uncertainty, and that the developed world is re-emerging as an engine of growth. She also indicated that recoveries are still fragile, but on more solid foundations. She observed that monetary policy remains the major bulwark to growth and fiscal policy is dominated by politics. She also stated that the economic outlook is arguably less uncertain with deleveraging done, new household formation rising, mixed news on employment, but more stability; and solid business profits. The result is increased housing, auto sale, construction, and manufacturing. Her short-term outlook calls for a moderate pace of GDP growth, assuming the budget and debt ceiling political crises are solved. She concluded with a number of observations on the market: Monetary policy support to credit markets is expected to slowly ebb through 2015, with tapering beginning this year; and overnight interest rates are expected to rise in 2015 - 2016. In the longer term, the fiscal problem must be solved.

LaBine, a commercial real estate finance expert from HFF, discussed the current debt and equity markets status. LaBine stated that capital is available from all sources including banks, insurance companies, commercial mortgage backed securities and agencies, Fannie and Freddie. This includes construction loans for projects in quality locations and best in class sponsors. Sponsorship, markets, quality of product, cash flow integrity, maturing loan balance and reproduction costs are the major factors that are considered in the lending process. Major core markets are still preferred over lesser, secondary locations. Cap rates have moved back to 2005 to 2007 period lows (or even lower) for core assets in major, prime markets. LaBine observed that higher debt constants and possible cap rate implications may be in the making, and there is concern over the federal balance sheet at over \$3.6 trillion, up from less than a trillion in 2008.

Jodka, manager of U.S. Market Research at PPR, 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 12.1%. Jodka reported that Boston had positive absorption over the past year with rental increases of 2%. Among the submarkets experiencing the most absorption/growth are the Financial District., the Seaport District, and the Rte. 128 submarkets of Waltham/Watertown, Burlington/Woburn, and Wellesley/Needham. Jodka also reported on the multifamily rental market and noted that supply is projected to increase, while demand is not expected to keep pace with supply. A modest rise in vacancy rates is expected.

Phaneuf, director at Eastdil Secured, offered highlights on the real estate capital markets. Phaneuf noted that the overall market continues to be very active and liquid, and transaction velocity is accelerating. He observed that there are no material price changes yet, with recent rate volatility, however there is some cautiousness on long-term leased "bond-like" product until rates settle out, unless it is a trophy asset. Current themes in the market include a growing global demand for U.S. real estate; growing confidence in absorption and rent growth; and growing demand for assets with upside and vacancy as the economy improves. He further noted that pricing has recovered to 2006-2007 levels or higher for most institutional assets, and that while there is still a material spread between primary and secondary markets and assets, the CMBS market is narrowing that gap. He concluded by observing that increased rates are a concern but still attractive on a historic basis, and the need for return and concerns for future inflation should continue to push capital into real estate. All noted that the Seaport District is a "hot pocket." There are billions in commerce that the area supports, including the 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.

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 with Paula Wolfe, Steve Sousa, and our friends and colleagues at the MBREA for the upcoming New England Appraisal Expo on Monday, October 21, at the Sheraton Four Points, Rte. 1, Norwood. 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, MA.