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## Turning the page: A stable to moderate gain in 2014

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Economic indicators for November are moderately upbeat, and anecdotal responses in the Beige Book for November from the Federal Reserve support current positive growth and outlook for 2014. The brutality of natural disasters and civil strife overseas continues to be unrelenting. The intransigence of our political process unfortunately continues to take a toll domestically and is scheduled to persist in 2014 in debt ceiling and budget wrangling. The Fed watch is still important; however the tapering is supposed to be coupled with further economic recovery in jobs and growth, more good news than bad news.

With 2015 as an expected period for serious monetary action by the Fed, 2014 could well be a very good year for commercial real estate. Most residential markets have stabilized, and some have dramatically improved, and are recording gains in sales volumes and median sales prices. Some pundits see bubbling in residential markets where inventory has tightened. Multifamily starts and deliveries are up in many markets, and rents have advanced and vacancies declined. Supply and demand adjustments in 2014 and 2015 in owner and rental tenure, and overall absorption of residential inventory will vary by market. Similarly, commercial real estate markets will vary by balance in supply and demand. Starts and deliveries in commercial inventory stretch throughout the period 2014-2016, albeit with limited speculative activity. In both residential and commercial markets, one can count the units (dwelling units, hotel rooms and square footage) of supply and demand.

Looking back on GDP for 2013, Bureau of Economic Analysis (BEA) revised third quarter GDP upwards to 3.6% from 2.8% on December 5. The strength is dramatic, though inventory led, and unforeseen. Data glitches and shutdowns characterized much of 2013 and cautioned policy and private sector decision makers to swing cautiously on data points. The national strength is comforting to local and regional economies which have outpaced national benchmarks and will now benefit from broader economic activity. Broader economic activity supports multiplier and consumer activity. Strong employment gains for November boosts short term outlook for further economic expansion in fourth quarter 2013.

Moderately strong economic indicators support a stable to moderate fundamental gain in 2014. Precision and revision will follow December and fourth quarter data. Reasonable expectations should be hopeful for more sluggish if not robust employment growth and derivative demand for all property sectors in commercial real estate. However, local investors and developers can count the units. Absorption of new additions and adjustments in marginal inventory will be a challenge in 2014 and 2015.

Happy New Year and count your blessings!

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