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## A good start going forward in 2014

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Hopefulness has moved toward optimistic confidence of a moderate ramping of upward trending macroeconomic expansion. Mark Zandi of Moody Analytics and economy.com summarized his 24-month outlook on WBUR on January 2nd as follows: annual average employment gains for 2014 of 2.5% and for 2015 of 3%; average annual economic growth (GDP) for 2014 of 3% and for 2015 of 4%; unemployment of 5.5% by 2016. Certainly the recent congressional budget reconciliation has moved the debt ceiling from upper case Uncertainty to lower case; and the recent reaction of securities market activity to Fed announcements and planned commencement of tapering bond buying in early 2014 has mitigated anxiety over Fed quantitative easing. Late economic data for 2013 was positive, and securities markets reacted positively.

The conversation on WBUR between Zandi and Tom Ashcroft (On Point) contained further supporting trends and likely economic activity resulting from current demographic demand trends and pricing in the real estate markets among other sectors. Increasing home sales volumes are reducing unsold inventory and raising median home sales. Cranking rents and declining vacancies in multifamily and commercial inventory are evidence of demand outpacing supply. These market conditions tend to support forecasts of employment gains in residential and commercial construction during 2014, a sector which has traditionally fueled recovery. The service sector is also expected to expand employment in 2014 adding to demand for commercial office space.

On January 2nd, David Wessel in the WSJ reported results of its recent survey of forecasters which tracked Zandi. However, when queried on risks of reaching the forecasts, the respondents were substantially divided; 70% estimated more downside risk and 30% estimated more upside risk to the forecast. The Fed forecast prepared before Christmas included 2014 GDP between 2.8% and 3.2%. Many forecasters estimated fourth quarter growth at 2.2% which, with recorded and revised 4.1% in the second quarter, would result in 3% or so for the second half of 2013, a good start for 2014.

Economic growth with employment gains is good for commercial real estate. 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 optimistic 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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