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Most national regions will benefit from national and global upward support in economic activity

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Fundamentals are firming as reflected in GDP forecast of 3% for 2014. The IMF joined the consensus at 2.8% for 2014 in its updated outlook released January 21, 2014 with an upward adjustment from 2.6% three months ago. The IMF increased global forecast to 3.7% for 2014 up from 3.6%. Most national regions will benefit from national and global upward support in economic activity in 2014. Anecdotally, trends in behavior and demographics are already impacting pricing, rents, occupancy and absorption in local commercial real estate. Except for increasing interest rates resulting from the FED tapering in bond purchases, no major economic inflections are predicted in the next 24 to 36 months. However, the balancing of supply and demand during this period could cause interim fluctuations in the local marketplace.

Users and consumers in real estate are exercising options that appear to defy the economic rules of what is often considered a commodity market. Commercial users are choosing customized space over savings in the vacant or available inventory. Attracting and retaining employees in user friendly environments and locations are worth the premium. Many commercial users are revisiting traditional patterns of use including resulting density or average space per employee. Additions to supply and repositioned assets are exploiting the behavioral shifts and greening of the workplace.

For housing, individuals and households are paying premiums for location and services that are lacking in older existing inventory. Households are reportedly paying upwards of 50% of disposable income for housing, exceeding significantly the traditional benchmark of 30%. The redistribution of household income expenditures is partially offset by savings in transportation. The local demographic patterns in age and income cohorts are supporting behavioral activity which appear to defy traditional reconciliation of demand and supply in housing markets. This so-called behavioral activity appears to already be having an impact on local commercial sub markets.

Forecasts depend upon historic patterns of absorption and relationships between supply and demand. Behavioral activity, particularly significant changes in behavior, thwart the economic models until such behavior becomes a strong enough trend to be measurable, presumably predictable and baked in the model. Groping is as much a part of research and forecasting as a rigor based on history.

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