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## **Equilibrium is achieved with balanced supply and demand**

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Many residential and commercial real estate markets are experiencing disequilibrium. The greater Boston markets are recording excess demand. Equilibrium in the market place is achieved with a balanced supply and demand. More frequently, markets are stable with marginal gains or losses, or experiencing conditions of excess demand or overhanging supply which result in a significant or prolonged imbalance causing more dramatic marginal market adjustments in rent and prices. Absorption and turnover cause adjustments at the individual property levels in occupancy and vacancy. Absorption is an essential investment analysis for newly constructed or newly repositioned properties. For submarkets experiencing substantial additions to supply, absorption conditions are a determining factor for existing property performance as well.

As the economy chugs along, demand for residential and commercial real estate chugs upward, putting pressure on rents and prices in many submarkets. Additions to supply relieve pressure from demand. Absorption of overhanging vacant inventory and new additions to supply create a complex market dynamic which can be reconciled at the property in a variety of adjustments depending on the submarket and market position of the property. The resulting aggregation of net absorption trends is an essential component for forecasting project performance and for characterizing market conditions.

For commercial and residential real estate, supply and inventory trends are normally easier to analyze, measure and forecast. Demand is measured by historic trends in occupancy, rents and absorption. Forecasting demand is dependent primarily on forecasting economic conditions at the macro and micro level and analyzing the prospective impact on the relevant market and property.

Many factors can impact absorption at the submarket and property level. Effective marketing and management at the property level are assumed and cannot be over emphasized. Physical condition of the property and the competing inventory can have a surprising impact on absorption. Demographic and behavioral shifts in demand can modify historic patterns of absorption. The future of the economy at all levels persists as the most elusive. With diligence, the supply trends of the historic, current and likely future inventory reconciled with a credible and reasoned expectation for the economy will result in reasonable conclusions on absorption.

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