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First half 2014: Trends and forecasts favorable for markets

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The first half GDP rate of growth for 2014 was 1% based on advance estimate for second quarter. For the second quarter 2014, Bureau of Economic Analysis (BEA) released advance estimate of 4% on July 30, and BEA revised (third revision) first quarter downward to a decline 2.1%. Massachusetts real gross domestic product grew at an annual rate of 4.9% according to MassBenchmarks Current Economic Index released July 30. And MassBenchmarks revised first quarter 2014 estimates downward to negative .3% from originally reported positive 2.6%. The FED will continue the taper in bond buying consistent with expectations of a sustainable economic trend. More granular indicators which abound in local commercial real estate markets are generally consistent with macroeconomic trends.

The second quarter gain in economic growth of 4% exceeded most estimates and was reported to be mainly driven by gains in exports and in private non-farm inventory investment as well as acceleration in consumer spending, notably for durable goods. In addition, state and local government spending and residential investment turned up, and business investment accelerated. All are moderately strong fundamental indicators of persistent recovery if not expansion. The FED expects to halt bond buying in October, affirming its confidence in the sustainability of the moderately recovering economy. Some speculate with unemployment in range of 6%, economic strength and FED member remarks in committee minutes, the Federal Open Markets Committee (FOMC) is considering accelerating increase in borrowing rates which are expected in 2015. Yields and capitalization rates in commercial real estate transactions are stable.

Commercial real estate markets are generally firming. The hot spots are getting hotter and larger, and the dead spots are getting smaller. However, both ends of the spectrum of risk are clearly apparent in all geographic and property submarkets. Data aggregations are still important in market analysis; however, granular differentiation within submarkets requires micro data and thorough comparative analysis. Many residential and commercial real estate markets are experiencing marginal 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. 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. Economic trends and forecasts are favorable for most commercial real estate markets.

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