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Continuity and healthy persistence for 2015

January 08, 2015 - Appraisal & Consulting

The outlook for commercial real estate in 2015 is brighter than 2014 which by most measures was a very good year for commercial real estate. Data supports a sustained recovery and expansion for 2015 with job gains and economic growth tracking or exceeding 2014. The recent release of economic data supports buoyancy that has been frequently missing during this recovery.

Innovation: Real estate is a place where things happen. Virtual connectiveness has blurred the lines between residential and commercial real estate for happenings. However, commercial real estate and the built environment are still integral to socio-economic patterns of our day-to-day living. Innovation places are increasingly different from traditional places. The way we live, work and play is dramatically different and the places are increasingly different. Innovation is a life style, curriculum, strategy and spirit, and commercial real estate is the box and place where it happens! This mega trend is already causing economic and functional obsolescence on commercial real estate investments. Innovation demands energy efficiency, environmentally friendly and technologically advanced places and more. As mundane and profound as the traces of this trend have become, the time to join the parade is 2015!

New Retail: The consumer is finding new ways to spend money. Bricks and mortar retail stores have evolved beyond malls and big box specialties and aggregations. Web-based retail, or internet retail, while not so new, has continued to aggressively grow and grab sales from stores. The new consumer is not as acquisitive as yesterday; instead, the new consumer, marginally, likes experiences. Expanded services, entertainment, food and restaurants have taken storefronts. In addition, the mobile market of trucks and wagons, and transient markets of stalls, tents and stands have proliferated. The investment property group for retail use is increasingly risky, increasingly fragmented and changing, challenging underwriters, appraisers, investors and developers.

Capital Stack: The commercial real estate capital stack is priced variously against alternative investments of similar risk, duration, liquidity and amount. The volatility in the public markets nevertheless has had a limited rippling impact on the pricing of the capital stack. Rates have increased gradually as 2015 approaches; however, tougher underwriting and terms have mitigated even rate increases. Good fundamentals, balance of supply and demand, and modest inflation have provided stability, attraction and appeal to the commercial real estate alternative. Differentiating characteristics of the alternative investment sectors will continue to impact rates and yields differently. Many maintain that capitalization rates (shortcut measure in real estate of current income and value or price like price earnings ratios is enterprises) move independently of rates in the capital markets. Accordingly, some expect the run-up to 2015 and after will not impact cap rates. Some disagree and upward pressure on cap rates and marginal increases.

Sparking the Market: Developing new properties and repositioning existing properties for sustained occupancy and operations includes a fuller and continuous market analysis and marketing effort.

Already apparent in recent offerings are a newly evolving array of features and finishes in units and common interiors and on the site. The variety of spaces and services to compete with and differentiate the subject property from the comparable alternatives is deliberate, articulate and well communicated. Transient, superficial or faddish components can be transparent failures to this well briefed and diligent market place of discerning residents. Sustainability depends upon effective management, maintenance and marketing. Now there is a cost effective spark to all which differentiates the product in the marketplace.

Absorption: Absorption of new additions and vacated inventory by moving tenants will create competitive submarkets affected by this activity. Construction completions over the next 24 to 36 months will cause disequilibrium in the submarkets and an easing of rental advances and spiking in many markets. However, the economic growth and employment gains should continue to provide stabilizing pressure during 2015 in the local commercial real estate markets.

David Kirk, CRE, MAI, FRICS, is principal and founder of Kirk & Company, Real Estate Counselors, Boston.