



CELEBRATING
65 YEARS

narej

The commercial classroom: Predictions for 2015

January 15, 2015 - Connecticut

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

As we enter year seven of the recovery after the crash of 2008, there are many forces that have me optimistic that it will be a good year for commercial real estate.

2014 was the best year for the U.S. economy since the downturn and this will continue into 2015. NAR economist Lawrence Yun said, "Job growth is the catalyst to improve demand for commercial real estate leasing and new construction projects." We ended 2014 with unemployment nationally now below 6%.

New jobs are being created and construction is on the rise, as the U.S. has a continuing increase in population. It is now predicated by 2050 the U.S. population will reach 400 million people. This will require more housing, office, retail, industrial and infrastructure improvements; all adding to escalating job growth.

The U.S. is now the largest producer of oil in the world and we have natural gas resources that will be available for 100's of years; we have seen oil and gas prices drop over 40%; increasing household spendable income for most families. The stock market Dow Jones Industrial Average just set a new record at over 18,000 points.

The older millennials (24-34) are moving from renting housing to buying homes because it is now cheaper to own than to rent. This age group represents 65% of the first time homeowners. These are all positives signs of a robust 2015 economy.

NAR also predicts the multifamily market will have very low vacancy rates and rents will increase 4% in 2015. The office market will see a slight reduction in vacancy and rents will increase 2.4%. Retail will see a drop in vacancy and rent increases of 2%. Industrial markets will have a slight increase in vacancy but will increase rents by 2.4%. Overall this will improve the demand for commercial real estate leasing and new construction projects.

The U.S. economy is strong. Europe and Asian economies are unpredictable, the Middle East is in turmoil and Russia is facing a major recession. For the wealthy in these areas investing in U.S. properties is much safer. In 2014 there was a flood of money coming in to this country; Chinese investors accounted for the purchase of many of the trophy buildings in New York and other major cities. In October, 2014 Beijing, China's, Anbang Insurance Group bought the 1,232 room Waldorf Astoria hotel on Park Ave., N.Y.C. for \$1.95 billion. In 2014 Chinese investors purchased over \$2.7 billion of N.Y.C. real estate. This trend of foreign buyers investing in the U.S. will continue in 2015.

The commercial property values, especially in our major cities like New York, are unbelievable. The latest sale announced is the Crown building at 730 Fifth Ave. (at 57th St.), in N.Y.C.; it just sold for a record price of \$1.75 billion (\$4,490 per s/f). This 390,000 s/f office building includes 50,000 s/f of prime retail property. The current owner bought the property in 1991 for \$93.6 million, when the

property was half empty.

We expect to see a continuing easing up of the credit conditions from Washington stimulating local buying and investment activity. Mortgage originations on multifamily properties have already increased 60% from 2011 through 2014. However, the interest rate is expected to increase in 2015. That in itself will motivate some investor to act - buy now.

Get ready, 2015 will be a great year for commercial and investment real estate.

Edward Smith, Jr., CREI, ITI, CIC, GREEN, MICP, CNE is a commercial real estate consultant, instructor and broker at Smith Commercial Real Estate, Cambridge, N.Y.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540