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## **Volatility and stability in the securities market in 2015**

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The experts and pundits have been forecasting ongoing volatility in the securities market resulting from a variety of forces. Many have characterized the dips and ups as healthy adjustments in the market that will avoid more sudden, more dramatic fluctuations. Moderately strong macroeconomic fundamentals support the foregoing assumption. The weak global markets in oil, currency and credit and the contractions in the overall global economy are causing more dips than ups in securities. Commercial real estate markets also have a good news bad news story. Gains in employment and economic growth continue to be moderately and broadly positive which support demand and absorption for the major property groups. Micro trends in submarkets continue to cause significant disparity in regional and local submarkets.

Rent concessions, generous tenant allowances and preconstruction discounts have already impacted local property markets. These patterns can hardly be described as tumultuous; however, anecdotal incidents can be compared with the volatility in the securities market. The dynamic to accelerate absorption in the property markets will increase as additions to supply occur. These so-called adjustments are very similar to symptomatic inflections in demand. Discerning the difference is a challenge and most easily supported by macro and micro trends and forecasts and a well-reasoned conclusion. Property markets communicate the local outlook through capitalization rates.

Leverage and liquidity are important considerations in any volatile climate. In commercial real estate measures of leverage and liquidity are typically transparent only after contraction trends are clear. The dramatic decline in oil prices and the dramatic rise in the dollar have exposed perilous levels of leverage and liquidity in energy production, tourism and exporting sectors. These basic economic sectors tend to have higher multipliers and stronger ripples than the national economy as a whole. Some displacement will persist and impact employment and economic growth. These adjustments were expected without anticipation of the scope and scale. Similarly, adjustments can be expected in commercial real estate.

Gains in personal income and consumption and foreign capital flows are already reported. Infrastructure spending and public sector expansion should both flow from Washington eventually. These and other predictables will tend to backfill the dips. Oil prices will recover somewhat and the Eurozone will respond to quantitative easing. All with some adjustments, some volatility.

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