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## **Fed watch and strategies: Patience with the recovering**

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Patience with the recovering and expanding economy is the watch word for the FED as the economy approaches mid-year 2015. Some are already adding September 2015 to June 2015 as the FED start date for rate adjustments. Data-driven, the FED is certainly watching the global markets as the European Central Bank recommences quantitative easing in early March. 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. Domestic commercial real estate continues to benefit from micro and macroeconomic forces. Most expect low interest rate environment will linger in 2015.

Moderately strong domestic 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.

The commercial real estate capital stack is priced variously against alternative investments of similar risk, duration, liquidity and amount. Low rates favor the real estate risk. The volatility in the public markets nevertheless has had a limited rippling impact on the pricing of the capital stack. Rates have fluctuated, increased and retreated sporadically and gradually during 2015; however, tougher underwriting and adjusted terms have mitigated most rate increases and broadened the risk spectrum for capital. 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 expected a run-up during 2015 and after will not impact cap rates. Some disagree and upward pressure on cap rates and marginal increases. However, a low interest rate environment will dampen any impact if such pressure does exist during this period.

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. More to watch than the FED!

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