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## **Comparing market peaks and valleys with bicycles and falling off**

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Not long ago that there was considerable concern about all forms of real estate. It seemed that real estate as we knew was coming to an end. As one of my broker friends wailed, "will this terrible real estate market ever end?" It seemed like a fair question in 2011.

The residential real estate markets bumped along the bottom for quite some time. This seems like ancient history at this point, but if you remember 2005-2006, the wheels came off the bicycle and nobody noticed for a while. The landing and associated skid, when it came, was painful and that road rash lasted a long time.

Commercial real estate endured its own ice age. With the crash and burn of financial giants in 2008, there were several years of chill when lenders did not lend, investors mostly did not invest (in anything), and there were a few brave buyers out there with cash in a market where cash truly was king.

The commercial markets did eventually perk up, from the top down. There was a period where cap rates tumbled down; "compression" took place; and everybody marveled at the phenomenon. After a few years of stagnant investor activities and paralyzed capital markets, risk and fear became manageable and this realization resulted in lower rates.

Somewhat oddly, these cap rates have continued to go lower, surely at a slower rate. But there is still some drift downward in many asset classes. In this market environment, investors fight over limited offerings in certain particularly attractive locations--for example, Boston. While many observers believe that the feeding frenzy may be ending at the high end, the expectation is that there are still plenty of secondary and tertiary investors willing to play musical chairs.

It is almost irresistible not to invest when headlines like this pop up. A national index reports the "national all-property price index tops pre-crisis peak by 10%." Another survey states that "healthy market fundamentals across property types and improving liquidity measures support broad price gains."

In the residential realm, the harsh winter in New England created a late spring market with its own mad dynamic of multiple offers, offers often far in excess of prices set by Realtors, with buyers scrambling for the opportunity to bid, and appraisers scratching heads as to how to support prices. According to entities that keep track of these sorts of things, national median market time slipped to less than 30 days during June, which apparently was the lowest marketing time on record. In some markets - Boston and close environs, for example--marketing times were even lower and list price and sales prices ratios turned positive or close to it, indicating that houses and particularly condos were in high demand. This phenomenon of short marketing times and pressure on listing prices took place in "hot" markets but not across the board. Usually, this sort of behavior begins to raise eyebrows about the presence of the dreaded real estate "bubble."

Everybody worries a lot about interest rates rising, including the Fed, which would do the raising of rates. The Fed is terribly concerned about the effect of higher rates at least as much as most of us are. The reason to raise rates is, well, to raise rates? There is an element of truth here. Rates don't need to be raised but it is in the best interest of the economy to have higher rates as a cushion against future problems.

There is a group of observers who believe that regulatory changes will prevent the abuses that caused the last crash. That's probably true. But they won't prevent the abuses that will create the next crash!

Will there be - or is there - a real estate bubble? Either we are in one and don't know it (that has been so true of the real estate crashes with which I am familiar); or we aren't there yet (and there is some further foolishness that needs to happen before we can go into bubble mode.) Or, maybe there won't be one. Surely, however, economic activity is cyclical and real estate is no exception. So a correction is just a matter of time. Not if, but when.

What can strip the wheels of the bikes this time? Do we have training wheels and will they help? What about those that are riding with no hands and eyes closed? And, if we fall, will the skid leave tracks on the road as bad as the last time?

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