



nerej

Market stability seems an appropriate descriptor for capital markets and commercial real estate markets - by David Kirk

April 06, 2017 - Front Section

David Kirk, Kirk & Co.

Even with the extraordinary run-up in the domestic securities market since the election and more recent daily adjustments, economic conditions might be characterized as stable and sustainable. Likewise, the commercial real estate market might be characterized as stable and sustainable, supported by moderate fundamentals. Beneath these broad generalities, micro action in property submarkets are experiencing a broad array of balancing actions in supply and demand that are best characterized by primary research, anecdotal evidence and analysis, reconciled with experience and expertise of the real estate professional. Even with the unprecedented second FED rate increase at the March 2017 meeting, market stability seems an appropriate descriptor for the capital markets and the commercial real estate markets. Of course the pundits and the media opt for more excitement in their lexicon of descriptors.

At March 31, the first quarter data is still flowing and fairness speaks too early to wrap up 2017 or even first quarter. Daily securities market transactions based on corporate earnings and fundamental trends are packing positive action. Commercial real estate market pricing and trends are also packing positive action. Both markets are a distillation of current conditions and expectations relating to specific finite investments or specific aggregations. So far, a persistent economy and a bullish stock market have prevailed broadly in 2017. The FED has increased rates for the second time. Off to a confident start on stabilized and sustainable economy and market at 2% inflation and full (4% unemployment) employment. This FED rate action has moved rate cluster and jiggled capital stack for commercial real estate, both marginally. What is next?

For the metropolitan Boston region, the property submarkets are active in leasing, sales and production in a variety of amounts, generally off the pace of 2016. Because of significant additions to supply, absorption of new additions and vacated inventory are burping trends and collateral adjustments in pricing, occupancy, velocity and volume, and submarkets are recording stronger symptoms of inflection. Not too early to monitor closely and defend against turns and turnovers whether a major inflection or not. Of course the inflections will not be known for a while any way.

National and global trends are generally supportive of a stable and sustainable domestic economy. Job gains have sustained economic fundamentals broadly and economic outlook has been stable. The FED rate action during 2017 is expected to include two more rate adjustments during 2017. The next two FED rate increases will also be without historic precedent as rates all move higher across the market. Further upward FED action and concurrent adjustments in rates or spreads in fixed rates in the broader market are baked into longer term investments. Capital stack for commercial real estate will adjust; however, uncertainty is increasingly impacting sourcing and terms of capital for commercial real estate. Liquidity in real estate is already impacted.

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

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