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## **Market conditions: Room to run and time to deal! - by David Kirk**

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David Kirk  
Kirk & Company

The Las Vegas tragedy and the destruction and disruption from the unprecedented series of natural disasters have given everyone reasons to pause. What lessons can be learned and how can we best recover and respond?

### Room to Run – Time to Deal

Commercial real estate continues to benefit from moderate economic fundamentals and well-priced risk. Nevertheless, the favorable conditions and outlook are unevenly spread over capital and property markets. Goldilocks, core and bullseye assets are still expensive and expected to continue to be so. Pricing and liquidity for lesser assets are lagging and will lag, and the spread disparity between the top and the bottom of risks, rates and cap rates will increase. Rates on the capital stack for commercial real estate have moved gradually, even fallen back, and accordingly, the real estate market appears to be well priced relative to alternatives. The upcoming Fed monetary action, normalizing the Fed balance sheet by gradually reducing/selling investments accumulated during quantitative easing, is unprecedented. However, most are cautiously optimistic about the outlook for attendant stability in the capital markets.

Anecdotal data and aggregations record the broadly persistent favorable trends in micro and macro-economic conditions. National and local trends in commercial real estate transactions, absorption and construction support a stable market with a favorable balance of supply and demand. The Counselors met in Boston (September 7) before the annual meeting in Montreal (September 24-27) and the appraisers (Massachusetts and Rhode Island Chapter of the Appraisal Institute) and the commercial brokers (Commercial Brokers Association) met in Boston (October 3). The commentators in the aforementioned forums found data and reasons to be positive about economic conditions and market outlook for commercial real estate. Appraisers are notoriously described as forever looking over their shoulders at the past, and brokers are comparably renowned for looking through rose-colored glasses at the future. However, the data and these recent forums support room to run and time to deal with diligence, rigor and scramble.

Unprecedented expansion, unprecedented quantitative tightening and unprecedented global connectedness. And yet with the uncertainty implied by current conditions when compared with historic trends, the outlook is generally and consistently positive. On October 3, during Q & A at the meeting with the appraisers and the brokers, keynote speaker Sara Johnson, prominent economist and longtime presenter to the local real estate community, was asked for her watch list, a popular closing request or comment. On her short list she included: the rippling impact of the Fed's monetary action; the economic impact of trade arrangements with Canada and Mexico and China; and continuing low levels of corporate investment. That list is manageable. Room to run and time to deal!

David Kirk 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