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Market condition: Economy appears stable to strong - by David Kirk

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Commercial real estate markets are regional, local and submarkets. Aggregations are helpful in deriving property specific conclusions even when they do not seem to be relevant. For any property conclusion, aggregations must be supportive and consistent or reasonably reconciled with these conclusions. Accordingly, macro trends are analyzed and referenced, if briefly, with local market conditions. Also, these macro patterns of economic activity are simply systematic aggregations of the micro activity. Late 2020 or early 2021 is the moving target for inflection, economic downturn. The mini-recession or slump described by Neil Irwin in the New York Times September 29, resonated with many and is appealing in this uncertainty.

On October 2, Darin Mellott, research director of CRE Americas, introduced the What's Next program for the Massachusetts and Rhode Island Chapter of the Appraisal Institute with complete micro and macro dashboard of our markets at all levels. Mellott closed with some what ifs that are traditionally asked or forecast in market roundups for real estate professionals. And then he said read a series of what ifs from a different occasion.

Donald Rumsfeld is remembered for characterizing uncertainty in a tumbling aggregation of probabilities or alternative galaxies. Context is not commercial real estate. "Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; we know there are some things we do not know. But there are also unknown unknowns – the ones we don't know we don't know."

Hugh Kelly, Ph.D., CRE reminds all of the black swan in his article Black Swans – The Original Rara Avis in the March 21 Counselor published by the Real Estate Counselors. Kelly refers to Taleb's book The Black Swan, subtitled "The Impact of the Highly Improbable." Kelly recommends the book to his graduate classes in risk and portfolio management each year as a dimension of risk, part of an extended reflection on uncertainty, the nature of chance and changes. Long a term for the securities market, the black swan event has now become a popular topic or reference in commercial real estate markets. Catastrophe after disaster, turbulence from hostility and embargoes and cyber attacks, all contribute to calamitous impact on real estate investments. Hard to eliminate or

measure, these uncertainties are becoming irregularly regular and risk management is evolving to respond. Kelly moves directly to the global financial crisis and various bubbles. Importantly, the economy and derivative markets today appear stable to strong. Where is the what.

The next FED rate increase is, like the preceding rate increases, unprecedented. FED rate adjustments for 2018 portend further turbulence in the capital markets including capital for commercial real estate. Forecasts and speculation are daily and diverse as uncertainty and inflection prevail. Downside risk still appears low if any consensus exists.

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