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## Historic crunch and unprecedented volatility

October 15, 2008 - Spotlights

Appraisers should be ready for the masses. The regulators will need the valuations for regulation. The bankers will need the valuations for the regulators. The newly formed Fed entity to be named will need the valuations for auction and purchase of the so-called illiquid and toxic assets.

Bellwether activity is occurring but direction is still faint. One Franklin was financed again and construction should restart. Three Franklin Street properties are transacting in the Financial District.

Wells Fargo beat out the Fed for Wachovia; Warren Buffet invested in Goldman Sachs and General Electric albeit on his terms. The Commonwealth of Massachusetts and other government entities have found a market for short term borrowing needs after approaching the Fed behind the state of California. All these deals represent traction.

Deals are getting done in Boston property markets. That was the word from leasing and sales brokers, landlords, mortgage brokers, economists and consultants and appraisers at the Investment Market Outlook on October 8 sponsored by the Massachusetts Chapter of the Appraisal Institute and the Commercial Brokers Association. There is traction in the Boston market; however, the graphic representations of 2008 and historic financing and sales activity demonstrate how drastically sales and financing volumes have declined in all property sectors in 2008 as compared with 2007, 2006 and even 2005.

The historic and prolonged credit crunch and the unprecedented stock market volatility are the elephants in the room and they are so big that you rub up against them whenever you move or tell anyone else to. The 300 to 800 point drop in Dow and less dramatic recoveries are difficult to reconcile with continuing fundamentals. What to do? Keep on moving and we will get out of it. But, it won't be easy and it will be messy.

The general lack of activity has made market measurement and diligence a time consuming task requiring experience and expertise. The spread between the bid and ask has delayed offerings during 2008 and will probably continue to do so during the fourth quarter of 2008. Market participants are waiting for more compelling activity.

The Counselors will meet in Boston October 31-November 3, and the forecast and the capital markets (after subprime) are at the top of the agenda. The last half of 2008, 2009 and beyond will be the focus of Boston's own Raymond Torto, CRE, global chief economist of CB Richard Ellis, who will lead a panel on the property markets and the global economy. Hugh Kelly, CRE, independent economist of New York, will lead a discussion of key participants in the real estate capital markets, past and the future. Hugh Kelly will be joined by Charles Citro, CRE of Goldman Sachs, Neil Madson, CRE of Aegon USA, Tim Riddiough, CRE, Ph.D. of University of Wisconsin formerly of MIT, and Martha Payton of TIAA-CREF. The response to subprime, the credit crunch and the recapitalization of the related markets will certainly dominate the discussion. And, someone will certainly muse about the extraordinary volatility that has dominated our spirits and expectations and

the metaphors that have headlined this very turbulent time.

When the Counselors meet in Boston, preliminary third quarter data will be reported and the program will follow the topical theme of The Revolution in Real Estate - Tea Party or Massacre? and we will all have an opportunity reflect pensively on these interesting times.

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