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Real Estate Consultant: The experts weigh in

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The annual fall program presented by the MA Chapter of the Appraisal Institute and the Commercial Brokers Association on October 6th was both enlightening and sobering. Karen Hanlon, MAI, director of the program and her committee put together a top notch presentation on the economy, capital markets and the investment outlook.

The nature of this column requires brevity, so here are a few of the highlights. Cathy Minehan, chair of the governor's Council of Economic Advisors, noted that although there are signs that the recession has bottomed out, likely in the second quarter of 2009, we are far from being out of recession. There is continuing concern that consumer spending will be slow to recover which in turn will slow the overall economic recovery. The consensus is that recession likely has another year to run. High level of unemployment, state and local spending and the increasing federal deficit are all potential drags on this economic recovery.

Capital markets are still in a big chill. With more than a trillion dollars of commercial mortgages maturing in the near term, there are a number of uncertainties as to who will replace Wall Street as the funding source. The \$300 billion in financing provided by Wall Street in 2007 dropped 90% in 2008 and is forecast to remain at the same levels in 2009. Likely replacements are commercial banks and life insurance companies although underwriting has tightened considerably and the depth of resources may not be sufficient to meet the need. Stay tuned on this one say David Rodgers of Park Bridge Financial LLC and David Douvadjian of Colliers Meredith & Grew.

The investment outlook is less than rosy. Deal volume in the local market is off 80% from the recent peak according to Marci Griffith Loeber of Cushman & Wakefield. The eroding fundamentals and increase in capitalization rates have contributed to a value decline in stabilized assets of 30-50% with even greater price deterioration in the unstabilized property market. Many investors are torn between their legacy assets and searching for new opportunities in this down market. Lack of confidence is clearly a damper on investment sales in the current climate.

Peter Korpacz, MAI, CRE addressed the lack of transaction data and how it has affected valuations. He reminded the participants that existing valuation methodology provides the tools to deal with current conditions. He cautioned, however that these tools may need to be applied in new ways and with ever increasing diligence.

The program adjourned with all in attendance better informed and prepared for the next 12-24 months of continued challenges.

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