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Appraisal Institute continues to serve/educate its members

October 20, 2009 - Spotlights

The Massachusetts Chapter of the Appraisal Institute continues to provide its members with exceptional educational offerings. Most recently it held its annual Economic, Capital Markets, and Investment Outlook meeting which was co-hosted with the Commercial Brokers Association (CBA). The title of the meeting this year was Strategy and Planning for 2010 and Managing Through a Downturn. The capacity crowd was provided with an extensive market overview by four of the region's leading professionals. The meeting was moderated by Bill McCall of McCall & Almy. The panelists, the topics they covered, and some of their comments were as follows:

Cathy Minehan of Arlington Advisory Partners LLC and formerly with the Federal Reserve Bank of Boston provided an excellent overview of: today's economy, her view of the issues on the way to recovery, and her outlook going forward. She started by pointing out that there have been glimmers of good news and that it seems like the start of a recovery. Reasons the economy has improved include the large amounts of monetary and economic stimulus being fed into the economy as well as the fact that the rest of the world is growing, which is good news for exports and business spending. Cathy then expressed a number of concerns relating to the recovery which include: limited job growth which results in limited consumer spending and limited economic growth, the fact that state and municipal spending has retrenched, the oversupply of housing, and the likelihood that the consumer will not lead the way out of this recession as it has in the past.

Cathy finished by summarizing what it all means. Some of the points she made included:

- * There will be slow progress on job growth
- * Unemployment is likely to grow to at least 10% in 2010 before it starts to taper off late in 2010 at best
- * This will be a different sort of recovery mostly due to the consumer not leading the way
- * The rest of the world may lead the way rather than the US
- * There is no significant concern of inflation in the short term
- * Mass. benefits from a stable base in biotech, healthcare and education
- * It remains very difficult to get a deal done today.
- * Wall Street will be back, but with significantly different underwriting.
- * At present, banks and life insurance companies are the only players in the debt market and a number of local banks are filling the void, but for the most part we are looking at "old school lending" with lower LTVs etc.
- * The practice of extending loans masks the underlying problem with a short term solution.

On the bright side:

- * Fannie and Freddie remain active with higher LTVs and offer a variety of structures for qualifying deals. Also, credit tenant transactions continue.
- * Boston is a good place to be vs. other areas of the country

- * Real estate is attractive vs. low corporate bond spreads
- * Additional life companies are likely to enter the market in the near term

Marci Griffith Loeber of Cushman & Wakefield Financial Services Group provided an overview of sales and leasing in the Boston market. Marci pointed out that value declines on stabilized properties have been 30% to 50% from the peak, and distressed asset sales loom on the horizon. Additionally, cap rate compression will not return to the market while yield requirements for cash flow are returning to historic averages. In Marci's view, the continued lack of confidence in the market is a big issue, but she points out that there are more buyers than quality opportunities. Transaction volume is off 80% from the peak. On the bright side:

- * An insulating factor in Boston is the lack of new construction.
- * Boston continues to have better overall occupancy than NYC and DC
- * Sublease activity is relatively low - so far

Marci also shared the most recent market comps with the audience.

Peter Korpacz, MAI, CRE, FRICS of Korpacz Realty Advisors provided his insights relating to valuation during the current downturn. He pointed out that the Band of Investment has a renewed usefulness and also discussed his methodology of "bringing old sales up to date." Peter outlined his use of seller and buyer interviews to obtain their thoughts on current cap rates as well as equity dividend rates. He finished with good advice to all: distressed periods require multiple methodologies and don't forget common sense.

The meeting finished with a question and answer period moderated by Bill McCall.

With the Boston area market deteriorating, it is no secret that appraising these days is becoming ever more challenging. Requirements for appraisers are changing and a general lack of current market data presents its own problems. The Appraisal Institute is here to assist both residential and commercial appraisers with the tools they will need.

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