

Real Estate Journal

THE LARGEST WEEKLY COMMERCIAL/INVESTMENT NEWSPAPER COVERING THE STATE

The current market has created opportunities for 2009



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Making it simple, back to basics, looking forward, not backward except to remember our mistakes. The current market downturn has created opportunities for 2009, the expected period of stabilization and initial recovery, with points of inflection occurring in market trends. Our local property markets have weakened during 2008 and most will continue to do so in 2009. However, restraint and constraints have contributed to market conditions that compare favorably to most national property markets. The National Bureau of Economic Research (NBER) determined our recessionary episode commenced in December 2007 on the basis of several economic indicators. The New England Economic Partnership (NEEP) released the fall forecast November 20th, and NEEP was again caught in between revisions in its base forecast from Moody's Economy.com.

The recession is and has been here and is not yet over. These local opportunities will result from preparedness and resourcefulness in exploiting the relative lull in activity in our local property markets.

The NAIOP (National Association of Industrial and Office Park) Mass. Annual Market Forecast, held on December 4th, was balanced and matter of fact about the past twelve months. 2008 has been a slow and uncertain period of sideways and downward sliding markets. Local sub-markets have experienced average rental declines and declines in occupancy. Because new additions have been very limited and net absorption has been marginal or negative, almost all sub-markets have sustained only marginal deterioration. The 2008 property transaction and financing volume has been dismal. More of 2008 weakening trends are expected in 2009. Shadow or sublease activity is limited so far in downtown and suburban commercial markets and not expected to worsen dramatically in 2009. The real estate capital markets are not expected to change.

The recessionary episode is hard to predict. NBER's Business Cycle Dating Committee, seven prominent, mostly academic economists, waited almost a year to identify what was the peak of economic activity and will declare the end of the recession when the economy reaches its trough. NEEP's forecasting panelists from each of the New England states decided to low-ball Moody's Economy.com base forecast when they started preparing their individual forecasts in October. Moody's later revised downward its forecast. NEEP panelists qualified their forecast by Moody's revisions released just prior to the NEEP release on November 20th. Volatility in the stock market persists - the Dow plunged 8% on Recession Declaration Day, and credit is easing only gradually. Further job losses - 533,000 in November for a total year-to-date loss 1.9 million, and declining retail sales are accumulating and predicted to continue into 2009. However, confidence about upcoming stimulus packages, further monetary actions and other federal activity has created optimism among the forecasters about the resilience and ability of the American economy to recover. Forecasts of the shape of contraction during 2009, recovery commencing in 2010 are still varied.

The lull affords the real estate user the luxury of time for planning and opportunities for optimization. For the owner and developer, engaging the user market is the best strategy. For the investor, preparedness means diligence on the markets, engaging funding sources, and underwriting with the new basics of increased rigor, lower leverage, higher coverage, higher rates and increased credit sensitivity.

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