

# Avery Associates

Real Estate Appraisers – Counselors

282 Central St.

P.O. Box 834

Acton, MA 01720

Tel: 978-263-5002

Fax: 978-635-9435

[jon@averyandassociates.com](mailto:jon@averyandassociates.com)

**Date: March 10, 2017**

## **TRENDS IN A MATURING INVESTMENT MARKET**

The continued strong demand for good quality investment real estate is causing some investors to step back and analyze where we are on a typical cycle. Although there are different opinions, it is clear that we have been in 5-6 year run of increasing prices, capitalization rate compression and strong demand. The demand remains strong for good quality investment real estate. To some, we are still in an undersupplied market for Class A properties.

In response, there is a sense of caution appearing in the form of increased attention to fundamentals. Emphasis on disciplined underwriting of deals is clearly the trend. Record high sales prices and continued low capitalization rates are, considered by some to be nearing a point where correction might be anticipated.

Increased interest rates have yet to show a clear impact on capitalization rates. This is likely due to optimism about a return to more robust economic growth and the prospect of dialing back on regulations. Recent deals in the 5% to 6% range are a continuation of the trend. Most agree additional increases in the interest rates by the Federal Reserve are on the horizon. Careful attention to when or if these increases begin to impact capitalization rates should be a part of a return to careful consideration of fundamentals in deal underwriting.

Continued strength in the warehouse market is one of the recent highlights on the investment scene. This is driven, in part, by online retailers moving into the brick and mortar distribution business to support growth and remain competitive with deliveries.

There has been a slow-up in the pace of apartment construction, particularly in the suburbs. We are witnessing a slight increase in vacancy rates and longer rent-up periods are occurring. Class A construction in the suburbs continues, but at a slower pace. High end rentals in the urban markets are showing some weakness. There is concern that incomes are not keeping pace with the increasing level of rents at the top end. However, demand for moderate level rentals remains strong and the market is considered by many to be undersupplied.

We are far from a condition where investors are re-trenching or showing any signs of leaving the market. Real estate continues to be an important part of most investment portfolios and has increased as a percentage in many investment funds, pension funds and insurance portfolios. So, the bottom line is careful attention to detail and observation of

market trends is clearly indicated. Opportunities continue to present themselves and the main challenge is pricing vs. returns.

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