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**Date:** May 3, 2016

## SIGNS OF SPRING – LOOKING AHEAD

Always hopeful, New Englanders look to spring as a time to take stock and look forward after winter. Although spring seems to be struggling a bit, being optimistic is important. However, a dose of reality may be on the horizon in the realty markets.

As reported in the first quarter 2016, *PwC Real Estate Investor Survey*, there is some feeling among the investors surveyed that some caution is in the air – in their words, it may be “time to wave the caution flag”. Depending on when you feel the ‘we hit bottom’, our economy is likely into the seventh year of recovery from the Great Recession. With a steady rise in interest rates likely, the Fed appears to be committed to putting the brakes on – subject to stock market swings, short term economic indicators and political influence. Quite a set of variables for sure!

Investor comments in the survey express such concerns. One apartment investor reports, “We’re in the late innings of a great game, but we could be in for a rain delay.” An investor in the office sector is quoted “We’re still flying, but there are more headwinds than tail winds.” These are not signs of great concern but certainly their antennae are up and scanning.

The early signs of cooling are appearing in the apartment sector. Longer rent up times, slightly higher vacancies and flat rents are occurring in some market sectors. This is to be expected as more supply comes to completion and the pipeline remains fairly full. These are not dramatic changes, but may be early warning signs.

In the commercial sector, the respondents note that the cap rate compression which has been the norm quarter after quarter for years may be flattening. In the Boston market, the first quarter saw a decrease of four basis points from last quarter, however, nationally, rates are flat. For Boston, this is compared to a 33 basis point decline when compared to one year ago. The survey reports that 100% of the respondents are seeing rent concessions in the office market ranging from 1 to 10 months free rent on a typical 10-year lease.

Taken as a whole, the results of this survey are far from clear. However, the memory of the aftermath of 2008-2009 is still fresh. Caution is the predominant trend with more conservative deal underwriting beginning to appear. The strength of our local economy and the appeal of investments in this area to both onshore and offshore investors, are positive signs which help to offset many of these concerns.

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