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## As the Economy Picks Up, Look for the Real Estate Market to Respond Favorably

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**T**he focus of this spring's forecast is the general economy as much as it is the real estate industry.

The key to recovery in the real estate markets will be economic growth, and economic growth beyond simple GNP gains. Real estate prosperity will

return as we see economic gains across the board that will fuel demand for vacant and new space. One of the clearest signs of economic rebirth is employment growth. National

and local employment search firms have started to see an increase in new job orders, particularly in temporary positions, as many companies do not like to commit to permanent positions at the early stages of growth. Many say these are "short-term signs of long-term growth."

With the positive economic projections and the promise of improved vacancy rates, some owners are holding onto their multi-family properties and seeking short term financing products. Given that owners are waiting to sell, the lack of available supply has allowed the price per unit to increase and cap rates to

continue to drop. The lack of multifamily supply has attracted builders, especially in markets that are historically strong like Cambridge and Newton, Massachusetts.

The hospitality industry is coming off a very low point due to recent world and economic events. Most observers feel this sector has bottomed out as evidenced by an increase in occupancy and RevPAR recently. This steady rise is projected to continue through 2004 with more liberal growth predicted for 2005. Support to the hospitality industry will come in 2004 from the GOP Convention in Philadelphia and the DNC in Boston. The Democratic National Convention will be held in Boston in late July. This four-day event is projected to bring in 20,000 delegates and reporters alone, and thousands of other visitors. Boston is looking at a \$150 million economic impact according to the Democratic National Convention Committee and much of this revenue will benefit the hospitality industry.

In contrast, the retail sector continues to remain strong. Although a detriment to the hospitality industry, homeowners have made their home their castle. Over the past eighteen months a noticeable trend has seen consumers spend money specifically on home goods, instead of spending it on such as

travel. Consumer spending on retail has also been spurred by tax-cuts as well as lower mortgage payments due to lower interest rates. Currently, retail properties are experiencing low vacancy rates and retail transactions remain strong with low cap rates and high square foot sales prices driving the market. This should continue as new retail construction has been minimal, allowing vacancy rates to remain low.

Projected economic growth should spur office demand as evidenced by a recent decrease in vacancy rates in this sector. Boston's One International Place and 33 Arch Street are two examples of high profile buildings that recently experienced significant lease-up. There is currently little new product in the pipeline, channeling most growth to currently vacant space. The wildcard in Boston office vacancy is the Fleet and Hancock sales to out-of-town buyers. It is not clear how the new owners will treat expiring Boston leases. Hopefully, vacancies will indeed tighten, however the downside is that owners/operators will be renting at lower rates as leases roll.

Overall, the real estate market shall respond very favorably to a general pick-up in the economy. As the anticipated economic uptick is realized, the real estate markets will follow.

