nyrej

# Reservation conversions - creativity, archeology and diplomacy

May 28, 2013 - Front Section

TD Economics, an affiliate of TD Bank, America's Most Convenient BankÂ®, released a special report today indicating that recovery in the housing market augers for continued improvement in U.S. commercial real estate over the next two years.

Despite challenges - including gradually rising interest rates and government spending cuts - the outlook for commercial real estate is positive. The U.S. economy is expected to grow by 1.9% in 2013 and accelerate to 2.8% in 2014. This growth will spur the creation of 4.8 million jobs over the next two years. As job growth accelerates, so too will demand for commercial real estate, leading to continued improvement in vacancy rates.

"The key difference between the initial recovery in commercial real estate and future growth will be the contribution of interest rates," said James Marple, TD Senior Economist and the author of the study. "As interest rates rise, the spread between commercial real estate yields and government Treasuries will narrow. Prospects for price growth will then depend on improving economic fundamentals."

Fortunately, there is every reason to believe this transition will take place. While economic growth will be held back by fiscal austerity over the next year, this will also reduce the risk of a major spike in interest rates that could set back the recovery in commercial real estate. "Rising interest rates are manageable as long as they are caused by faster economic growth. This is exactly what we anticipate," said Marple.

The TD Economics report looks at prospects across commercial real estate sectors. Government cutbacks will be a particular challenge for the office segment, which has both direct and indirect exposure to the sector. However, led by scientific and technical services, office employment is likely to continue to perform well and drive demand for this space.

The retail sector was hit particularly hard by the recession, given its close relationship with the housing market, but this will change as housing rebounds. Meanwhile, the 'onshoring' trend in manufacturing, driven in part by low energy costs due to the shale gas revolution, will increase demand for industrial space, especially in coastal markets that are more exposed to foreign trade. U.S. exports are likely to be one of the largest components of overall economic growth over the next several years. Finally, the apartment sector will see continued demand from renter households that will support ongoing growth in construction.

Regionally, across TD Bank's footprint, the South Atlantic is expected to see the strongest and most sustained commercial real estate growth as it was hit hardest by the construction downturn. In general, the strongest commercial real estate performance is likely to be in areas that have exposure to housing, energy and technology, and in those areas with less exposure to government cutbacks.

TD Economics provides analysis of global economic performance and forecasting, and is an affiliate of TD Bank, America's Most Convenient BankÂ®.