CELEBRATING 55 YEARS nerej

Pink, Linneman and Beane speak at SIOR Conference

January 09, 2008 - Spotlights

Approximately 14 New England SIOR Chapter members and prospective members attended the St. Louis fall conference from Thursday, Nov. 8th through Saturday, Nov. 10th, including: Greg Klemmer, Pete Hayes, Gerry Suprenant, Tom Sweeney, Arlon Brown, Greg Cahill, Peg Carlson, Bob Cleary, Jeremy Freid, Garry Holmes, Ned Leeming, Rob Nahigian, Mark Stevens and John McKinley. The conference was held at the Renaissance Grand Hotel. Over 700 SIORs attended one of the largest commercial networking and educational conferences in the commercial real estate industry.

On Wednesday, November 7th, SIOR held its annual Leadership Conference as an orientation for the 2008 Chapter and committee offices. Attending from the New England Chapter were Mark Stevens as current Chapter president, Greg Klemmer as incoming Chapter president and Rob Nahigian as national VC of Training & Development. The SIOR Leadership Conference is designed as an orientation and planning event for the 2008 SIOR national board of directors, chapter presidents and vice presidents, committee chairs and vice chairs, committee council members and chapter administrative staff.

On Thursday afternoon, the Opening General Session sponsored by Spectrus Real Estate Group kicked off with Daniel Pink as the key speaker. Pink is a best-selling author and an expert on innovation, competition and the changing world of work. His latest book, A Whole New Mind, charts the rise of right-brain thinking in modern economies. Pink served in the White House from 1995-'97 as chief speechwriter to Vice President Al Gore. All these sessions can be uploaded from the SIOR national website as well (www.sior.com); here is a summary of his session.

Three big forces are putting a premium on work. Brains are complex and very efficient and divide tasks as analytical, evaluate and not linear. Logical abilities are necessary 100% of the time but are no longer efficient. We are moving from linear to artistic reasoning. There are three causes: 1. Abundance; 2. Asia and 3. Automation.

First, there is an abundance of everything in the U.S.: cell phones, cars and homes. We have become more prosperous but not necessarily more satisfied. People want to leave legacies because money isn't enough for satisfaction.

Asia is way overstated as off-shoring venue in the short run. India has one billion people and 15% of that population would be larger than all the U.S. workers employed. Routine is a death sentence to us. Hi-level sales aren't routine but the low level sales jobs are routine and are leaving the U.S.

Automation is replacing our brains with the logical, linear sequential brain side and not our artistic side of our brain. Routine jobs can be done by free websites such as Completecase.com for $249. Hi tech makes routine jobs matter less.

Therefore hi concept and hi touch matters more and the six items that matter more include: 1. Design; 2. Glory; 3. Sympathy; 4. Empathy; 5. Meaning; 6. Play.

Pink spent the remainder of his talk exploring each item.

On Friday afternoon with the help of Bob Cleary, New England Chapter member Rob Nahigian gave his concurrent session to 250 attendees on Liquidity and Today's Commercial Real Estate Market. Nahigian explored and attempted to explain today's high commercial real estate values, the low cap rates, the source of the investment money, the sources of foreign investors, what properties were the most popular and what countries were attracted to the U.S. He also listed the top five countries to invest, the top five cities internationally that were being invested then scaled to the top five cities to invest in the U.S. He offered the audience a breakdown of which properties in the U.S. were most attractive to foreign investors and why.

Nahigian also researched the amount of free cash in the United States, where it was being held and he was able to trend the direction of the cash in the next 12 months. The cap rates explored internationally gave a compelling argument for foreign capital finding U.S. high prices actually at a bargain price at an international level. He broke his presentation into a review of the Dow and real estate returns for the last 24 months, the impact of the residential sub-prime crisis with default and delinquency figures. He then compared the percent of residential defaults to the commercial CMBS market to show that commercial real estate was not as affected and that there was a lot of media hype.

Nahigian went on to compare the tale of two cities, comparing asking and actual prices in Boston v. Birmingham, AL for office and industrial properties. The Birmingham brokers claim their market has inflated prices while Nahigian indicated that to an outsider, it was exponentially cheaper. Therefore, investment dollars seeking returns internationally had benchmarks that made lower cost cities attractive despite the fact that prices paid may seem extraordinarily high at a micro basis. He went on to explore three factors that explained the higher prices being paid in the U.S.; the value of the U.S. dollar to the eurodollar and yen, the international prime rates and international cap rates. He was able to prove and conclude that a Japanese or European investor was saving anywhere from 29% to 75% in various costs by purchasing investment properties in the U.S. rather than their own countries and still obtaining higher yields than investing in their own country.

Nahigian's final conclusion was there was an abundance of capital but that the high prices or "idiot tax" may not be sustainable for reasons he also offered during his session. Therefore, the market is and will continue in 2008 to experience lower values, higher cap rates by 50-100 basis points and a more "wait and see" approach from investors. But clearly, equity was available despite the debt crisis.

Later on Friday, was the General Session sponsored by Pro Logis with Billy Beane, general manager of the Oakland Athletics. Beane is often known as Mr. Moneyball as he has been operating a competitive and division winning team year after year with a lower budget than many of the high profile baseball teams. Beane explained to the audience how math has played in the last few years as a major resource to determine value for ballplayers. Today's statistics are not always about home runs and RBIs. For instance, it was decided that OBP (on base percentage) stats had higher value. Or for instance, bunting a player from 1st to 3rd base does not statistically improve your chances to get a runner home over a 162 game season.

Bill James, currently with the Boston Red Sox, is considered the baseball stat expert. But Bill Beane's assistant, Paul, predicted in June of 2000 that the Oakland A's had to win 90-92 games to win the division based on mathematical formulas. The A's won 91 games on the last day of 2000 and won the division. This is how statistics plays a major part on strategizing for baseball today.

Beane went on during his session to offer other mathematical examples that influence his decision to bring in certain players and pay certain prices that increase their mathematical probability to win divisions. The average person would not be privy to this information and would not understand why certain decisions were made. Fans react emotionally while internationally their decisions are based on true math.

Finally, Dr. Peter Linneman spoke on the future of real estate based on future demographics. His summary is as follows:

Despite the conventional thinking today, social security and retirement right now will last as positive cash flow until 2020. The government will then solve the cash flow issue by 2025. So Americans should stop worrying about social security. The government always waits until the last minutes to solve any crisis and takes five years to implement a solution. But they will come up with a solution, there is no rush for government right now. They have other pressing issues. This means that there will be a testing of the benefits and a modest tax increase to fill the gap.

When babyboomers retire, it will not impact office space negatively; they will continue to work but not as much. They will use space. Echoboomers are more important to the economy than babyboomers. Why?

There are more echoboomers; they are more interesting than babyboomers and they do more "stuff" and there is a granny effect.

Babyboomers do not start dis-saving statistically until the last 18 months of their lives; even medical issues do not cause them dis-save because you aren't spending your money elsewhere. It is a tradeoff.

The bigger growth indicators in the next two years will be: 1) Looking better/feeling better and living longer; 2) Cosmetic/genetic/chemical/surgical; 3) Huge growth potential. Wealth will be the biggest transfer from older generation to younger generation in the U.S. and it will be the first time it has happened in U.S. history. Other generations have died with little money left and no money to will to the next generation. In the past, the younger generation had to spend money on parents who were retired with no money to live.

There are 300 million people in the U.S. If each person spends $100 then that implies $30 billion in annual retail sales. If each person spends $1,000 the retail sales reaches $300 billion. We are only at the beginning of this trend.

We look forward to seeing you at the Washington, D.C. Spring Convention in April 2008!