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Lose the blues in Chicago - CRE Mid-Year Meeting

May 10, 2012 - Appraisal & Consulting

The Counselors of Real Estate held its national spring meeting at the Fairmont Hotel in Chicago from April 22nd-25th. The theme of the meeting was "Investing Through the Cycles" and focused on the future of commercial property markets and potential opportunities. April 23rd commenced with the signature session - "Investing Through the Cycles," featuring Lynn Thurber, non-executive chairman of LaSalle Investment Management and Ken Riggs, Jr., 2012 CRE chair and president of Real Estate Research Corp. with an introduction by Buzz McCoy. The session captured many points discussed throughout the meeting.

McCoy, known for his keen insights (and predictions of a real estate downturn presented in 2005 at the ULI Winter Symposium), offered advice to monitor cycles for pricing anomalies, which create opportunities. He cited Laura Tyson (former chair of the President's Council of Economic Advisers and current professor at the Haas School of Business, UC Berkeley) who projects that even with job growth of 200,000 to 300,000 per month, full recovery would not occur until 2017-2020. As such we are only halfway through a 10-12 year recovery.

Thurber noted this recovery is different given the jobless nature of the rebound, compounded by lower quality jobs comprising a significant portion of employment gains. Compared to past recoveries, Thurber indicated we are recovering from a much deeper position and, given expected continued low, gradual growth, this recovery will take much longer. She stated that even slow growth combined with gradual employment gains are good for real estate, but uncertainty and problems in this cycle are still not solved - "at this moment." Thurber believes the greatest risks to commercial real estate and the economy are continued delevering and to "fix the deficit."

Riggs commented that his bias is "there is so much negativity baked into current pricing that we will come out of this more quickly" than consensus projections. Riggs and Thurber then proceeded on a wide ranging discussion including:

* Risk Aversion - current investor focus on Core with minimal capital seeking Value Added real estate. (Might this be an opportunity? Which risks to take and how to price?)
* CMBS Refinancing - $20 billion of vintage 2007 CMBS maturing in 2012 should be effectively refinanced; perceived risk in the refinance of $100 billion vintage 2006-07 CMBS maturing in 2016-17. (Might this be an opportunity? Will rising values, mezzanine, equity or a combination fill this need?)
* Platform Registrations - several investment firms in process with the SEC to provide platforms where individuals can invest in private REITS, a modern "version of the old syndications." (Might this provide a new avenue of acquisition capital?)
* Investors are doing asset allocation and picking specialists to execute within asset classes. (Investors are seeking specialists!)
* Think about who you are and where you are successful; say no to the parts of the business that

are too small or don't work. (Investors are seeking specialists!)

* Focus on doing a few things really well. (Investors are seeking specialists!)

CREs are reminded that the next New England Chapter meeting will be a Noon Luncheon meeting on May 31st, at The Algonquin Club at 217 Commonwealth Ave. in the Back Bay. This signature Chapter Event will feature a presentation by Hugh Kelly titled: "24-Hour Cities and Real Estate Investment Performance" Since the mid-1990s, it has been asserted that so-called 24-hour markets are the best places for real estate investments. Until now, this claim has - incredibly - never been put to any serious tests to examine whether it is true or false. The examination has now been made and the results are in! Join Kelly as he shows what the measurable attributes of 24-hour locations across the US are and how they make a difference in commercial property investment. What are the 24-hour cities, and where does Boston fit into the picture? Examining socio-economic profiles as well as real estate market data, including investment returns and capital flows, Hugh will tackle the question of what the 24-hour city hypothesis means for investors, and for public policy.

Jill Hatton, CRE, is the 2012 New England/Upstate N.Y. CRE chapter chair, Boston, Mass.