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Hurricane Sandy added to the risk spectrum for real estate

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The counselors at the annual meeting in Miami October 14-17, featured a wide ranging panel on our domestic infrastructure and two panels on market risk in commercial real estate. The most recent natural disaster caused by the storming of hurricane Sandy has added to the risk spectrum for commercial real estate. Almost as importantly, the vulnerabilities of our eastern shoreline and the power grid will receive renewed scrutiny and reinvestment. The panel dialogues on market risk assessment in the commercial real estate were particularly thoughtful and provocative, hallmark sessions of counselors' programming and the membership.

Sandy hit the east coast Sunday October 28 with winds gusting 50 to over 100 miles per hour, storm surges of 5 to over 15 feet above normal high tide, and cumulative downpours of 3 to 15 inches in a broad pulsating swath across the eastern part of the country. Sandy closed the New York Stock Exchange for 48 hours and the subway system for over 72 hours. Millions of residential and commercial customers lost power, and some are still awaiting restoration of service. The economists promptly started slicing and dicing data to measure the impact of the 72-hour weather on the economy. The net impact might well be negligible. However, individuals have perished and suffered life threatening injuries and catastrophic disruption and devastating property damage. For commercial real estate, more generators and other alternative backup systems will be purchased, refurbished and tested. Improvements will be repaired and some will be demolished to be replaced. Some will be abandoned. Building codes and zoning ordinances will be reexamined. Power lines will be repaired, restored and replaced, and the power grid will be analyzed for flexibility, efficiency and emergency management.

The risk officer has historically been the person in charge of safety and insurable risks - prevention of loss of life, property and goods, due to accidents, natural disasters and other circumstances. The chief risk officer, or CRO, is a relatively new position in charge of assessing financial loss resulting from investment including, among other matters, portfolio and leverage considerations, and increasingly global macro trends. The CRO is peer to chief investment officer or CIO. The counselors' panels entitled "Is There Any Hope," and "To Risk or Not to Risk" were global and laser-like, data-packed discussions among panelists and the audience, brimming with the CRO circumspection and conclusive clarity. The featured speakers included five-star CRE's - Ray Torto, CRE of CBRE and Tony Pierson, CRE of Cornerstone Real Estate Advisors on the Hope question, taking hard looks at macro and micro, global and domestic trends; and Robert White, CRE of Real Capital Analytics and Marc Louargand, CRE of Saltash Partners, formerly of Cornerstone, moving rapidly and thoughtfully through the full spectrum of domestic real property risk options for yield-seeking institutional investors. Dizzying in some respects, all four are well versed in the transactional terrain and the flow of the capital markets.

The wakeup call on infrastructure from Sandy is loud and clear. The sound bites from the CRE sessions might be indeed hopeful about the fundamentals and the expansion of real property capital and development in many domestic commercial real estate markets. Buy where there is fear; sell where there is greed! Beware of the asset bubble! The mixed messages heralded the opportunities in commercial real estate.

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