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Insights from Second Annual "Hot Topics" Luncheon

October 17, 2013 - Spotlights

The New England Chapter of the Counselors of Real Estate (CRE) recently held its second annual "Hot Topics" luncheon. The gathering provided an opportunity to discuss and debate various aspects of the real estate market and, once again, was a testament to the expertise of the group.

Following are insights from the meeting:

Harris Collins started the discussion with an update on a topic discussed last year - current cap rates and impact to pricing if interest rates increase. Collins provided recent transaction activity and associated cap rates. He offered additional quantitative data on historical spreads and cap rate trends, illustrating the expansion and compression of the spread over time periods as interest rates increase and decline. Over the mid term, Collins pointed out that even if cap rates increase, the resulting compression of the spread to treasuries could minimize negative value changes.

The group also discussed the potential of rental rate improvements offsetting cap rate increases although noting many Boston area market rents are unchanged from 10 to 20 years ago, while expenses have increased significantly. The cap rate discussion continues to be an interesting and multifaceted topic we will continue to review.

The second Hot Topic led by John Baczewski reviewed the current state of capital flows and impact to the real estate market. Baczewski shared recent information on capital flows as published by the Pension Real Estate Association (PREA) demonstrating institutional members continue to favor real estate as an asset class, even though future total returns are expected to moderate from the recent annualized 10.7% to a 8.2% annual return in 2017.

In addition to recent increases in real estate allocations from domestic investors like CALSTRS, foreign investors from Europe and Asia continue to allocate funds to U.S. real estate. The group discussed and debated the impact of significant available capital, concluding this is another factor that will likely keep cap rates low and maintain strong investor interest in Boston real estate.

Don Bouchard led a discussion on the retail market, the current state of the mall market and the risks and opportunities in the sector. Bouchard shared historical data on internet sales trends and recent mall repositionings, including information on the strength of "fortress malls" and the ongoing challenges of second and third tier retail locations. The group discussed the impact of internet sales and how they are influencing, revitalizing and transforming the retail landscape. Additional comments featured several recent successful Boston retail projects and the depth and market potential in the local marketplace.

All three topics showcased the expertise of the CRE Chapter in delving into complicated and multi-faceted topics of keen interest to our member base and of importance to our clients. The meeting was one of many in a vibrant, insightful year of programming for the New England CRE Chapter.

The New England Counselors will wrap up their year of activities with a luncheon presentation by

Rob Nahigian, FRICS, SIOR, CRE, MCR titled "From Shanghai to Your Shelf: The New Era of Logistics and Supply Chain Real Estate Decisions in the 21st Century: Connecting the Dots back to the Consumer" to be held November 19th at the offices of CBRE New England followed by the Annual Holiday Reception at the UMASS Club in Boston on December 12th.

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

2013 Chapter Officers

- * Jill Hatton, TurtleRock Investment Management, chapter chair;
- * Peter Nichols, NorthStar Ally LLC, vice-chair and board member;
- * John Baczewski, Real Estate Fiduciary Services, LLC, treasurer and board member;
- * Don Bouchard, Lincoln Property Company, membership chair and board member;
- * Robert Costello, Capital Crossing Servicing Co., LLC, board member;
- * John McLaughlin, McLaughlin Investment, Inc., board member;
- * Martha O'Mara, Corporate Portfolio Analytics, board member; and
- * Harris Collins, CBRE - NE Partners, board member.

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