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2014 Commercial Real Estate Outlook with Torto

February 13, 2014 - Appraisal & Consulting

The New England CRE Chapter held its first program for 2014 featuring a presentation by Ray Torto, Ph.D., CRE, global chairman of research at CBRE.

The theme of Torto's presentation and 2014 outlook for commercial real estate is "Demand Outlook is Good but Growth is Not Enough!" His commentary highlighted that the economy is growing, albeit slowly, but that this modest growth will be supplemented by continued high levels of liquidity. These factors should result in continued low rates of return and support the expectation of a favorable outlook for the economy and real estate, even with the various "sharks" lurking in 2014 (emerging market currencies, a potential debt ceiling debate and Japan demographics to name a few).

In contrast to Torto's 2012 and 2013 presentations, which projected low levels of slow growth and a "muddle through" of political action given the sluggish economy, he expects that economic recovery will be evident in 2014 (or at the latest in 2015) due to several factors.

Continued steady job growth of 125,000 to 200,000 jobs per month would be sufficient to move the economy from recovery to expansion sometime between March 2014 and September 2015.

As we enter 2014, many of the global economies are experiencing positive GDP growth (irrespective of emerging economies, which challenges are offset by positive GDP in the larger, more dominant economies).

Federal, state and local governments do not have the fiscal drag of the prior several years as the private sector is spurring U.S. growth and tax receipts.

Fourth quarter 2013 leasing was extremely strong with quarterly office and industrial absorption at the highest levels since 2007 and 2005, respectively.

In response to a question on a potential interest rate rise, Torto noted that while he expects interest rates to rise to the 4.5% range in 2014, he feels there is sufficient capital worldwide that needs to be invested and will keep returns down throughout asset classes. This position is supported by the fact that as Asia (with its high saving rates) grows, saving and thus capital needing to be invested will grow as well. The resulting impact to real estate is a continued steady demand for real estate with an outlook for core US real estate to continue to be priced at approximately 8% total average annual return through 2017.

The group also discussed how technology is changing the real estate demand. The emergence and growth in the Seaport is well known to Boston/New England CREs but Torto provided evidence that what is happening in the Seaport/Kendall Sq. submarket is happening in 35 other markets around the country. Torto summarized his research study of net absorption, rent growth and occupancy share and its relevance in the emergence of similar innovation/tech centers. The resulting emergence of these centers is attributed to the changing impact of technology on the workplace and changing lifestyle choices of the emerging worker demographic.

The chapter would like to thank Torto and CBRE for sharing his research and hosting this event at

their offices.

Tentative 2014

Calendar of Events

- * March 25: "New Legal Twists in Commercial Real Estate" Location TBD
- * May 4-7: 2014 Midyear National Meetings - The Four Seasons - Austin, TX
- * June: Summer Social Event - Date and Location TBD
- * September: "Hot Topics" Luncheon, TBD
- * October 26 - 29: 2014 Annual Convention - Fairmont Copley Plaza - Boston, MA
- * November and December Events TBA.

2014 Chapter Officers

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

Jill Hatton, CRE, is the 2014 New England/Upstate N.Y. CRE chapter chair, Boston, Mass.

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