



# nerej

## **2014 Architectural outlook: It is design that infuses a property with investment-grade value**

March 06, 2014 - Northern New England

When looking at the architectural outlook in real estate, developers and architects need to look at the market conditions that prevail. Still, there is general agreement that the arrows in early 2014 point up.

Five years after the crash, the roof hasn't fallen in on the economy, and banks (and corporations) are awash in cash.

Does that mean people will spend? No. Does it mean people (and corporations) will invest? Yes.

From an architectural perspective, it is design that infuses a property with investment-grade value. In the lower tiers of the market, buyers and renters are trading in a commodity in which the only real value is limited to the land.

Real estate agents have a code name for this: tear down.

In higher tiers, design can invest a property with additional value. Consider an acre with a 1960s ranch house on it. Now consider the value of the same acre if it had a Frank Lloyd Wright or Frank Gehry on it.

Design has value. And it's commutative - you can add it to the value of a property!

### New England Demography

There are drags on the New England real estate market, related entirely to low population growth. New Hampshire leads the way, but with a paltry .6% rate of growth, according to CBRE. Massachusetts comes in at .4%

So the previous driver of real estate growth won't come from a burgeoning population buying up 'inventory.' The new driver of growth will come from value-added propositions.

Design, of course, is one. Location, investment strategy, your business plan are others.

The money for this comes not from more buyers, but buyers with improving financial stability. Moderate growth is expected in both New Hampshire (3%) and Massachusetts (2.9%), which is expected to continue into autumn 2014.

Some buyers and investors will improve value not by trading up to acquire a property whose cost is inflated by tight inventory in a smaller market, but by investing in property they already own. This is already an established trend as it often increases value at lower cost.

Let's consider something on a larger scale, a multifamily or mixed-use development.

Maybe you may have in your portfolio an old mill located on a good site.

You have two plans available: large scale renovation, ostensibly (but not always) lower cost, or total replacement with a modern facility (higher upfront cost, but lower operating costs). In either case, you would be well advised to invest that property with quality architectural design.

This isn't about so-called curb appeal (though that is always part of it). It's also about environmental efficiency, cost of operations, code compliance, and a plethora of other considerations that drive

down cost and headaches, while making the property far more marketable. (Think of "time on market" as a cost.)

#### Inside Business

Business property has additional considerations, most importantly that every business is looking for short term ROI - a profit above the rent or mortgage they pay.

A major trend in office space is smart sizing, to accommodate today's more transient workforce. The ability to reconfigure quickly for variability in staffing and tasking is not the same as DIY with cubicles and open space.

This trend extends into retail space, and you can see it in electronic retail boutiques, and in banks - where barriers and teller lines have begun to disappear.

There are considerations that you may not have considered...but designers have already confronted them, and are behind the most successful implementations.

Co-working and incubator space is a natural outgrowth of this trend, and as New England is actively competing for VC/lab/startup opportunities, these entrepreneurial concerns will be seeking to establish a home. These will be smart size spaces. And they won't all be in Cambridge...or in Massachusetts.

More broadly, developers and designers who stay on top of digital trends will have an advantage. This goes further than bolting a flat screen to the wall - it involves creating spaces in which businesses can seamlessly integrate digital communication technology. Today, Google Wallet and Evernote.

Tomorrow, stay tuned.

A gradual upward slope

Frustration exists over the pace of the recovery, which is often described as a "recovery," in quotes. Still, it is an upward slope, and regardless of the angle of that slope, it is better than having it point in the other direction.

When the economy crosses the tipping point, there is unlikely to be the volume of buyers available to soak up inventory as in decades past.

We may be close to that point already.

Though not in great shape by any measure, unemployment continues to trend downward.

Rentership and ownership rates have stabilized at new and sustainable levels, providing opportunities for buyers, renters, owners and developers.

Real estate prices edge consistently higher, and despite occasional spikes, the trend is also sustainable.

With no bubble available to inflate prices, realizing the full potential value in any property will involve good old-fashioned investment...in quality, and especially (shameless plug for architects everywhere), architecture and design.

A careful analysis of your numbers may find this the most effective investment in the investment you've already made.

Thomas House, AIA, is principal of THA Architects, LLC, Stratham, N.H.