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## Changing (S)paces is subtle but reflected in the real estate market

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The title of this article, "Changing (S)paces" came to mind as a private equity fund and the business strategy of that fund was being debated in a recent investment committee. The historical expertise, successes and failures of the principals was examined in detail and evaluated in tandem with the initial seed deals in the portfolio - an eclectic group of properties that, to some members, did not have common property type, location or life cycle features.

As the committee members continued the discussion, a common element of the investment strategy appeared to capture innovative and new use of space layouts, uses and function in creating value. The underlying theme of Changing Spaces is subtle but clearly reflected throughout the real estate market as space layout and use is changing at an incredible pace.

Following are several observations on how the space design, demand and use is changing at a significantly fast pace.

**Office:** One of the most evident areas where space layouts and use are changing is in the office sector. While open office concepts, shared workspaces and collaborative meeting areas were once found primarily in the tech sector, those concepts are now found throughout the urban and suburban office markets in varied business environments. The new designs and layouts often reduce space needs of users and rents are more influenced by the proximity of the workforce to the workplace and varied amenities.

**Residential:** The continued demand for rental housing - often smaller, more efficient units with extensive amenities - reflects the changing elements of housing demand. While for-sale remains an important part of the housing sector, the growth in sustainable communities, smaller lots and transit-oriented development reflect demand for livable, walkable communities with proximity to work, live and play.

**Retail:** The retail sector is also experiencing significant changes in space design usage and tenancy. New formats and the intersection with online activity are changing location, size and build-out requirements in a way that no one would have imagined ten years ago.

**Industrial:** Industrial is also adapting to changing logistics patterns, inventory control and online demand of goods, influencing where properties are being built and leased and the type of tenant improvement and space design that is required.

The ability to successfully capture market demand and features by building, renovating or refurbishing to reflect these trends directly impacts the ability to successfully achieve the business plan of the private equity real estate investment. A typical holding period may range from three to ten years but user demand trends and space configurations are evolving and changing so quickly that the pace of change is difficult to predict at the time of acquisition.

Given the pace of change in space features, the talent to see an opportunity not visible to other

bidders is critical in executing the real estate business plan. Creativity, foresight and connection to the ongoing needs of the end users are all important in making sure your Changing Spaces will maximize value of the investment.

2014 Calendar of Events:

- \* Summer Social Event - Date and Location TBD
- \* "Hot Topics 3.0" Luncheon, September 16, 2014 at CBRE NE offices
- \* 2014 Annual Convention, October 26 - 29, 2014 - Fairmont Copley Plaza - Boston, MA
- \* Hotel Trends, Opportunities and Risks Luncheon, November 18, 2014 Location 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;
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- 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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