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Alperin of National Dev. speaks at SIOR Featured Landlord breakfast

April 09, 2008 - Spotlights

The New England SIOR Chapter continued its Featured Landlord breakfast at the Newton Marriott on February 12th. Approximately 40 SIORs and guests attended to hear Tom Alperin, president of National Development of Newton, speak about the overview and trends of commercial real estate in 2008.

Mark Stevens, chapter president, welcomed the attendees and reminded everyone about the upcoming SIOR Spring Convention in Washington, D.C. from April 23rd-26th. Chip Detwiller is donating a fly-fishing evening for four people including dinner to the SIOR EdFund Auction in Washington, D.C. with a minimum bid of $300.

Tom Alperin started with an overview of the history of National Development as follows:

* The company was founded in 1983 with a New England regional office headquarters in Newton. They have built 14 million s/f of commercial and residential properties in 40 communities. The projects can be eclectic developments with R&D, hotel, senior citizen housing, office, etc. The market area has been downtown Boston, suburbs of Mass., Conn., Worcester, Falmouth, Dartmouth, Lynnfield, Framingham, etc.

Development Trends

Alperin then summarized the development trends of National Development as being a boutique market and project specific. He said that the market is overbuilt so they are site specific now. New construction exceeds the price of current existing prices. As an example, he estimated that new construction costs for office along Rte. 128 could be $325-350 with $40 per s/f for land value. So offices selling at $250 per s/f are below cost. He believes that this trend will continue and will be the trend holding up value.

Debt Trends

There are new underwriting policies. In the past, he could obtain 90% debt with 10-15% equity and now that requirement is 70% debt with 30-35% equity and the cost spreads are up as well. The returns on equity are still in the 15-20% range for IRR but it is tougher to leverage.

Other Trends

Massachusetts towns need more revenues as well as seeking new projects. Corporate campuses or large users are a new trend for the future. So National Development is looking for large sites to construct 600,000 s/f. With a project of that size, they are hoping that they might get fortunate with one user since there are little options.

Sector Trends

Retail:

This sector is saturated and sales have tempered. Values are not being driven up.

Residential

This sector benefited in the last quarter of 2007 with buyers of multifamily. Only 20,000 new jobs were created in the Boston area. In 2008-'09, people believe that there are bargains coming so the sales are now slow.

Institutional Non-Profit Growth

National Development has a capital campaign. They believe that there will be a large amount of employees at hospitals and universities, thus a need for space.

Senior Housing

Today we are experiencing the highest vacancy in senior housing. The industry will see a lull for the next 10-12 years and then an increase.

Medical Office

Users are moving closer to the consumer and not having patients travel to hospitals or Longwood. The strategy is to spread with outpatient outreach.

Office Build-to-Suits

This sector will experience growth in order for the tenant to achieve a lower rent.

National Development: Where are they focusing?

The firm is concentrating on zoning and permitting value. They see the best opportunities here for new development. Mixed-use will be a continued trend. Life science will be a demand but specific to the location. Residential will be selective especially with government subsidies as new growth. Green themes will be a goal. The firm has a $200 million fund with $3-20 million per project allocated. Orientation is to have investors who are third party, with its own account with liquidity. Values will, or have, decreased but Alperin is not certain of how much lower the values will go. Assets with cash flow will be a better value than vacant assets and you will see a greater gap in pricing from vacant vs. cash flow properties. Right now, the market is in a lull until the debt market is better understood. So the second half of 2008 will be better from a property sales standpoint.

Equity is now demanding 15-20% IRR but leverage is an issue. The debt range is 65-85%. National Development is focused on value-added deals and not coupon clipping. Geographically, Alperin likes Cambridge and Boston rather than the suburbs and he likes the office product. With rents in the $40 per s/f range in Cambridge and Boston (vs. $20 per s/f range in the suburbs), the amortization of costs are less challenged. The higher the rent, the better the real growth as TI and broker fees have less impact over a higher rent than a lower rent. The $40 per s/f rental market has less differential on risk and releasing as an impact on the percent of NOI growth. He sees select opportunities on Rte. 495. The medical product is good in select areas.

National has some planned projects including: 400,000 s/f at the Joslin Diabetes Center; Lynnfield mixed-use; retail and office in Lowell; IBM project in Littleton, which is fully leased; Reading Woods, 600,000 s/f office campus; Station Landing at Rte. 128/16 of 125,000 s/f in which he needs $40 per s/f rent to start the project; Woburn has 201,000 s/f of office and he needs mid-$30s per s/f to start with $40-50 per s/f TI; and the Boston Herald site is 1 million s/f mixed-use development opportunity.

Investment Criteria

Alperin sees a 5-7 year holding period with funds but the holding period has been skewed. In the last two years the holding period has been influenced when projects reach maturity. There are two phases to analyze: How long will it take to create value? How long will it take to reach market value if you hold? Then the investor can decide how long to hold the asset. People want appreciation and are not as interested in the rental market. There will be more turnover of assets due to appreciation growth and not as much holding for rent. But there will be sales to institutional long-term holders seeking a rental income play.

LEED Certification

LEED certification adds $1.50-$2 per s/f on design and actual certification. Some people wonder if the certification label is worth the cost. Some landlords may design buildings along the LEED guideline but not actually obtain the designation. Consumers and tenants are driving the edge in this sector. Corporations think it helps them with consumers who look for energy-efficiency. Brokers are driving the LEED questions via RFPs as well, but in general Alperin is not certain where the drive is coming from. Government agencies, such as the City of Boston, are driving the process somewhat as well by asking that new development be LEED design.

The Chapter wants to thank National Development for sponsoring this breakfast and Jim Boudrot and Ned Leeming for organizing this event.