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Insights from third annual "Hot Topics" luncheon

October 02, 2014 - Spotlights

The New England Chapter of the Counselors of Real Estate recently held its third 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 highlights from the meeting.

David Levy, CRE presented a comparison of the Canadian and US office markets, including players, return targets and expectations. Office is the dominant commercial real estate sector in Canada with approximately 500 million s/f clustered in prime downtown locations in 6-7 major markets. Most investors are institutional owners, many of whom are Canadian and also control developer entities as part of their business model.

Comparisons of returns, vacancy and supply were also reviewed. While Canadian office returns are historically correlated with U.S. office, the Canadian returns barely went negative in the last recession. Given recovery in US office, it is now expected to start to exceed its Canadian counterpart. Low vacancy levels in single digits are expected to increase given additional supply in several major markets - Calgary, Vancouver and Toronto. Major Canadian investors are expected to increase U.S. office exposure given recovering fundamentals and diversification goals.

Don Bouchard, CRE led a discussion on the retail sector and an introduction to 3D printing. While segments of retail real estate in Massachusetts and Southern NH are strong (i.e., Back Bay, downtown, grocery anchored) there are challenges in suburban retail, a trend found nationwide. The number of malls built in the US since the 1960's are bifurcated into good (i.e., Natick, Burlington, North and South Shore malls) and weak. Several weak anchor tenants that dominate troubled malls continue to struggle. Additional tenant bankruptcies and closed malls are expected.

The impact of 3D printing on this current landscape was discussed including the potential additional impacts on supply chain, logistics, tenancies, zoning matters, sales taxes and legal rights. (The 3D topic is rich for discussion and likely the topic of next month's article!)

The last Hot Topic was led by Tim Schlitzer, CRE and reviewed capital markets and how institutional investors view real estate. Tim reviewed real estate allocations and the challenge of maintaining a target exposure to real estate given recent outperformance in the public equity sector. The discussion also included an overview of valuation metrics and rationale, which highlighted that real estate as an asset class appears reasonably priced compared to corporate and high yield bonds, less attractive than stocks and that REIT prices are generally in line with private real estate. Capital flows were also reviewed including transaction activity, debt markets, REIT offerings and foreign capital flows.

Many of the New England Counselors will be attending the National CRE Convention October 26-29 at the Fairmont Copley Hotel. The group will then wrap up their year of Chapter activities with a luncheon presentation by Ken Wilson, CRE, and CEO of Capital Hotel Management on "Trends in

the Hotel Industry" to be held November 18.

Jill Hatton, CRE, is the 2014 New England/Upstate N.Y. CRE chapter chair, Boston and is managing director of TurtleRock Investment Management, Boston.

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