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Portfolio punch for 2019 and 2020 - by David Kirk

December 13, 2019 - Appraisal & Consulting

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Year-end portfolio adjustments for tax, performance and allocation strategies are the logical foundation for tweaking budgets, resetting spending/saving plans for commercial real estate for 2020. Financial media and analysts/accountants focus on publicly traded investments, particularly portfolio funds, performance and tax targets. Public corporations occasionally turn to the real estate to pull a rabbit out of the hat for achieving targets. Timely property and portfolio data collection and analysis, however, supports commercial real estate investment and management with a precision comparable to a traded securities portfolio. Because real estate, except for REITS, carries a liquidity premium, alternative investment portfolios with limited liquidity are more comparable than a traded portfolio.

Real estate fee ownership, however, does offer distinct portfolio strategies that will diversify, hedge and provide a balanced targeted performance. Clearly other alternative investments typically lack this versatility. And other alternative investments are also vulnerable to extraordinary volatility of the public securities markets as well. Steady and stable fundamental economic conditions, including most recently November job gains of a whopping 260,000, and prevailing balanced supply and demand in core commercial markets bode well for year end and for 2020. A continuity for 1Q 2020 in economic trends and commercial real estate markets is expected. Timely portfolio adjustments are easy peasy reasonable.

Commercial real estate offers a variety of further tactics to achieve portfolio returns. Low leverage on one- offs or single properties is a portfolio play. Short-term turns on nonresidential multitenant properties are portfolio plays. Large below-market, triple-net leased fee and ground lease are portfolio plays. Land, parking lots and under improved shells for future development are portfolio plays. Sustained job growth and personal income gains offer a stable and forgiving market place for punching the portfolio for 2020.

In addition to property investments, property upgrades and operating protocols offer a portfolio play. Benchmark with the market locally, regionally and beyond. Some of these onsite actions are capital

improvements. Improved resilience and other risk mitigation, however costly, can enhance competitive and sustainable market position. Maintenance, security and service protocols also can be contributive and even cost effective. Preparing for 2020 with plans, programs and protocols can have portfolio wide impact.

Punching the portfolio is an ongoing effort and enterprise. For 2020, the extension of the traditional economic and business cycle offers expansive opportunities for commercial real estate that were crushed historically by sudden and prolonged contractions in economic and real estate cycles, the perfect storm. Instead, commercial real estate has sustained investment appeal and performance record that will provide a portfolio punch for 2019 and 2020.

Happy New Year and best for 2020!

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