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# Fall CRE Convention: To feel like heaven, wait till 2011!

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The National CRE held its fall convention in Boston from Friday, October 31st to Monday, November 3rd at The Fairmont Copley Plaza Hotel. A record-breaking 205 CREs and guests attended this convention to get answers about the nation's financial turmoil. On October 31st the counselors held its opening session for its members which would serve as a ghouling prelude to Saturday's programs. There were at least 2 Halloween characters in the crowd extending hopes that 2011 will be a better year and bypassing 2009-10.

On Saturday morning the convention kicked off programming with a room-packed "Real Estate Capital Outlook and Investor Response." The program was moderated by our CRE chapter member Jill Hatton with CRE speakers Doug Poutasse of NCREIF and Christopher Jonas, chairman, Henderson Global Properties of London. Jonas started by explaining this was not the time to put your neck on the line. It is very strange times both in the U.S. and the U.K. "Things are not the same" because banks are now in the hands of the government and that is very strange. Jonas said the following:

*Properties need demand from tenants and investors and both need capital. Banks are now broken but not busted.

*The system is broken more than banks themselves as decisions will now be made by the government and that can be dangerous. Banks will eventually recover but when and how?

*Governments, unlike the past, are taking big risks in the U.S. and U.K. and are using taxpayer's money; real risky if they make mistakes.

*How did we get in this mess? Simple, in the past you needed a predictable income to borrow money or a building with replacement value. Cheap financing became available and the risk was understated. There was no homework on income streams and debt was given to anyone buying buildings with no intrinsic value.

*Now there is shock horror; a fall in the money supply and the equity based market actually needs equity.

*Jonas reminded the audience that in 2005, he argued at a CRE convention that commercial properties have a direct correlation between price and rent. In 2005, rents were dropping and values were increasing and Jonas warned everyone to "watch out."

*So in 2008, tenant demand has dropped heavily, rents have slightly dropped and it shows a very serious position. Risk was high in 2005 and now market risk has dropped just like 1998-2000.

Poutasse then gave his overview to the current situation and stated that we are a little blind in the U.S. as compared to the U.K. and the rest of Europe. In 2001-05, people lost track of their fear and now in 2008 risk is back. July 7th, 2007 the CDO markets collapsed and the risk of a credit crunch was then accelerated. During April 2008 the TED spread showed flight to quality and the stability was unprecedented as more liquidity was put into the market. Now it's November, 2008 and risk is back.

Poutasse then gave his thoughts on healing the credit crisis.

1.Slash interest rates

2.Devalue the US currency

3.Recapitalize the banking system

4.Inject value

*This will all take a long time to work. The warning signs for this crisis were present but ignored including the yield curve being inverted in 2006. The inversion historically precedes recessions. Feds tried to steepen the yield curve. Since 2002, the U.S. currency has been weak and the U.S. has been "on sale" thus surging exports.

*Job growth has gone down and almost every state has had job growth decline. People are missing mortgage payments and this is only the beginning. This is unprecedented times and it is taking unprecedented government action. Housing prices are averaging -$2,000 in appreciation and it will take awhile to get these houses through the system. When housing values increase, so too will the retail market.

*Conduits made up 50% of the lending field and now it is shut down for commercial and multifamily properties.

*2008 will be painful. Some REITS will be forced to sell in 2009 as well because properties were not priced to market. Inflation should be much lower and maybe negative. Poutasse, however, was hoping for inflation by 2011 because he thinks it is better for the U.S. than deflation. Jonas then stated that to attract money back to real estate, you would need to see 7-8% returns and that is not happening yet. People are still whistling past the grave

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