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CELEBRATING 55 YEARS

CRE held National Conference in N.Y.C. - March 29th-31st

April 08, 2009 - Appraisal & Consulting

The Counselors of Real Estate held its National Conference in NYC at The Waldorf-Astoria March 29th - 31st. Approximately 200 CREs attended this conference to discuss and be educated on the current economy and real estate issues. The convention was power-packed with absolute insight to this economy from the best in economics and surprisingly everyone had a terrible current state but all were upbeat about the end of 2009.

The two days included a breakfast session with Roger Platt, senior VP and counsel of The Real Estate Roundtable. A general session that followed "Examined the Outlook for Lending." Art Pasquarella, CRE, executive VP and COO of BPG Properties Ltd. was the moderator. The speakers included Jeff Taschler, CRE managing director of UBS; Brian Stoffers, CRE, president of CBRE Capital Markets; Ralph Rose, managing director of Citigroup, Inc. and Mark Wilsmann, managing director and head of real estate portfolio management, MetLife Real Estate Portfolio Management. Anne Lloyd-Jones, CRE covered the hospitality section on Tuesday with Robert White, CRE and Woody Heller covering the capital markets. Dr. Mark Zandi had great forecasting in his economic picture.

Here is a quick conclusion from each program:

*The economy is not even close to being as bad as in the 1929 Great Depression but it is not as good as the 1990 recession.

*Geographically every metropolitan city in the U.S. is in a recession which was not true in past recessions. There are 380 SMSA's all in the recession which is unprecedented. So we are all feeling the pain together. The only city actually expanding is Laredo, Tex.

*There are inklings of some good news. Most of the speakers felt that we would see better times by the end of 2009, probably stay flat in 2010 and then become better in 2011.

*Pricing is going to stay depressed which is great for buyers. But in 2012-2015, inflation will return.

*Market to Market has to go.

*The stimulus package is starting to show some improvements.

*We have to start thinking about the environmental and make a difference with green.

*Financing is non-existent and debt spreads are increasing. Commercial sales are down and large transactions are history. Refinancing will be a boom for banks in 2009 and fees will be made. There is a critical logjam of properties that will have expiring loans in the next 24 months and the logjam has to be resolved or we will see more commercial property foreclosures.

*Cap rates will continue to rise and expect 10+% caps. The days of 5-6% are over. Not many recent sales for appraisers but a couple that have occurred are showing over 10% now. Sellers are still paralyzed but starting to understand the situation.

*There is not a wave of equity being allocated for real estate investments. Fundamentals will remain poor in 2009 and 2010. But there is a lot of equity. Distressed sellers will start to sell in 2009 and the

logjam will be broken. Offerings remain heavy but the monthly ratio of offers to closings is 4.5 and in 2008 it was 0.5%. Buyers are in no rush and very patient as sellers are multiplying. Asking prices are coming down but not as much as buyers expect. As of January, the closing price to asking price was 87.9% while in 3Q of 2007 it was 96.5%.
*Investors today will need to pay cash and are seeking an un-leveraged return starting at 20%. Cap rates to 10 YR T-notes have become irrelevant. They want 15% on debt yield.
*Debt financing, when available will be in the 8-8.4% range with 50-55% LTV, 65% at best. The unclogging of the capital market is necessary. Foreign investors will not be the white knight this time around. Europe is in far worse economic conditions and European banks then the U.S.
*Most buyers in the U.S. have decided to buy more local and not search the U.S. for opportunities. Opportunities are ample however.
*Office rents are cheap for tenants today. Manhattan at its peak last year was renting space over $100 per s/f. Today sublet class A office space is $30 per s/f, gross.
*The Feds are printing money as fast as they can as a stimulus and interest rates will remain low for another 3 years. Will the U.S. dollar weaken? Probably not because other countries are also printing money and printing more than the US. The U.S. dollar might increase in value.
*The Federal debt to GDP ratio is 55% in '09 and is predicted to reach an all time high of 82% by 2019 which is not sustainable. Global investors are looking at this point and contemplating investing in the U.S. with this long-term albatross
*There has been a loss of faith and hope with the consumer. But the good news is that has been the historical pattern prior to an upside. When the consumer confidence increases, it usually signals that the bottom is 2-3 months ahead. Expect the August or September of '09 for that increase.

Robert Nahigian FRICS, CRE, is the 2009 CRE chairman and president of Auburndale Realty, Co., Newton, Mass.