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## President's message: Too early for green shoots?

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When I agreed to serve as REFA's president I had little idea that my term would coincide with the worst real estate downturn since the Great Depression. Like many of our colleagues, I suspected that abundant debt and equity had lowered cap rates to unsustainable levels and values we were due for a correction, but I certainly didn't anticipate the shock and awe of the capital markets debacle, or the severity of its economic impact.

Now the financial panic has subsided, the pace of job losses is slowing, and the drop in housing prices shows signs of bottoming out. There is even talk of "green shoots" pushing up through the devastated economic landscape.

But no green shoots for us, at least not yet. Because commercial real estate is a lagging indicator our industry has yet to experience the full effects of Great Recession. The job losses we have seen - which may total 8 million jobs versus the 1.5 million we lost in the early 90s downturn - will lead to increasing vacancies and reduced rents. Real estate fundamentals will continue to deteriorate for the near term.

As if fundamentals weren't problem enough, the loose underwriting standards and abundant credit of the past several years artificially inflated values, which are now being "re-sized" on a massive scale. Nationally, values have dropped about 30% and many observers feel that the peak-to-trough declines will exceed 50%. On top of this we face a tsunami of refinancings, with \$1.2 trillion in debt maturing through 2012. Given today's stricter underwriting standards and diminished values, many of these loans won't be fully refinanced.

So, is there anything to be happy about?

Well, yes. All of this financial pain and economic distress will lead to opportunity. As we recover from our under-capitalized state and fundamentals bottom out capital will come back, and those with patience will be able to earn out-sized returns, first in debt then in equity. Investors who were active in the early nineties will have a second "once in a lifetime" opportunity to invest at the bottom of a severe cycle.

The timing and exact nature of the future successful investment strategies are not yet clear. Fortunately, REFA members have the benefit of sharing thoughts with the best strategists and practitioners in the business. Our programs can help you discern the contours of the real estate recovery in real time and gauge opportunities to profit from distress.

I am confident that now, more than ever, REFA membership is an investment that will pay dividends (as well as capital gains), and I look forward to seeing you at our fall programs.

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