REIAC
REAL ESTATE INVESTMENT ADVISORY COUNCIL

PRESS RELEASE

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Re: Real Estate Investment Advisory Council
Second Quarter Presentation "Nine Years of Up-Cycle Prosperity; What's Next?"
InterContinental Hotel Atlanta

On Wednesday May 9th, The Real Estate Investment Advisory Council brought together a panel of economic experts for a wide-ranging discussion on the direction of the real estate capital markets in light of an extended economic expansion and development cycle.

A capacity crowd of Atlanta real estate professionals joined together at the InterContinental Buckhead Hotel and were treated to the high-level expertise and experience of:

Sam Chandan, Partner and Global Head of Strategy, Capri Capital;
Chris Marinac, Co-founder, FIG Partners; and
Melissa Reagan, Managing Director - Head of Americas Real Estate Research, TH Real Estate (a TIAA company).

An added feature was the interactive audience voting, in which the Panelists would pose a question to the membership, who would answer via hand-held vote counters. The responses were tallied up, followed by panelists' own perspective and reaction to the audience's consensus. Click here to view the audience's responses.

The presentation started by answering "when is the next recession?" Expert consensus says 2020. The benefits of the Tax Reform Act will have run out by then, and the normal business cycle will kick in.

The US economy has been steadily maturing, as illustrated by a decline in annual GDP growth rates; during the 1980s the GDP grew at an annual 4.1%, and by the 2010s the growth rate had declined to 2.1%. The current economic expansion of 107 months is close to the all-time record of 121 months. It was pointed out that economic expansions don't die of old age; something causes it. The Fed is very concerned about the longevity of the current cycle, but can't say so out loud.

The Tax Reform Act

The panelists don't believe that the Tax Reform Act will have significant impact on commercial real estate, as the economy was already growing at a solid clip and banks are putting out more capital for construction financing. One REIAC member challenged the "no impact" assertion, though, stating that he sees a dramatic uptick in office leasing demand. While the panelists acknowledge some selective increases in office leasing, they pointed out that most of the tax benefits of the recent cuts will go toward paying higher wages for their existing employment base. Corporate occupiers are having difficulty filling jobs due to the near-full employment nationally. But wage growth has a lot of room to grow.

The 10-year Treasury in mid-2019

Moody's predicts a 4.0% treasury in 12 months, with the Fed pushing for two more increases this year. Banks are expecting such an increase. The question really should be "what is the impact on real estate investment?"

The panel believes that property types that are in favor (i.e., class A multifamily) have so many lenders and buyers chasing them that the competition for lending and for buying reduces the impact of rising rates. Interestingly, IRR yields are not anticipated to be generally different than current yields even in light of rising rates.

What are the preferred markets to invest in?

Savvy investors no longer target the Gateway markets (New York, Boston, Los Angeles, San Francisco, Seattle, Washington, DC). These markets are too fully priced, and yields are too compressed.

Instead, the more attractive markets are the Primary cities (such as Atlanta, Dallas, Houston, Denver) and secondary markets (i.e., Nashville, Austin).

Caution, though; investors' primary consideration in looking at non-Gateway markets should be "how liquid is the market if you need to exit as a recession looms." Typical three-year investment holding periods indicate a required exit right around the 2020 recession.

Office Investment

Investors should focus on markets where the employment talent wants to live. Younger skilled labor and tech talent has been showing signs of a desire to move out of the urban core, to a slightly less expensive suburban location (and looking for good school districts).

On co-working space, the jury is still out on WeWork as a long-term survivor. But it certainly has changed how office space is designed and how tech impacts tenants and users. If tech can reduce expensive office build-outs (via open space, not a lot of private offices) then office becomes a more interesting investment.

Retail Investment

Yes, there are some attractive opportunities in retail investment, particularly with suburban mixed-use developments (i.e., Avalon), followed closely by the reliable grocery-anchored centers.

The demographic trends point to lifestyle centers that are suburban but have an urban feel, or are close to transit. Retail needs to be "experience related," not "goods in boxes" that Amazon can deliver. However, there are only so many new restaurants that a market can support.

On-line grocery shopping is not a big impact yet, although it does provide senior citizens the ability to "age in place." Technology helps seniors stay in their home longer, with routine shopping now being delivered to their doorstep.

Multifamily Investment

The clear mandate is "avoid urban luxury, which is overdone." Also, student housing developments are growing at a faster pace than the student population.

The panelists and audience had a lively conversation on workforce / affordable housing. There are plenty of great policy solutions floating around, but no practical solutions. Past solutions were spotty or accidental (i.e., the last Great Recession hit the class A apartment deliveries that suddenly became temporarily more affordable). As well, there is no institutional investment component to workforce housing, since there isn't much profit in it.

Industrial Investment

Industrial is rolling along just fine; there are only a very few examples of localized oversupply. The only caution is that the technology nature of logistics industrial may continue to advance to the point of creating obsolescence in the product type.

Parting Shots

Real Estate's most powerful Disruptor is A.I. (artificial intelligence) and robotics in the workplace, as opposed to global capital and government regulation.

What will shock the economy: Cyberterrorism on the US infrastructure and financial system. A close second is trade skirmishes that turn into trade wars. The US would win a trade war, but would emerge fairly banged up.

REIAC

The Real Estate Investment Advisory Council (REIAC) was established as a nonprofit trade association to provide a forum for the exchange of ideas, concerns and experiences among senior executives who conduct commercial real estate transactions. The Southeast chapter of REIAC was founded in 1994.

REIAC is an exclusive, principals-only national fellowship of top real estate executives that offers superior educational events, networking opportunities and community service. REIAC's institutional quality programs are presented in a social environment where members can share experiences and knowledge with their peers. REIAC events encourage members to broaden horizons and develop personal relationships that further their success within the industry.

For further information, please contact:

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