

Steady As She Goes For 2005 And Beyond: Pierson

by Parke Chapman

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Expect solid rather than spectacular economic growth in 2005. Anticipate promising demographic trends on a longer term basis. Buy into the fundamentals recovery while it's still young, especially in high barrier-to-entry markets.

That was the nutshell message that Cornerstone Real Estate Advisors' Tony Pierson delivered to the Mortgage Bankers Association (MBA) Commercial Real Estate Finance conference yesterday. The convention ran from Monday through Wednesday at the Hyatt Manchester hotel in San Diego.

Pierson -- who has consistently addressed the MBA/CREF conference for more than a decade -- offered a largely optimistic take on the markets. Exceptions included some isolated markets that can't seem to grow their employment base, plus an incredibly expensive retail investment sales market. Pierson reserved his most glowing appraisal for the hotel sector, which has seen revenues and occupancy explode over the past 18 months.

"The hotel market actually benefits from a weak dollar. And it can access multiple revenue generators, unlike other property classes," said Pierson.

The office market isn't performing nearly as well as the hotel market, but Pierson believes that office landlords are about to ride a strong recovery. He acknowledged that concessions in many markets have yet to burn off, and national vacancy is still hovering in the mid-teens.

The good news for office fundamentals is that new jobs will increasingly be created this year. "Most U.S cities are getting back to normal growth now. In fact, 19 major metropolitan markets are growing their economy faster than the U.S economy on average," said Pierson.

Some markets are still playing catch up. According to Pierson, Detroit, San Jose and Hartford are struggling to shore up high office vacancy as their job growth sputters. He doesn't see these markets suddenly turning around, either.

"It's important now for investors to target office markets where rents are below replacement cost," said Pierson. He added that another smart play might involve buying warehouse properties in markets around or above 10% vacancy.

The bottom line, according to Pierson, is that real estate finance is an incredibly lucrative arena to work in these days. Interest rates are still low on an historic basis, the population is growing at a steady clip, and capital flows into the sector are increasing.

"If you're a young mortgage banker just getting into the market today, you have a very bright future. The same goes for older bankers, for that matter," said Pierson.