Forbes
American business magazine
New York, NY
August 16, 2019
https://www.forbes.com/sites/bradthomas/2019/08/16/commercial-real-estate-expert-says-recessions-need-to-be-caused-by-some-sort-of-intervention/#76b7d55b5f3d

| Aug 16, 2019, 07:00am

Commercial Real Estate Expert Says "Recessions Need To Be Caused By Some Sort Of Intervention"

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Investing

Office and residential skyscrapers against bright sun and clear blue sky. Commercial real estate. Glass and metal in urban architecture. High-tech facade design. Modern business city district. Office buildings exterior. Financial city district. Reflections and highlights in glass. Wide angle city photography. GETTY

Editor's Note: The original version of this Q&A was published in the August 2019 issue of *Forbes Real Estate Investor*.

Mark Rose is CEO of full-service commercial real estate company Avison Young, which provides solutions to real estate investors, owners, and occupiers throughout the world. Mark has been with the business 11 years and manages all strategic, financial, and operational activities there. He has overseen Avison Young's growth from a collection of 290 real estate professionals in 11 offices in Canada to approximately 5,000 professionals in 120 offices across 20 countries.

Mark holds a B.A. in accounting from Queens College. Recently, I caught up with him to get his take on today's market and which sectors he currently favors.

Brad Thomas: Mark, thanks for joining us. Let's get right down to business using a baseball analogy. What inning do you think we're in now in terms of U.S. commercial rea estate?

Mark Rose: The baseball analogy is too cliché right now. We're in a long-term, low-interest-rate, high-demand environment. However, if you want to use that analogy, we're at the beginning of what will be an extended extra-inning ball game. Pricing has eased a little, but we're at a pricing top.

Stable-to-declining interest rates, when combined with significant demand, massive allocations to be committed to real estate in equity and debt, and a stable macroeconomic environment will keep cap rates low and keep the (desperately needed) correction away.

Brad: What property sectors are you most concerned about?

Mark: The obvious answer is retail, as it's being challenged by a change in how retailers will use property assets to promote and distribute goods. Many retailers are failing against e-commerce, but those who survive still need to choose showroom space versus product, service and distribution space. Retail-sector pricing is still facing a very negative outlook.

The other sector that's very healthy, but where we worry about pricing topping out, is industrial. Industrial has everything going for it – fundamentals, demand, growth in distribution and logistics – but active development and very high prices are sometimes negative indicators.

Brad: How do you view the capital markets today? Are banks lending on commercial rea estate properties?

Mark: Yes, banks are lending, institutional money is lending, insurance companies are lending, and private-equity firms are lending. There is very healthy demand and equal supply for debt and equity in the current market.

Brad: At a high level, what are your concerns with regard to the next recession?

Mark: Recessions need to be caused by some sort of intervention. They're usually causec by systemic failures or new government regulations or changes in law. This industry has come a long way but is still subject to taking its eye off the ball. Rising interest rates looked like a sure bet and the correction, if not a recession, was inevitable.

Now, the economic data and the Federal Reserve are being pushed around, and stable to lower interest rates will keep the economy rolling. If there is a war or if the tariff battle with China escalates, we'll have problems. And, unfortunately, less sophisticated real estate investors will be caught off guard. Again.

Brad: In what top three property sectors would you deploy capital today, and why?

Mark: Industrial, apartments, and data centers. I'll add a smaller fourth one – memory-loss care facilities.

Industrial is obvious due to demand from e-commerce retailers, and demand for distribution and last-mile logistics. The fundamentals are aligned with the need. Again, I just worry it's getting too expensive. As for apartments, the trends are clear: downtown living for millennials and retirees are driving the market. The eat-work-play and socialize concept is a "thing." Young people are mobile and not interested in buying right away. With that said, family creation and lower pricing for homes in the suburbs are starting to look inviting.

Finally, with three billion more people expected on the planet in the next 50 years, we have a major driver of demand/need. We might need to build a million square feet of housing per day to match population growth.

Data centers drive e-commerce and our insatiable use of cloud-based technology. The U.S. is data-center advanced and, in some places, saturated. But there is huge opportunity globally. Finally, try to find a bed you would put one of your parents in if the suffer from Alzheimer's or other forms of dementia, and you will understand the need. There is less than 1% availability of quality beds specializing in memory care.

Brad: Have you seen benefits related to tax reform?

Mark: Tax reform has been great for the economy and is part of our strength and job growth. It's not specific to any real estate class, or retail would benefit. It's been a very positive influence on optimism and stock-market gains. When equities grow and people are working, real estate is supported and thrives.

Brad: Can you discuss ways in which your company has invested in technology?

Mark: That is a long conversation. We had the benefit of starting out on our growth path in 2008. All our systems are cloud-based and not beholden to legacy. We believe in the technology of the future but must invest in the technology of today to compete. We believe in PropTech (property technology), but artificial intelligence, virtual reality, and augmented reality just do not work yet and cannot be seamlessly tied into systems.

We have what we need – have invested in PropTech – but we're working on a much bigger play for the time when AI will actually work. We've launched a project called Project 2021 and have a differentiated approach to what will be here soon – and who should actually support it.

Brad: Thank you so much, Mark. Let's see what the future holds!

Brad Thomas

Brad Thomas currently writes weekly for Forbes.com and Seeking Alpha where he maintains “real time REIT research on many publicly-listed REITs. In addition, Thomas is the editor of Forbes Real Estate Investor, a monthly subscription-based newsletter. Thomas has also been featured in Forbes Magazine Kiplinger’s, US News & World Report, Money, NPR, Institutional Investor, GlobeStreet, and Fox Business He is ranked as the #1 analyst on Seeking Alpha and he is the author of two books. Thomas received a Bachelor of Science degree in Business/Economics from Presbyterian College where he played basketball. He resides in South Carolina with his wife and kids. Thomas is also on the Advisory Board of the Donald J. Trump Presidential Campaign. **Read Less**