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ASK THE ADVISORS

Each month, the editors of FORUM *pose a topical question to our Editorial Advisory Board members.*

What's your no. 1 prediction for the commercial real estate market in 2015?

This will be the year of the US consumer. Benefiting from instability in Europe and Asia, a continually improving labor market, low interest rates and low oil prices, consumers will see more cash in their pocket to spend in a myriad of areas. In housing, more surplus income, combined with relaxing mortgage underwriting standards, will drive momentum in residential housing. This, along with an increase in apartment deliveries, should take pressure off continually rising rental rates in the multifamily sector. Retail will see a benefit through both increased consumer spending and a slowing of e-tailing as states begin to tax those transactions. Leisure will also see improvements as people are willing to spend on vacations, so long as airlines begin to pass through their savings related to oil prices.—***John C. Petrovski, Managing Director and Head of US Commercial Real Estate, BMO Harris Bank N.A.***

My number-one prediction is that valuations and rents will continue to increase, despite the recent pullback of Russian investors due to the crash of the ruble. The US remains a bastion of geopolitical and economic stability, and global real estate investors love that. Other financing vehicles, including CMBS, continue to increase their interest in commercial real estate. On the retail front, look for healthy sales this year as lower- and middle-level shoppers benefit from the drop in oil and gas prices, and employment levels increase. As unemployment shrinks, look for wages (finally) to start rising, putting even more money in consumers' pockets. Don't forget, we have an election year coming up in 2016, and it's to everyone's advantage to have a strong economy coming into next year—***Faith Hope Consolo, Chairman of the Retail Group, Douglas Elliman Real Estate***

I believe there will be one more year of some of the crazed "chase for yield" keeping cap rates compressed on single-tenant net leased and multifamily assets across the country. As such, some of the biggest players will be sellers to capitalize on what is likely a peak of this boom. I see more traditional real estate developers and investors pulling back and refusing to pay the unprecedented and truly unjustified pricing demands on the excuse of low interest rates alone and without regard to fundamentals. I also see the ugly head of taxation realities beginning to hit from local municipal, state up to Federal.—***Wayne D'Amico, CCIM, President-Wayne D'Amico & Co. Inc.***

Commercial real estate will experience a "moment" in 2015. Interest rates cannot go lower and liquidity and demand are at an all-time high. It is time for a pause and a re-pricing of assets and related fundamentals. I am not talking about a collapse or a recession, but a natural adjustment that comes from challenges (i.e., oil) and disruptions (terrorism) in the marketplace. I believe interest rates will rise in 2015 and, with additional supply, we are set up for a short-term correction.

Longer term, whether you are a tenant, owner, investor or lender, we see four factors that warrant serious reflection: long-term level of demand for real estate as a core or alternative investment and associated allocation shifts; the obsolescence of certain types of real estate as the pace of technology adoption increases; shifting operational and locational considerations driven by changing demographics, urbanization and transit; and shifts in global monetary policy decisions, commodity pricing, interest rates and inflation.—***Mark Rose, Chief Executive Officer, Avison Young***