

Spring Virtual Conference Highlights

The BOMA PSW virtual conference in May offered members valuable insights for our region. **Henry Chamberlain**, BOMA International President and Chief Operating Officer, shared ways that BOMA continues to remagine and reinvent. **Alexander Quinn**, JLL's Senior Director of Research, Northern California, gave a presentation about the banking crisis and CRE. Some key takeaways:

A Time to Reimagine and Reinvent (from Henry Chamberlain's remarks)

BOMA is growing! BOMA's global reach is increasing, and a 4% growth in membership is expected this year.

Advocacy Initiatives: As a pro-business and non-partisan association, BOMA focuses on legislative issues such as: the STORM Act aimed at making buildings more resilient, the Airborne Act that would give tax credits for indoor air quality and other improvements, and the Small Business Energy Loan Enhancement Act.

Industry Defense Fund for Local BOMAs: BOMA International provides funds to influence local and state issues like the repeal of property taxes in California, real estate transfer taxes (BOMA Greater Los Angeles) and stormwater issues (BOMA Hawaii).

Thought Leadership: BOMA International offers a wealth of resources on its website, including policy briefs, Deep Dive publications, a decarbonization resource center, and webinar recordings. The BOMA Weekly digital newsletter covers breaking BOMA and CRE news.

Workforce Development: As Boomers retire this is the #1 issue that people are focused on, and BOMA is putting resources behind it. BOMA's Career Center offers information for emerging professionals, DEI programs that aid in workforce development and recruitment, and more.

BOMA & BOMI: BOMA and BOMI are now under one roof. This unifies resources for training — a powerful retention tool. BOMI offers certificate programs as well as individual courses that may also be applied toward the RPA (Real Property Administrator). Both online, self-paced and in-person classes are available.

BOMA Best: Bringing BOMA Best to the U.S. will benefit BOMA members and their tenants. Broader than BOMA 360, BOMA Best competes favorably against LEED without companies having to hire costly consultants.

Banking Crisis Meets CRE (from Alexander Quinn's Presentation)

Macro Overview: The Federal Reserve is employing its most aggressive rate increases in over 40 years to combat inflation. Local and regional banks accumulated significant deposits post-pandemic. Unrealized gains/losses on investment securities for banks accelerated upon Fed rate hikes.

Recent bank failures, acquisitions and what to watch: The failed Silicon Valley Bank (SVB) did not have a large share of real estate in its portfolio but was the banker of the start-up ecosystem. The majority of companies with revolving lines of credit with SVB were in the information technology, followed closely by healthcare and B2B companies.

Implications to CRE: Small banks, which lend a lot to commercial real estate, will be more conservative. Regional banks cut office lending after bank failures. Liquidity slowed precipitously in late 2022 and early 2023 as debt market volatility challenged deal-making. Large-scale transactions have declined sharply due to difficulty in financing. In addition, office loan delinquency rates are still near 10-year lows but have started to move upward. A wave of looming office loan maturities with limited refinancing options will catalyze forced sales and distress.

What is needed for a meaningful CRE capital markets recovery to set in? The Fed has to signal that interest rate increases are stopping. Loan spreads have to stabilize. Investors' risk premium around inflation risk must not worsen. Large money center banks have to return to the market. More clarity has to emerge around hybrid work's impact on office demand. Core funds' valuation markets need to reflect realty

Additional points: Institutional investors' target allocations to CRE continue to increase; surge in private wealth globally provides untapped capital for future investment. We've likely passed peak inflation. Economic growth is slowing, not collapsing. Private real estate returns have consistently outpaced fixed income assets.