TRADEMARK 2.0

2020 PERSPECTIVES

Interviews with 29 real estate industry leaders in retail, multi-family, office, capital markets and investment management.

INTRODUCTION

As a valued partner, client or friend, I'm happy to share with you a portion of our internal Trademark 2.0 research project, the industry interviews. Over the past few months, I have interviewed 29 leaders throughout our industry including:

- private and institutional real estate investors
- public and private retailers
- office, multi-family and mixed-use developers/ owner-operators
- retail consultants
- real estate capital market advisors
- retail and workplace operating and innovation consultants
- investment sale brokers
- academics and economists
- retail industry analysts

Our conversations centered around COVID and the COVID recession's impacts on all mixed-use property types, as well as the future of retail, multi-family and office, and how to pick winning markets and properties. We also discussed types of properties to invest in and avoid going forward.

We hope you find these different perspectives to be as helpful as we have. In the coming weeks we look forward to sharing more from our research project and engaging in some robust discussions with you.

TERRY MONTESI
Founder | CEO
Trademark Property Co.

SOME OF THE COMPANIES WE TALKED TO:

- Acadia Realty
- Bayer Properties
- Billingsley Co.
- Champion Partners
- Cushman and Wakefield
- Future Perfect
- Granite Properties
- Hall Group
- Heitman
- Invesco
- JLL Capital Markets
- Lasalle Investments
- Myers & Crow Co.
- Newmark Knight Frank National
- Nordstrom
- North American Properties
- Open Realty Advisors
- PCCP
- Pegasus Ablon
- Peloton
- Sandstad Group
- Seritage
- Stonelake Capital Partners
- StreetLights
- Telsey Group
- Thackeray Partners
- Walker and Dunlop
- Wein Plus
- & Multiple Family Offices

INVESTMENT TRENDS

Quality developers will need liquidity. Large investors have dry powder and want opportunistic returns. Growth in jobs and population, bias toward education and jobs overweight to South East plus Denver and Texas. Mixed-use development has a huge rent premium. The exit is the issue because of size. If you could separate ownership or capitalization, that would potentially help liquidity. The operating partner is more important than the capital today.

MANAGING DIRECTOR
RE Private Equity Fund

In looking at suburbs versus urban areas, you have to wonder if mixed-use is out of place in suburbs and if the phenomena are still valid? The luxury condos often included in mixed-use developments have become increasingly popular since COVID-19.

I strongly feel the urban gold rush is going to slow due to the low quality of the urban school systems. As millennials age, they will move to areas with better school systems. With this and COVID-19, I see substantial tailwinds for suburbs.

FOUNDER | CEO
Mixed-Use Investor • Developer • Operator

Going forward, how do you finance and underwrite retail? Tenant credit is hard to underwrite. Where does experiential go in the future? What retail strategy works going forward? Retail takes more manpower to asset manage. The desired size of mixed-use will shrink and it'll be all about density of the right people.

MANAGING DIRECTOR
GlobalRE Investment Manager

Klyde Warren has a huge impact on property values, big premium to be park side.
Hotels are brutal to develop; the hardest of all. We are doing one as an amenity. There is no financial logic.

FOUNDER | CEO
Office • Hotel • Multi-Family Developer

Retail is the most difficult product to master. Multi-family is much easier. The biggest amenity for office and multi-family is retail within walking distance.

FOUNDER | CEO
Office/Multi-Family/Mixed-Use Developer • Operator

INVESTMENT TRENDS CONTIN.

I like separate mixed-use districts. Culturally, DFW is still more autonomous in thought. How does Galleria work vs. NorthPark? Which is a pure retail place?

Approach to doing multiple product types: I decided I wanted to contribute to one place – Dallas – and I wanted to do it super well. I only touch what I understand. It took five years to learn multi-family by myself. I am a placemaker. We focused on six neighborhoods in the US after the financial crisis using five criteria, one of which was walkability. Focus on the location and the submarket!

I like adjacent mixed-use. Keeping the uses separate, silos the risk and increases financing options. Multi-family research misses out on a lot, so I do my own research. I like doing high intensity one-offs and not trying to scale like crazy. I study what's been done, what works and what fails.

FOUNDER | CEO
Mixed-Use Investor • Developer

All uses in mixed-use benefit from the others. I think retail is by far the hardest product type to be successful at.

I like mixed-use and wouldn't build any product type in a non-amenity rich, walkable environment.

MANAGING PARTNER
Capital Markets Advisor

The mixed-use buyer pool has grown, but it's not as big as if sold separately. Multi-family capital usually goes to the multi-family. Integrate co-working into the project so residents can pay a fee and work attached to home. Be cautious as to what you program and target a demographic to go after. Renter by choice vs. younger more transient. Considerations: external gym, shared lobby with co-working, ride-sharing, lounge with refreshments. Boutique hotels lead in amenities, vibe and services.

SENIOR MANAGING DIRECTOR, MULTIHOUSING
Capital Markets Advisor

INVESTMENT TRENDS CONTIN.

Other uses benefit more than retail from placemaking. Create community and deliver experiences. The goal is to create an environment that makes people feel good. That was the shift in business.

A year ago, we decided to pull the plug on a retail dominant mixed-use and moved toward investing in value-add office and retail properties.

Building multi-family and redoing an building office is much easier than the ground-up retail pre-leasing and construction business. We will do ground-up multi-family with a little retail.

CHAIRMAN
Mixed-Use Investor • Developer

I like needs-based mixed-use.

There is lots of pressure on housing. Starter homes are harder and harder to qualify for. Down payments are hard to come by. Rental housing of all types is very interesting.

FOUNDER | CEO
RE Operating Company Consultant

Our fund was once at 24% retail and is now at 17% because of devaluations. We think it will go to single digits. Our view of retail is shrinking demand and existing oversupply with uncertain and increasing CapEx needs going forward.

Institutions will have to re-invest in retail properties before exiting, which we think will be orderly and not dumped on the market. Malls are so illiquid that institutions will have to sell their outdoor properties.

SENIOR VP | PROCUREMENT SPECIALIST
RE Investment Manager

Problem: the investor market usually doesn't want to own both (multi-family and retail)... keep them separate from a capital standpoint. Without retail amenities, you have to spend too much on in-house amenities.

MANAGING PARTNER
RE Private Equity Fund

INVESTMENT TRENDS CONTIN.

Legacy opportunity funds have gotten hammered. There will be a staggering amount of distressed hotel opportunities over the next 12 months. Now will be a great time to ask for entitlements.

Retail allocation has gone down as retail valuations have. It'll be hard to underwrite retail over the next 6-12 months.

Mixed-use opinion: the size is going to shrink. Tough to replicate is good but on a smaller scale. Income and population density (of the right people) are the focus. Smaller scale for a while. The challenge will be scale, large retail on great real estate. Size range is $100M the largest. Has to be exceptional.

Malls: big opportunity funds. Single asset securitization. Cash flow the deal.

MANAGING DIRECTOR
Global RE Investment Manager

The top 30 markets have credibility to do smaller, more customized mixed-use that is non-formulaic. I think this makes the most sense.

I suggest going slow and focusing on markets along with urban and urban infill areas. I would focus on the areas right outside urban areas.

FOUNDER | CEO
Mixed-Use Investor • Developer • Operator

Retail is in the center of the storm. 250 malls will survive in the US, and the survivors will be stronger than ever.

Retailers and retail: rents will go down, and we'll have more performance-based rent structures.

E-commerce and the coronavirus have created an opportunity: there will be more opportunistic capital than operators to execute it. Retail at A locations, in A markets will need less retail square footage and will need a strategic plan to right size the retail and add other uses.

Institutions: institutional investors- next appraisal cycles will be really interesting. They will be more likely to feel like they need a real expert operator, and allocators will be losers. There are more acute eyes on allocators, so they will want experts.

SENIOR MANAGING DIRECTOR
Capital Markets Advisor

INVESTMENT TRENDS CONTIN.

We have decided, that if we are investing in the ground plane-amenities, users and mix, public spaces – we have to participate in the value above (multi-family, office, etc.) Users now require great amenity-rich, walkable environments.

CEO
Retail • Mixed-Use REIT

Everything we knew was going to happen has been accelerated.

The human condition hasn't changed. We want to be around each other and socialize to be validated.

Mixed-use challenge: maybe there is just one thing, life. Live-work-play in the same place. Home is becoming the office. Go downstairs and work then go back to the house.

"Integrated-use" is the future of mixed-use.

Starting from scratch: if you invented the new place to work, would it look like a traditional office building? No.

Each use in the mixed-use environment is flawed. Office is 4X overbuilt. There are three trends in the shrinking office:

1. Collaborative space design. In 2010, the average was 225 SF/person. In 2017, it was 151 SF/person in the US. Now, it's moving even lower. We have less offices and more people closer together. Now, we won't expect people to come to the office if they don't need to. Tech has enabled this, and COVID-19 has accelerated it. In the future, we'll have agile working and a new collaborative approach. Research shows the closer you are, the more ideas you share. We'll see less large corner offices and more meeting spaces.

2. Corporate disaggregation: companies don't need to own everyone. They can outsource a lot of things. There will be more freelancers. 35% of our workforce are gig/freelance workers. Less employees will be needed, and freelancers don't need permanent office space.

FOUNDER
Retail and Workplace Innovation Firm

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INVESTMENT TRENDS CONTIN.

3. Gig mentality aka “the company works for me”: those workers want flexibility. Pre-COVID-19, 70% of American workers worked remotely at least once a week. This foretells a pending office market crash. Major oversupply and a lot of the wrong space. Current supply is built out at 200 SF/person, and if half work at home, we are 4X overbuilt. The in-demand office will be the new high-tech healthy office. A totally different model will be developed.

Coming Forces of Change:

1. Working from home will be the new normal. Going to the office will be a once-in-a-while thing. This will be good for smaller communities.

2. Physical institutions like gyms, yoga classes and cinemas will have to be re-invented. Peloton is trying to steal the gym business.

3. Online will become the default for everyday needs. For working, shopping and video calls, over travel.

4. Automation will take over. Driver is the #1 job in the US. What will autonomous cars do to that? Factory workers, same thing. AI is already 3X more likely to detect breast cancer than a doctor.

5. Health and wellness and disease prevention. There is a huge business opportunity, and COVID-19 is accelerating this.

6. Prioritizing safety in everything we do. This will impact everything.

7. Personal touch will feel dangerous for a while. This will impact design. For example, we’ll see individual seats over benches.

8. Increased craving for personal connection. How do we connect people and make them feel safe? The absence of physical touch increases stress. Loneliness is as unhealthy as smoking 15 cigarettes daily.

9. AI and data will continue to drive disruption.

10. Gen Z will be a new revolutionary force, and they will soon be a third of the population. They have an uncompromising commitment to ethics, diversity, and sustainability. They are watching business like a hawk. The sophisticated brands are focused on this.

11. Business transparency and sustainability are increasing in importance. Blackrock has installed solar roofs on all their multi-family projects and has gotten a payoff via higher rents.

12. 5G is coming fast. It will bring entertainment and experience with people on their mobile devices in 3D wherever they are.

FOUNDER
Retail and Workplace Innovation Firm

INVESTMENT TRENDS CONTIN.

What's the exit on malls? Power centers are going the way of the mall. Under-retailed infill areas that are void of what's cool. Build places people want to be. I love Asana's strategy, which is the idea that scarcity and cool drives value and rents. The Union sold for $780/SF for this reason. You have to add energy to a district or create one. Office users are all looking for walkable urban amenities.

DIRECTOR
National Capital Market Advisors

There will be huge opportunity post COVID, and we have investors interested in mixed-use, including densifying existing retail projects.

PRESIDENT |
PORTFOLIO MANAGER
RE Investment Manager

Platform investing lessons learned:

- Invest in the team, not assets or even a sector or thesis.
- The 3 Cs: culture, chemistry and communication all need to be aligned between the investor and the operator.
- Alignment of interests is super important. Avoid a structure with a lot of preferred equity. Accruing a big preference de-motivates management. We like common equity, so everyone makes money at the same time. I want management to make a ton of money. We started in 2011 when few were investing in platforms and those that did had a preference model. You have to get the governance right. The investor has to be a strategic partner and not micro-manage the business. We gave developers access to strategic capital. We have always wanted to find the lowest cost project capital. We always use some outside capital. At first, we were the capital for 20-30% of our deals but not anymore.

Looking forward: it's old school. Location is everything. I'm a big believer in mixed-use. A developer we use started transitioning to mixed-use 8 years ago, and is now focused there.

Trademark's thesis is a really good idea. Good retail that needs to be right sized and have multi-family integrated. The internet can't disintermediate experience. To widows and widowers, the grocery store is his big social activity. Work from home will change things. People will leave mass transit dependent dense MSAs.

CHAIRMAN
Large Family Office Investor

ECONOMY & RECOVERY

When it comes to state and local budgets, states with too much debt will lose business as they raise taxes. Same goes for Federal.

CEO
Office Investor • Developer • Operator

Dallas will benefit from this long term.

CEO
Office Developer

Nashville raised property taxes 33% last week. This will be a big issue.

DIRECTOR
University RE Institute

It will be a long recovery until there is a vaccine.

MANAGING DIRECTOR
RE Private Equity Fund

The consumer's appetite will be heavily tied to unemployment. This will be with us well into 2021. Some tech companies are not working in the office until 2021. This will translate into retail behavior.

FOUNDER | COO
Commercial RE Strategy Firm

In recessions, if migration happens, multi-family construction slows and more people rent vs. own. It's a good time to add multi-family. The internet has made us miss each other. Though, some executives have now said they don't have to travel as much going forward. With Zoom, they can work from home some.

FOUNDER | CEO
Mixed-Use Investor • Developer

MULTI-FAMILY

In multi-family, create the place and ethos, but use 3rd party for management to be nimble.

MANAGING DIRECTOR
RE Private Equity Fund

I feel really strong about multi-family as an investment focus. For the prior generation, success was a bigger, fancier house. The younger generations want experience, the sharing economy, flexibility, and the ability to travel. They have less motivation to own a house. Multi-family is a type of sharing economy – shared amenities, walls, common and green spaces. It's hard to conceive how it would go wrong. There is a trend toward amenities that everyone uses – not gyms, pools or computer labs.

Class A multi-family is the most secure of all income streams. I like single family rentals too, but land price is an issue.

FOUNDER | CEO
Private Multi Product Investor

We are building multi-family and will sell it. These are better holders of those...we will accept very low returns. The development business has gotten super competitive lower margins, prices up.

FOUNDER | CEO
Office • Hotel • Multi-Family Developer

Most capital wants to invest with those that can do it in-house. The multi-family market is good, but there is a lot of competition. That said, there's always capital, debt and tenants. It's always speculation, but it always fills up.

Multi-family tenants want retail amenities; it drives rate and retention. Developers of urban multi-family and mixed-use communities invest in quality and design. Both are right. The key is to just be better than the competition in execution, programming and service level.

The Craftwork Group has created a concierge experience with liquor and snacks and ability to run the coffee service. Tenants pay for some things and get others free, like a limited service hotel. Multi-family is the least risky always!

MANAGING PARTNER
RE Private Equity Fund

MULTI-FAMILY CONTIN.

As a multi-family developer, we budgeted to start eight projects this year, and it may only be two. All capital has gone to the sidelines, and everything has paused for a few months. Multi-family is the one product class where developers are very open. It's all speculation so there is transparency.

They have hunters and skinners. Skinners don't network and find the sites. The skinners are more technical. High-level skinners do market research and understand it.

Key Lessons:

1. Pitfall, pursuits, right structure with equity partner. They get one in early to share in equity money and design costs.

2. There is a common area amenity race. Location is the #1 amenity. If the property is in the right location, you may not need the amenities. The norm is to build 8-9,000 SF of amenity space. In Atlanta, that's double and the units are plainer. We are doing the opposite. What's worked for us is putting money in the units – cabinets, appliances, showers (a $1,500 upgrade!). Amenities, pool is #1. We like co-working spaces as an amenity if outside folks operate it and fitness most of the time. Can partner with a gym and prepay.

CO-FOUNDER | PRESIDENT OF DEVELOPMENT
National Multi-Family Developer

We got into multi-family in late 2010. There is much less friction and you capture the value. I enjoy the multi-family business and think it is much easier than retail or mixed-use. Trademark has the soft side skills for it. We hired one person- a Gables and Worthing person. He was a 40ish technically competent, hands-on guy, not a promoter, branding person or experience making person. He brought in a leasing person and built his team to build, lease and manage. All nine of his properties have sold for a record price for the market.

Trademark's experience is very transportable to the multi-family business.

I use researchers to validate, not lead, our multi-family design.

CHAIRMAN
Mixed-Use Investor • Developer

MULTI-FAMILY CONTIN.

Historically, multi-family had smaller margins than retail. In multi-family, you have to be more careful on spending. The first 10 years we did multi-family, there was no inflation. We've been in multi-family for 20 years. We approached it very different than production builders. Every property is unique – the architecture, the community, and the amenities. If you use brick, for example, costs are higher, but we learned that we should have spent more on interiors; they're more important.

Exteriors create longevity. People can only spend so much. Do the basics beautifully. We do no extra services. Costs have been going up. Multi-family is steady as she goes. It's all about maintenance and understanding life cycle. When we have needed liquidity, we have sold multi-family because of low cap rates and liquidity compared to office.

Pets are a big deal; 50% of residents have animals. We have dog parks at all of our multi-family projects.

Trends: demand side, what residents want, what part of the market do we want to serve, AC and greatly improved corridors, and security in all their buildings now. School district is a big deal.

At one multi-family, we have a sound stage. We're all about creating a cool place people want to hang out, with the activities and programming to support that.

FOUNDER | CEO
Office/Multi-Family/Mixed-Use
Developer • Operator

Now is a good time to add multi-family. I believe we will have a bad shortage in DFW soon. More people will rent going forward. Most people had very little money saved, so I think free-standing rental houses will be a big deal going forward. My multi-family approach is to grab 'em in the first 15 minutes. This fulfills my desire to be who I want to be.

Sectors:

1. Multi-family 275 tenants, so no tenant dictates anything or has a lease longer than a year. This can be successful if you have a great location and thoughtfully underwrite the market to give the customer what they want. The anchor is the place, not a tenant.

2. Mixed retail and multi-family. This is the hardest. All institutions like it at first, but almost all ↓

FOUNDER | CEO
Mixed-Use Investor • Developer

MULTI-FAMILY CONTIN.

investors have limited capacity to understand the mix. The location, the district and the mixed energy are the anchor. The brand, public space and placemaking hasn't connected with investors because there is no good comp for 1+1=2.5 for them.

3. Multi-family adjacent to retail, not stacked. This is my favorite. Banks are trailing indicators. REAs and shared garages are hard for institutions.

FOUNDER | CEO
Mixed-Use Investor • Developer

Trends – more amenities, smaller unit size, gyms, pools, game rooms. National call, trend may move toward bigger units and less amenities. Touchless technology. De-densification move, stay at home more.

What is different post COVID?: pet station, no pool, safe amenities. Home offices will be at a premium.

Hanover was one of the first to do big units. The average was 875 SF, and he pushed to 1,300 SF. In high-rise lease ups, the first units to go have been the largest/most expensive and the smallest. At 2,000 SF and up, the hardest were large one bedrooms and smallest two bedrooms.

The mixed-use buyer pool has grown. Not as big if sold separately. Too many developers try to appeal to the entire market. Instead, you should focus on a target market.

Pay attention to integrating a grocery below multi-family. Many tenants have complained about beeping trucks, noise and smell. Tom Thumb in the Union has worked better. Study the good and bad analogs.

SENIOR MANAGING DIRECTOR, MULTIHOUSING
Capital Markets Advisor

MULTI-FAMILY CONTIN.

There is no reason to sell off multi-family at Trademark projects ever again.

I like what Urban Genesis is doing in Houston. They are building low amenity multi-family in smaller buildings (75-125 units) in walkable amenity rich areas. The area serves as the amenity, which saves the money on pools and gyms. This will work even better post COVID. They have nice units and more mature renters who don't care about a pool. At WestBend, the trail and retail could be the amenity.

Hanover: Dumbell is happening. Small and big units are working bests. The mid-size units are oversupplied. In Hanover's Kirby deal, the top 10 floors average 2,500 SF; they're condo replacements. I have really only seen multi-family fail when timing killed it.

MANAGING PARTNER
Capital Markets Advisor

I like multi-family land because it will win demographically. More people are renting. I really like purpose-built, 100 unit housing for rent. 1600 SF with yards and you rent them. Every income band has a higher propensity to rent. Multi-family is a lot less volatile of an income stream; it's the most predictable revenue stream.

A wrap deal isn't rocket science. You can still develop to a decent profit margin (6.5% yield and sell it at 5). Its low capital cost and a predictable, simple business model.

I love our garden deal. It's one mile from product that's leasing for much higher, and it's a more livable asset. There is a high return relative to risk for both investors. I'm a contrarian: there is too much amenity rich product. It's been overbuilt. The units are getting small, and it's not livable long term. It pushes you into a younger demographic. I like the McKenzie. It has large units. The one-bedrooms didn't work as well because high income folks don't want the small units.

Jeff Courtright would say the same thing. He teaches at SMU and tells the students he hasn't lost money on multi-family. He really likes the multi-family in a mixed-use environment. But, you should only do it with long-dated institutional money or risk free, for a fee with upside. You need to be able to peel it off.

CO-FOUNDER | CO-CEO
RE Private Equity Fund

MULTI-FAMILY CONTIN.

Some of the key lessons I learned involved how every project is different than the one before it. It's best to be opportunity driven and not formula driven. I've always been able to learn and fill niches that others weren't seeing. Simply competing with or out maneuvering another competing developer never worked. I started my career developing 25,000-35,000 SF retail strips, and I sort of wish I had stuck with that plan. I still own several that cash flow well. What works is that there are always local mom and pops to fill those, as all are unanchored. There is too much Food & Beverage, and pre-COVID-19, it was doing okay, but I think they over saturated the local market. Apple is about to open. The first hotel just opened, and we found that it was hard to change the traffic patterns. Whole Foods is doing well.

Based on my experience with multifamily, I think Trademark is smart to build its own group instead of being part of a joint venture with others, as I have found the lack of control of speed and quality as a problem. My partners always received a premium upon exit, and I feel like we made the multi-family better and made them a lot of money.

FOUNDER | CEO
Mixed-Use Investor • Developer • Operator

I like Westwood. They have a small team, low overhead and outsource architecture, contracting and management. I want needs, not wants. Multi-family will always be there; people will always need it. You don't need to spend as much on amenities in these environments. The retail and mixed-use is the amenity.

Secrets To Making Money:

1. Don't try to do too much.

2. Design is critical. Have a great multi-family architect.

3. Be super cost conscious. Suburban low cost is one strategy. $150k/door in McKinney recently. Could make a 1.9 multiple, 7% YOC.

4. School systems are critical.

5. Robert Shaw model (Legacy, Domain). Build a good affordable product in great locations with low overhead. He started the multi-family move in Uptown.

6. Focus on floor plan and function.

Problems To Avoid:

1. Quality control/oversight over construction

2. Unrealistic on rents

3. What amenities do tenants want? Location, location, location. Have equity that allows you to reset rents and not sell in 2-3 years. Keep some great ones and sell some.

FOUNDER | VICE CHAIRMAN
Capital Markets Advisor

OFFICE

Office landlords are killing themselves spending on amenities and services to differentiate. Tenants are paying for that today. Office landlords never seem to have leverage.

Post COVID, more people will work at home. There's a generational factor. Younger people can work on their laptops with headphones, and many don't want to be tied to an office. Lots of things will nibble at the heels of older office.

CEO
Office Developer

Post COVID, I like the idea of smaller office buildings with small lobbies in walkable environments and not big buildings with a ton of tenants.

MAGING PARTNER
Capital Markets Advisor

Unique product in a great location that ages well and you can raise rents: those are good core assets.

A smart guy told me: every six months, rate your properties and sell the lower third every year. Cut the underperformers early. Keep collecting outside perspectives and always be re-defining your model. The supply can always be measured.

I have found multi-tenant office is much easier to finance than single tenant.

FOUNDER | CEO
Office/Multi-Family/Mixed-Use Developer • Operator

Big companies will likely spread their office centers around, add suburban sub-head offices, and have some portion of their offices as flex office.

CEO
Public National RE Service • Development Firm

We've built three office buildings in a district where TI and parking makes them hard to pencil. Rates in second-tier markets are too low, and in my buildings, 3-5 year leases add a ton to the risk. I think remote work will continue to grow in strength. Rates in second-tier markets are too low, and in my buildings, 3-5 year leases add a ton to the risk. I think remote work will continue to grow in strength.

FOUNDER | CEO
Private Multi Product Investor

OFFICE CONTIN.

I like the office business better than the multi-family business (in live-work-play places). We are building a park as big as Klyde Warren. We're tearing two buildings down and replacing them with a park and tall office buildings in the future. We make money when we refinance every 5-10 years.

Office headwinds include high costs, and the fact that tenants like new and shiny better than old and economical. Tenants are cramming folks in newer buildings for HR/recruitment purposes. New buildings are full, yet old buildings having trouble staying full. Amenity rich and new is where it's at, but it's expensive to execute. It is 100% my belief that trend won't change. We're putting food halls and F&B in.

FOUNDER | CEO
Office • Hotel • Multi-Family Developer

Texas has old office stock. Companies will pay more per square foot if they can be efficient – larger floor plates, hoteling, space sharing, etc. In Houston, we're just finishing an office building with large floor plates that enables tenants to rent much less space and pay more per square foot. Tenants are all about HR and retention. Rent is unimportant; image and amenities are everything.

MANAGING PARTNER
RE Private Equity Fund

KDC is an example of a pure play office developer that has ended up in the mixed-use business because all users want to be close to amenities. The background story is that KDC was following Corporate America. During their first 22 years, they built low rise in the suburbs. They did 1920 McKinney with a restaurant on ground floor, begrudgingly. Then, Legacy West happened. It was big corporate campus...no one left during the day. There is a flight to quality. Rent is less important than payroll/HR/hiring and tenant retention. Look for great sites in great markets with great labor pools. New construction rent is now $45-50/SF, but we are confident people will pay if there is art, music, F&B, public space, and hospitality infused into everything. There will be no more stand-alone office.

PRESIDENT
Large Family Office

OFFICE CONTIN.

We'll see some office parks demolished and densified. One mixed-use center has 108,000 SF of creative office, and we used local leasing folks as advisors. There, the brand is what sold. We got $10/SF above market.

The office market is all about HR, hiring and retention. Our mantra is that the building is not that important. It's all about the place and the vibe. Our value proposition is the place, the amenities and the service level. To recruit, retain and engage the best talent, you have to deliver a better lifestyle. It's working super well at condominiums, which was an old 750,000-square-foot office project. A large tech firm just signed a lease at $15/SF more than the last lease there. It doesn't require a ton of retail. You just need the soft skills. We're trying it in an Addison-like market.

CHAIRMAN
Mixed-Use Investor • Developer

Core office today means office in an amenity-rich, walkable environment. Office space in the right place more than just large office buildings. I don't think we will need less office. We already had hoteling, work from home, etc. It's not really a change, it's just what was already happening, accelerated.

Don't invest in commodity properties. At a WeWork building, I hired a boutique hotel designer to do the lobby. You feel like you are at home.

COVID-19 will change the plan and the details but not the strategy. It highlights our human need for safety and security.

FOUNDER | CEO
Mixed-Use Investor • Developer

It's hard to find sites to build office in walkable areas. We had to manufacture one. So, office in retail locations should be an interesting model. I love it because very few folks are building office in walkable, amenity-rich environments. The Domain is a great example.

OFFICE CONTIN.

I am betting on work from home increasing. But, the higher the wage, the lower the likelihood for work from home. Big companies will lose 10-30% of density. Amenities will be used less in the short term, but usage won't change long term. Touchless technology, air quality, easy in and out, health-centric design is here to stay.

AI and other technology will decimate rote jobs. It's all about the knowledge economy and creative class. It's about quality and amenities. Location is a part of the comp package. Real estate is a part of HR. Young workers are spoiled; they have high expectations. Ground plane energy, outdoor environments, hotel as amenity for office (particularly in corporate office) are all important. Our property management group is now called property experience. The customer has changed. It used to be the office manager. Now, it's anyone who walks in. Smart building stuff is table stakes. Now, its tenant app and access control; everything on your phone.

Also, less parking. 50% of our people are in the office any given day. In our study of our 50 buildings, peak need was 2.6/1,000. The focus on sustainability is helping. Parking systems allow less parking because they give data about actual usage, both per car and per business. It limits tenants to their contractual usage.

Two-thirds of your return comes from appreciation, not cash flow. Outside of NYC, you can't afford to hold long, long term. You have to get to the appreciation, for a 12 unlevered. Years 1-7 you make a 7 cash on cash and after, CapEx hits you hard.

The two most important things are great real estate and conservative leverage. On one mixed-use project we broke ground in 2008 and opened in 2010. The forecast was 5-year 17%+ IRR, and it ended up being 8-year 14% IRR....but with conservative leverage. We did free rent deals early on with credit, bought up big rents and sold it at a good number.

Investing: most 1980's buildings will be fool's gold and can't be fixed, so I'd be super disciplined, unless the amenities and location are so good it makes up for it. When it comes to existing buildings, you have to ask, who's the customer? What can we fix or change to make this a competitive building? $170/SF cost, $50/SF in... what is the return on cost? 8+. 13-16% IRR. 5-year hold. At least a 1.6/1.7Multiple.

Trends: co-working is real, not a fad. It provides a flexible term, just-in-time space and community. Companies will pay for it. 15-20% of the office world is headed there.

PRESIDENT | CEO
Office Investor • Developer • Operator

OFFICE CONTIN.

We use all third-party folks (clients) to keep up in the info flow. There is less upside in our business going forward. Our model is buy, renovate and sell. 60/65% debt. 5% of the equity. $1-1.5M per deal. Non-recourse debt on income deals. Better than 10%.

The gap between interest rates and prefs are huge...9% prefs.

Office gets a lot better if there are other amenities. Office is becoming mostly a fee-only business. You need huge amounts of money. It's all about capital in today's low leverage business. You also have to have long term money, and a lot of it. Need higher returns, so build to sell. If you can hold 10-12 years in Texas, you will make money. Otherwise, you have to be in and out.

33% of institutional real estate is office. Very few people want to own long term. They want to buy and renovate to appeal to a segment of the office market and different types of employees. You can get 10-12% YOC returns at stabilization. Today, it's 9% going in and 7.5% exit. It has been all about location. If you've bought and improved anything north of Ross to Plano, you've killed it. There are still some mid-80's buildings out there.

The tollway has been great. Lifestyle office next to a mall appeals to tenants who care about location, amenities and a short commute.

Smaller tenants, like family office and wealth management.

Going forward, the real opportunity is amenity rich and higher end.

Parking ratio is going down. You need max 3/1,000.

FOUNDER | MANAGING PARTNER
Office Investor • Developer

RETAIL

Retail ownership fatigue is real. Many institutional owners will move out of retail, and as a result, retail could become a niche property type, akin to hotel.

SENIOR VP |
PROCUREMENT SPECIALIST
RE Investment Manager

Open air will do better than enclosed malls; places where people can be in and out quickly. The entire makeup of the retail world will be very different. I think we'll see ghost kitchens become a big deal in the future.

FOUNDER | CEO
Office/Multi-Family/Mixed-Use
Developer • Operator

Retail will head more and more toward the shop online, buy in store model. It'll be all about gratification and experience.

Millennials will be more into brick-and-mortar.

I'm not convinced retail and office will shrink. We're social beings. Buying where other people are is a part of the global culture.

Power centers are in real trouble, mainly because they're commodity only.

The strategy is the same going forward, but the plan and vision will change. Our business is trying to give people what they want at a high level and what they need at a deeper level. What makes a place? Authenticity.

The actual need for what we do will decline. People need two things: simple commodities at low prices and social interaction. I believe the

FOUNDER | CEO
Mixed-Use Investor • Developer

middle price points are a thing of the past, and the high-income client base will slowly shrink.

People will hang out more than they will shop. Starbucks has already figured this out. They have a lot of customers in their stores working, not buying.

With fewer places to build, it'll be even more about location.

Financial capability is contracting. In this country, we have $650B in credit card debt, $650B in car debt and $1.3T in student loans.

NorthPark is a good example of a destination getting it right. They have been best-in-class for 30 years. Why? They make people feel good. They have recitals, Santa, train set, design competition, cars, art, fashion shows, magicians. It goes on. Their model is worth studying so we should ask ourselves, how can we be like NorthPark?

RETAIL CONTIN.

You have to have operations. Adding multi-family is the future. Very few developers do all well.

MANAGING DIRECTOR
RE Private Equity Fund

It's going to be a tough holiday season. Inventory is a big issue, and closures are coming. Off-price brands are taking more share and eventually will end up with anchor space.

Vendors will take space like Levi's and VF. Curbside, BOPIS etc. physical stores are key. Digital is accelerating...accelerated digital landscape by 2 years. The number of stores and store size will be different. All about picking winners and losers. Apparel was down 60% in spring now down 16%. Retailers will continue to burn cash while open. The future is uncertain.

Tailored Brands, Brooks Brothers, Ascena, 24 Hour Fitness, Capri Holdings, Gap, Cinépolis, etc. are all burning too much cash. They'll have to have some closures and shrink to survive. The bottom 15-20% of the retail fleets will close now, 1-2 years earlier than expected. When it comes to department stores, Macys will close another 300-400 stores; they get 50% of sales from 150 stores. Nordstrom was originally thinking of closing four, but closed 16, Kohls, which has 1100 stores, will close at least 10-15%. Dillards owns 90% of their stores so they won't close as many. JCPenney will close 50%. What does all this mean? Approximately 150 million SF will come on the market.

500 surviving properties: demos, future, income, competition, F&B in area, MXD, daytime pop, density/walkability are important.

In the new retail experience, we'll see more things like outdoor movies and F&B with lots of take-out and outdoor dining, and less large, crowded entertainment formats like Kidzania. Sustainability and ESG-branded places will continue to be big. Technology and data will be crucial. Customers will be drawn in by curbside offerings, omnichannel formats, convenience and service level.

When it comes to how many stores will be needed in the future, that's going to be different for every concept. Brands will have more data than ever. I think they're more likely to close the extra stores in larger markets than the only store in a one-store market. Up to 40% of restaurants may never reopen.

CEO | CHIEF RESEARCH OFFICER
Consumer Research • Banking • Consulting Brokerage Firm

RETAIL CONTIN.

We'll see further consolidation of retailers and more who want to own their real estate.

Amazon will stay light when it comes to brick-and-mortar, even if they want to cover the U.S. Amazon's mid-tier grocery will be more like Peloton than SoulCycle - 500 SF, not 5,000. They'll invest in a few stores as possible to cover the U.S. conveniently. Amazon Go-2-5K, 10K SF Amazon Go, and full-size lower tier-35k grocer, plus 4Star.

On the development side, going forward, we'll have retail with gravity or neighborhood, and not much else in between. Most new development will be multi-family dominated places with small tenant street retail. Or, massive mixed-use places like Ala Moana, Bellevue Square and Galleria.

FOUNDER | CEO
Commercial RE Strategy Firm

We are doing a mezz capital fund. We've raised some money to invest in expansion and start-up retailers. Even great operators will need start-up capital. Six months have been lost, and sales will take until 2023 to recover.

On new deals: what is the win? Location? Another deal? Tenants want a great deal for next 24 months; no one is looking for a 10-year rent reduction. I'm encouraged by the aggressive ideas coming in for the great tenants. I think some will trade term for reduced rent.

There is no lack of commitment to retail's future. We're still getting lots of calls from new concepts and those wanting to expand. People recognize the opportunity to grab good real estate.

We'll see an acceleration of retail consolidation. Prob 300-500 outdoor. 300-500 Malls, plus Street districts-Abbot Kinney and others.

MANAGING MEMBER
Retail RE Advisory Firm

Look at The Shops at Crystals in Las Vegas. It's the largest collection of luxury retail in the U.S., but it has no anchor REAs to deal with. As a result, it's performed well. Not having anchors has been a blessing.

The amount of manpower that retail takes is outsized as compared to other asset classes.

Post-bankruptcy and distress, capital markets will be normalized.

Experiential will make a comeback post COVID-19.

MANAGING DIRECTOR
Global RE Investment Manager

RETAIL CONTIN.

Retail will be important, but it will be the supporting act in the consumer's story. We leave the house because it's human nature: to engage in culture, be entertained, dine with friends and hang out in great spaces; buying is the secondary need. That said, when people are out, they will buy.

Most large-scale, retail-only places will either go away or be completely transformed into a new kind of place where people do everything. Where they live life, both during the work week and on the weekend. Pure shopping centers will generally go away. It must be more about shopping or it'll be dead. Shopping has been made so easy online that people want transformation when they go out, not transaction.

FOUNDER
Retail and Workplace Innovation Firm

The principle of the store lacks relevance and is a broken concept. In the future, we will go to stores for information, community, experience and interaction.

I've done a lot of research on Chanel. Their customer has an ongoing relationship with Chanel. It's an emotional relationship, not tactical or transactional. The future will be more about dating brands, rather than buying things. The millennials are here, and Gen Z is right behind them. Neither wants a store to buy a product. They want relationships with brands based on shared values. The corporate revolt of millennials and Gen Z means the bigger the brand, the less we want to know you.

Pensions may be so fatigued that they sell before there is a vaccine. So, there could be some decisions to dump retail projects – and they will be at super low prices.

We don't know how pricing will work going forward. Retail will shift from a core asset to an alternative, so pricing will reflect that. Pandemic clauses will be added to leases, and that will add to the risk.

NOI will go down by 25%. Municipalities are likely to be more flexible than ever.

MANAGING DIRECTOR
National Capital Markets
RE Advisory Firm

RETAIL CONTIN.

COVID-19 forces change. We have fewer stores because we're less transactional and more about education, support and community. We have a young, energetic culture that thrives on being together. We are looking at our strategy. Instead of lots of stores in lots of markets, we'll focus on having fewer stores and instead, invest in driving sales to our e-commerce platform.

Future of retail: legacy brands overbuilt the past 20 years. Oversupply is a huge issue. Canada is a much healthier market for operators because the supply is so much smaller.

Look at Barnes and Noble: they followed the old, simple wholesaler model...buy it, put it on the shelf, take a margin.

All brands need far fewer stores with a curated, premium, creative product offering. Filson does this.

Retail places of the future will be open air, mixed-use, hospitality centric. They'll be places with lots of reasons to visit. The unchanged enclosed regional mall is at the end of its life cycle. Live-work-play-gather is the future.

The purpose of a mall is to take your money. But at open air, mixed-use places, you feel in control.

SVP RETAIL
National Omnichannel Retailer

The main question is, what kind of retail are you looking for in the future?

Key Things To Think About:

- Strategic locations to omnichannel
- If any risk can be mitigated, fashion risk can be mitigated.
- Multi-purpose retail places will fare better
- You need to be able to be rightsized
- There's demand for relevant tenancy, and there must be a supply-demand balance
- Potential for densification is key
- Retail should ideally include or have a path to fulfill daily needs.

I used to avoid major cities because there was little competition, but now I wonder if smart money is buying NYC. I would look for places and areas where others aren't.

FOUNDER | CEO
Mixed-Use Investor •
Developer • Operator

RETAIL CONTIN.

250 malls will remain in the US. The survivors will be stronger than ever.

Rents will go down, and we'll have a rent reset and more performance-based rent structures.

SENIOR MANAGING DIRECTOR
Capital Markets Advisor

Getting people back in schools is a huge issue.

We made deferral deals with 80%, and 10% of credit guys aren't paying. We'll collect 80% and will likely lose 25-50% of the remaining 20%. We'll probably lose 10% of NOI.

COVID-19 is accelerating trends – most notably the demise of the department store, the bottom quartile of mall apparel retailer, and some of the junior boxes. Gyms, restaurants, cinemas are all having COVID-19 uncertainty. Grocers and a few others have benefited. Grocers got a big bump because they picked up most of the sales that restaurants lost.

Grocery anchored is the most solid product type. Dry cleaners, nail salons, full-service restaurants aren't as recession resistant. Power centers – TJMaxx, Ross – will pound us to death. We won't see rental growth there for a long time. Target and other boxes have performed best. Street retail and apparel centric are mostly shut down.

Great city streets had headwinds they weren't facing, like NIMBY, police, budget, and crime. San Francisco is really in trouble. Politicians in liberal cities took for granted tax growth and zero unemployment, and as a result, expected people to pay up to live in those cities going forward. But, cities have to be super safe. COVID-19, declining revenue and concerns about policing are creating an issue. At a minimum, these cities will lose some momentum, but then will become more affordable. Rents and values in NYC are already down 20%. Add the loss of tourism, and it's a scary situation for the large gateway cities. On the other hand, some cities will rise from this: second-tier cities that young professionals have shown interest in. Big cities will lose market share. Which ones will fix what's broken? We'll have to wait and see. It's so clear that things are so broken in NYC and San Francisco that voters should change direction.

CEO
Retail REIT

RETAIL CONTIN.

Consumers are going big on home and athleisure. Our non-flagship stores don't do a great job and are starved for merchandise. Our higher ups see the future as an online business supported by brick-and-mortar. The future will be BOPIS, wardrobing and curbside. The future isn't in 200k SF fully merchandised stores, except for flagships. Large stores eat up capital. The future of retail will be super-regional or more localized, and focused on higher income neighborhoods: places with sense of place, F&B, daily needs, fitness, apparel. Unlike the 20-year deals like department stores require, overall curated and more dynamic retailer deals will take place. Focus on growth markets. High income customers and value customers are most recession proof, the stuff in the middle is shrinking.

In early October, business is improving but traffic is still tough. We did a good job canceling orders in March but it's been tough reloading the merchandise pipeline.

VP REAL ESTATE
National Dept. Store Chain

There will be tailwinds with open air centers and headwinds against conventional malls. Retailers will be closing at malls and opening up in open air centers. Buying retail cheap within the next few years will be important. Retailer deals are tough. After 3-5 years the surviving properties will be valuable. Large capital investment is needed at most centers and ground-up development is dead for now. The southern part of the country is of interest right now.

PRESIDENT
National Private Mixed-Use Investor • Developer