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Conference Summary

The Saul Ewing LLP 7th Annual Real Estate Conference in Baltimore, MD brought together the top minds, industry leaders, expert trend analysts, and “big hitters” of the real estate world. The conference utilized a sophisticated d technological platform over a total of 5 different panelist sessions. Notably the audience was able to send in questions through smart devices directly to the moderator. It was all made possible by Saul Ewing LLP, but especially because of Howard R. Majev, Partner of the firm who was able to develop and collect the talent provided at this years conference.

**Dealmakers Panel- Recognizing New Opportunities in the Marketplace.**

Managing partner at Garfield Public/Private LLC, Michael Ray Garfield was the moderator of the event opening by explaining the three areas of focus for his company: 1. Clients First 2. Industry Focus 3. Collaboration. Garfield Public/Private LLC key strength is public/private and P3 initiatives. They have financed and developed over $1 billion in publicly-owned or ventured buildings.

Reginald Livingston, Vice President for Acquisition at Acadia Realty Trust, explained that Acadia has $2.5 billion in assets under management, owns over 10 million square feet of retail space and are publicly traded. They operate two funds, the first is the core fund with a 3% return, and the second is the opportunity fund with a valued return of 16%. The success comes from their main focus in grocers and street vendors. Examples include retail in Georgetown, DuPont Circle, and New York’s SOHO with leases from Home Depot, Safeway, and Kate Spade. Mr. Livingston has advocated for the Grade A urban areas, specifically in the grocer industry, as it has been relatively unaffected by the rise of online shopping.

Charles “Chuck” Murphy, Senior Vice President at InterPark, described his company as doing approximately $2 billion in parking projects, operates in a variety of areas including airports making up 20% of InterPark total assets. He described the types of Grade A properties they seek, facilities in central business districts as a capital-intensive venture, strong partners such as Marriott, and multiple platform uses of their properties. Mr. Murphy presented a plan for 300 E. Pratt St., a Baltimore prime spot void of any building in between all business skyscrapers. InterPark plans to bring its successful model of co-development of a mixed-use building from a Chicago project property. Mr. Murphy fielded a question about the rise in share economy of companies like Uber, his answer was “at the end of the day cars have to park somewhere” and that it has not affected them due to their Grade A locations.

Jason Steuterman, the President and Chief Operating Officer and Director at ARCTrust, works on retail real estate. His focus is on private real estate investment trusts, joint development, value added acquisitions, lease restructuring for retail tenants, and selling of properties. Mr. Steuterman’s first focus was “they will buy from structures with higher cap rates and lower purchase prices”, and in cases when leases are present the cap can be lowered. Citing ARCTrust dealings with Streyer University expansion. The second focus is that ARCTrust deals heavily with high value corner real estate such as Rite Aid’s. Especially in convenience/pharmacy and gas stations, expressing mega-stores and e-commerce has not relatively affected them. Interestingly, Mr. Steuterman fielded questions about the potential Walgreen and Rite Aid buyout and the impact of CVS buying Target Pharmacies. His reply was ARCTrust is in a strong position moving forward that business should “sure up” any leases with retailers and restructure quickly as a buyout most likely is coming.

The “hometown” headliner was the Sparrows Point Terminal, LLC with General Counsel Michael T. Pedone, Esq. The terminal owns 3,100 acres, previously known as Bethlehem Steel and explained the development’s four key points: the amount of land, the railroad access, the deep water ports available, and auxiliary services. Mr. Pedone believes that chemical faculties, breweries, organic products, and processing businesses would fit well because of the wastewater facility on site. Two factors affect the Terminal: first, its $48 million environmental remediation as part of a consent decree with the EPA and Maryland. The second was the excitement from the new administration in Annapolis that is pro-business that is really seeking to provide help to redevelop and bring back jobs to Maryland.

**Millennial’s, E-Commerce, Technology and Other Trends Transforming the Real Estate Industry**

Bronwyn E. LeGette, Vice President of Cushman & Wakefield, works at a company that has $5 billion in revenue, operates in 60 countries and employees 43,000 people. Ms. LaGette highlighted the potential $2.45 trillion purchase power Millennial’s have, the 400% increase every year in co-working, and that by 2020, 40% to 50% of workforce will be contingent workers. Mr. LaGette cited success in using vertical integration of buildings to “create some sense of communities within the vertical space” such as convenience stores, fitness centers and other facilities utilizing an open stairwell plan to unite the building.

Sara B. Queen, Asset Manager for the US Core Office portfolio at Brookfield Property Partners, manages 50 million square feet of Class A assets, “delivering a superior office product that also creates a sense of community.” Brookfield has been successful in repurposing/restructuring apartments and workspace from existing platforms that are centered on “authentic experiences”, urban locations and open communal areas as selling points to Millennial’s and decision makers.

Casey Talon, Senior Research Director for Navigant Research presented the growth areas for “smart buildings”. He explained that companies should utilize technology-integrated buildings to target Millennial’s preferences with amenities like smart thermostats, lighting sensors, and energy efficient software.

Derrick Johnson, Vice President in Segment Marketing at UPS, discussed “customers today are balancing the real estate costs and customer services needs and operational efficiencies, so we [UPS] as an organization … [are] looking at large trends cutting across various industries to understand how we can help customers optimize business supply chains, which often times involves various real estate needs and/or transactions.” Millennial’s spend “$2,250 per year” online which is “one and half times larger than any other age group or segment.” While it has not made Brick and Mortar buildings disappear it has modified the business model. He also noted the business opportunity to use share drivers, like Uber, to reach consumers as Millennials are less concerned about security (for example, who handles the package).

Adam Ducker, Managing Director at RCLCO, runs their national urban real estate investment practice, focusing on helping underwriting at the project level and the demand side to identify the customer. The Millennial segment (22-24 age) is entering its peak and is “33% larger” compared to twenty years ago. Thus, “their tastes, behaviors, and appetites, their ability to drive the evolution of product seems to be greater” than ever before. Mr. Ducker laid out the top Millennial preference driven trends to look for: “Market Walkability” a more urban lifestyle that fosters social interaction; the Millennials’ transient nature; design driven preference for the quality of the space and product; share economy businesses; and digital solutions. Mr. Ducker noted that the exercise and food markets are strong, as they cannot be replaced by E-commerce. As Millennial’s reach the age to purchase homes it should be key to look at real estate in areas like Mt. Washington, Baltimore that provide easy access to transportation, walkability to urban experiences and opportunities for social interaction in shared open spaces.

**Finding Equity and Debt in Today’s Evolving Marketplace**

John Levy, the moderator, is the president of John B. Levy & Company, Inc., which is a real estate banking firm that offers wide array of financial investment and advisory services for complex real estate ventures. “Money is both available and inexpensive, some people [should] take all you can get and we [panelist] agree with that.” “Makes a big difference where you are, not just what you have,” mentioning the Saltwater 6 as strong investments and cautionary tales.

Kiernan P. Quinn as the Managing Director of Guggenheim Commercial Real Estate Finance and Co-head of Production raises equity and debt from institutional sources including their own proprietary funds to produce capital. Mr. Quinn opened up with an anecdote, “we started this company 15 years ago, I do one transaction for 1% of our total assets under management, I do one deal and all of a sudden I’m on the cover of Fortune,” referring to the $2 billion raised overnight to buy the Dodgers. The trend with Life Companies is they “started with no exposure to commercial real estate. Over the last four and half years, have put about $8.5 billion of life loans” Citing that the sweet spot for life companies is 65% to 70% and in some cases 75% IDP. Mr. Quinn mentioned CMBS deals work best with multifamily, even though they are the highest default rate, because they do not require big upgrades often like hotels. A challenge has arisen from “shadow banks” that can provide deals such as 95% JV with just 5% from the developer which creates a deal regulated lenders cannot make. Standout points to the audience was “don’t lose sleep there will be enough capital for real estate for the next few years, it is a great time to be a borrower,” “read your documents [that] is key”, and “act professionally”. Based off his experience, individuals that act professionally will in turn receive professional service, which directly increases the chance of keeping deals alive through extensions and other tools.

Antonio Marques represented EagleBank as the Executive Vice President and Chief Real Estate Lending Officer at an 18 year old community bank, with a legal lending limit of $110 million, a myopic focus on D.C., and $6 billion dollars in assets with 67% of the balance sheet from real estate lending. Mr. Marques mentioned, “ the STORY element is key, we are willing to listen” to customers in a boutique point of view rather than a wholesale view. Mr. Marques wanted to make aware to the audience “if you can’t handle a four and half interest rate, you shouldn’t be in the business,” citing his experience with a company who defaulted on him when the interest rate rose from 0% to 1%.

Brandon Jenkins is the COO and Co-Founder of Fundrise and was the silent show stealer of the panelist with his young age and dress attire that reflected a tech company CEO. Every time Mr. Jenkins spoke the panelists expressed awe and the audience let out a sigh of interest because of the revolutionary business model Fundrise uses in commercial real estate markets. Jenkins described Fundrise as

“E-Trade for real estate, you sign up on the platform, you get to shop different investment opportunities all across the country, an office building in L.A. … a retail center in Austin, you can pick based on your risk to return or based on the return length and gives the investor a lot of flexibility to build their own portfolio of commercial real estate, essentially [something] retail investors never had.”

Fundrise selects a commercial real estate investment; they put in their own equity off their spreadsheets and in turn offer fractional participation tickets directly to the customer online. They have been able to shave 400 to 600 basis points in cost saving by “taking a supply chain of normally 3 years [and] shrinking it down to 30 days.” Questions arose on what the average amount an investor spends, the type of investor, and the time it takes for investment to be sold out. The first purchase is usually $1 thousand to $5 thousand and within three months close to 70% of repeat buyers invest twice as much as their first purchase and after a year about $50 to $60 thousand in investments across five to ten assets. The typical investor is a credited investor because they offer 506-b, 506-c and Reg A investments, however “today the majority of offerings are for credited investors.” The average time for an investment to be bought out can vary from 30 days to 2 weeks. Mr. Jenkins cited they recently put a deal online at 9am and it was sold out by lunch. The advantage is raising the money from directly retail, like public market capital, but with lower costs of public market capital. The amount at risk is the principle.

Mr. Jenkins fielded a question on the Fed Fund Rate and stated the topic has come up the last three years with the moderator, quickly answering “the nice thing is we have been consistently wrong.” The panelists all agree the Fed Fund Interest Rate will go up in December or at least next year. Mr. Quinn's opinion was that the Fed and Treasury are out of options to protect the market. The rate is the lowest it can go; the best thing they can do is increase it because it will not hurt the economy. Importantly it gives the Fed “a weapon if they need to cut in the future.” Mr. Jenkins cited that there are enormous amount of factors that go into making the decision and that time should not be wasted on concerning yourself on trying to predict what will happen. However, Mr. Jenkins said, “Whoever has the answer to that will make a lot of money.” Mr. Marques said at some point the rate will go back to the 50 years average and in the mean time doing the right risk of just return on capital irrespective of the rate is key.

**Fresh Perspectives on the U.S. Real Estate Market**

Linda Madway is the Vice President and General Counsel at RioCan America Management LP a subsidiary of Canada’s largest REIT. RioCan was able to enter the U.S. market through joint ventures and seek “open air shopping centers” with strong anchors such as Target. RioCan might go against the trend and sell some of their locations because of the differing value in currency rates. Ms. Madway focused on six key observations on the US market. First, shopping centers bring the highest rate of return because retail real estate development did not grow with the increase in population over the past six years. Second, the closing/bankruptcy of certain retail stores is still occurring citing as examples, American Apparel and especially electronic retailers. Third, fitness recreation and entertainment/restaurants are strong retail space industries. Shoppers want an experience by providing retail that makes customers stay longer, increasing the chance of impulse buying. Fourth, there is a redirection in the cooperation between retail space and medical services. Businesses like Urgent Care, dentists, and hair salons have brought in revenue and retained value. Fifth, the “outlet trend” has accelerated for retail businesses. Large retailers such as Macy’s are seeking to create an outlet or discount store to compete with companies like TJ Maxx and Nordstrom Rack. Sixth, future retailers to look out for are self-storage, pet related and crafts, such as Hobby Lobby, and the poor performers are Mom and Pop stores. Ms. Madway attributed trend six to the increase in baby-boomer’s retiring.