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BDO Real Estate & Construction

INSIGHTS FROM THE BDO REAL ESTATE & CONSTRUCTION PRACTICE

## THE CURRENT STATE OF REAL ESTATE

# Q&A With National Real Estate Leaders

BDO

**The real estate industry is transforming. Greater penetration of e-commerce, ongoing supply chain disruptions, changes in consumer spending habits, the desired location of first-time homebuyers, the shift from in-office to remote work and the increased use and reliance on technology are forces converging on the industry and forcing investors and owners to change traditional ways of doing business.**

**What's in store for the industry? We asked real estate leaders to weigh in on what they're seeing and working on in the multifamily, office, retail, hospitality, entertainment, and industrial sectors around the U.S.***

"The answer to the question 'What happened to real estate demand during the pandemic?' is that users have expanded their use requirements across the board, and real estate markets have seen expanded demand in many real estate marketplaces, properties and types," said **Francis Greenburger, American real estate developer and founder of Time Equities**.

**The takeaway:** The future of real estate will be characterized by slow recoveries of the office and retail sectors, a rise in the secondary and tertiary suburban markets throughout the country, an increase in healthcare and industrial properties and the reengineering of our major gateway cities.

Read on to see what Greenburger and other industry executives said about how they're coping with emerging trends and their attendant challenges and seizing this unique opportunity to transform the commercial real estate landscape to their advantage.

** The views of these industry leaders are their own and do not necessarily reflect the views of BDO.*

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental, Social and Governance (ESG) is rapidly changing the way real estate developers and investors approach decisions.

**Q: How has ESG changed real estate trends and what should we expect in the future?**

**A: Kristi Gibson, National Real Estate & Construction Practice Co-Leader, BDO:**

The trend of examining ESG considerations when making real estate decisions has accelerated both in the U.S. and around the globe. In the U.S., we are seeing this most notably in the office sector with LEED Platinum-certified buildings fetching higher rents while driving savings on monthly utility expenses. These higher rents coupled with operating efficiencies and lower maintenance costs translate into higher longer term asset performance. That said this trend is expected to continue and expand into other sectors of real estate as both consumers and businesses demand assets that are environmentally certified.

## OFFICE

The vacant office has become emblematic of COVID-19 pandemic shutdowns. The Delta and Omicron variants delayed return to office plans, but employers seem determined to go back to in-person collaboration. They're renewing leases and pursuing renovations to anticipate post-pandemic health concerns and splitting time at the office with remote work days for the same reason.

**Q: With more companies embracing a remote work environment, does location still matter?**

**A: Bill Edwards, EVP of Rockefeller Group's Core Holdings business, which owns, operates, and manages 6 million square feet of Class A office space in midtown Manhattan:**

One of the big takeaways from the pandemic is that the office market reached an inflection point much sooner than expected. With each new long-term lease and renewal, a company is voting for the future of the office, but far fewer office buildings can meet the workplace requirements of today.

With the prevalence of remote working options, location matters again as occupants weigh the benefits of working in the office or working from home. The experience of the office needs to provide an advantage to employee well-being, performance, and productivity, so services and amenities matter and requirements for the most advanced building systems are being driven by health and wellness considerations. They are also being driven by new energy efficiency and sustainability standards, making modern infrastructure and capital investment necessities. We're actively looking for opportunities to partner with other owners who want to upgrade their buildings to meet these newer requirements.

Despite some growth in secondary or tertiary markets, the supply chain for talent is still going to run through cities like New York, and the best located, highest quality buildings – new or with substantial reinvestment – will thrive.

**Q: Which factors are currently driving landlords' decisions related to office renovations?**

**A: Mitchell Adelstein, Founder/Managing Partner for Capstone Realty Group, which focuses on acquiring value-add and opportunistic office, retail, and mixed-use properties:**

2021 was a rough year to buy as prices have been driven higher in part by private equity putting dry powder to work. Since the onset of COVID and the ensuing work-from-home phenomenon, the office sector has witnessed several significant shifts: a flight to quality; a hybrid home-work schedule; a change in the utility of office space; and increasing demand for tertiary suburban markets closer to employee homes. The most influential factor creating this shift in office has been business owners' recognition that they must provide a compelling reason for their employees to come back to the office. The office space of tomorrow is a place to collaborate, not contemplate.

**Q: What's the outlook on the office market?**

**A: Boris Katsman, Chief Financial Officer for Sage, which provides physical amenities and specialized services that empower companies to build and promote their unique culture and enhance their employees' experiences:**

While the social and economic impact of the pandemic may not be fully realized for years to come, we continue to have an optimistic outlook on the office market. This confidence is underscored by Sage's recent refinancing of 767 Third Avenue, which will allow for an exciting repositioning of one of our most unique assets in the New York City Grand Central submarket. In addition, we are rolling out newly designed amenity spaces at 437 Madison Avenue, one of our premier office buildings at the heart of the Plaza District in Manhattan. We know that many are eager for in-person activities, and it is imperative that our properties support an evolving workplace environment by offering spaces that are designed for productivity and collaboration.


## OFFICE & LAB, LIFE SCIENCE

**Q: How have shifting priorities influenced life science and biotech real estate?**

**A: Ravi Ragnauth, Chief Financial Officer at The Davis Companies, headquartered in Boston, Massachusetts:**

We have seen a significant increase in life science and lab investments. The size and number of these investments speaks to the intense demand for space in this industry that is fast expanding. Demand for new life sciences and lab space in the Boston metro market has shown no signs of slowing down.

## RETAIL

The pandemic forced retail to transform. Instead of shuttering, malls are being reconfigured to serve as distribution hubs for major retailers, open air real estate is being incorporated into plans, and stores are being redesigned for customer experience. The sector will continue to evolve to keep pace with shifting consumer tastes.

### Q: What are consumers looking for in physical retail spaces?

**A: Danielle De Vita, EVP of Development for Urban Edge Properties, a NYSE-listed real estate investment trust focused on managing, acquiring, developing, and redeveloping retail real estate in urban communities, primarily in the New York metropolitan region:**

Consumer behavior has changed to become focused on essentials, convenience, and accessibility. We at Urban Edge see opportunity within our retail portfolio to fulfill these preferences through the diversification of our tenant mix, an enhanced customer experience and ease of access to desired products. We are investing significant capital into redeveloping many of our properties to not only unlock their value, but to bridge the gap between commerce and community. For example, by supplementing our dining and essential retail components (Whole Foods, Target, CVS) at Bergen Town Center in New Jersey with new, dynamic food options, unique value retailers, and an enhanced environment, we are putting our customers' needs at the heart of our projects.

As physical retail spaces continue to face the challenges posed by e-commerce, Urban Edge is implementing new technology to not only engage with our shoppers in unique ways, but also support our tenants in facilitating services consumers have come to expect such as buy-online-pick-up in-store (BOPIS), real-time special offers and more. We are also bringing new uses to our properties, including high-caliber medical facilities, entertainment and gathering spaces, and multifamily residential, to make our customers' frequent visits to our assets as easy, enjoyable, and worthwhile as possible.

### Q: Is there a future for retail real estate? If so, what might it look like?

**A: Jake Bisenius, President and Chief Investment Officer for AmCap Inc., which owns and manages grocery-anchored centers nationwide:**

The popular news cycle story of the demise of retail real estate and specifically open-air real estate is dramatically overstated. AmCap's experience has been the exact opposite of what the experts predicted. It was predicted that online retail would replace the need for traditional brick and mortar, but AmCap, has found that it has expanded the need for open-air real estate. Our centers are now the new last-mile distribution hub and the local suburban neighborhoods downtown. We bring together leading grocery stores, traditional retailers, medical (e.g., urgent care, dental, etc.) digital brands who want to build a physical presence (e.g., Casper, Warby Parker) in pedestrian friendly centers with convenient parking and access.

## MULTIFAMILY RESIDENTIAL

Employers' embrace of remote and hybrid work environments simultaneously minimized the need to be close to the office and increased the need for residential space. Secondary markets are transforming to accommodate an influx of new residents.

**Q: How has the pandemic influenced multifamily housing demographics?**

**A: Darren Fisk, Founder & CEO of Forum Investment Group, a private real estate and asset management firm which has a focus on multifamily housing and is based in Denver, CO:**

We continue to see lots of opportunities in multifamily real estate. Throughout the pandemic, we saw our portfolio hold steady as housing became not only people's homes but their schools and offices, too.

While the acquisitions market remains incredibly tight and competitive, we have seen real opportunity in multifamily developments targeting the middle-income renter demographic. Our development strategy is focused on providing attainable housing in high-growth markets across the U.S., particularly in places like Denver and Salt Lake City where demand remains strong. Forum has built a multifamily-focused platform with in-house expertise in acquisitions, development, debt, and finance. This flexibility means we can pivot as market conditions change, allowing us to offer investment opportunities across the capital stack and throughout real estate market cycles.

**Q: How does demand for single-family rental homes look going forward?**

**A: Scott McLaughlin, Vice President, Investor Relations & Tax, at INVH, which owns more than 82,000 homes across select markets in the West Coast and Sunbelt:**

Prior to the pandemic, we expected that many of the 90 million people in their 20s and 30s in the country would want to lease a single-family home within our markets, particularly as they start to form families, seek out new neighborhoods and begin new jobs. During the pandemic, the demand for our homes has only increased, as residents desire more space in which to live, work and play. While we've seen that it's relatively easy to add new supply in the multifamily sector in the last decade, we believe adding new supply of well-located, high-quality single-family rental homes will remain challenging.

## Q: How is multifamily meeting rising standards of sanitation?

**A: Jiten Sood, Controller at Newcastle Limited, a commercial real estate company that acquires, develops, and operates retail, multifamily, and mixed-use properties in Chicago:**

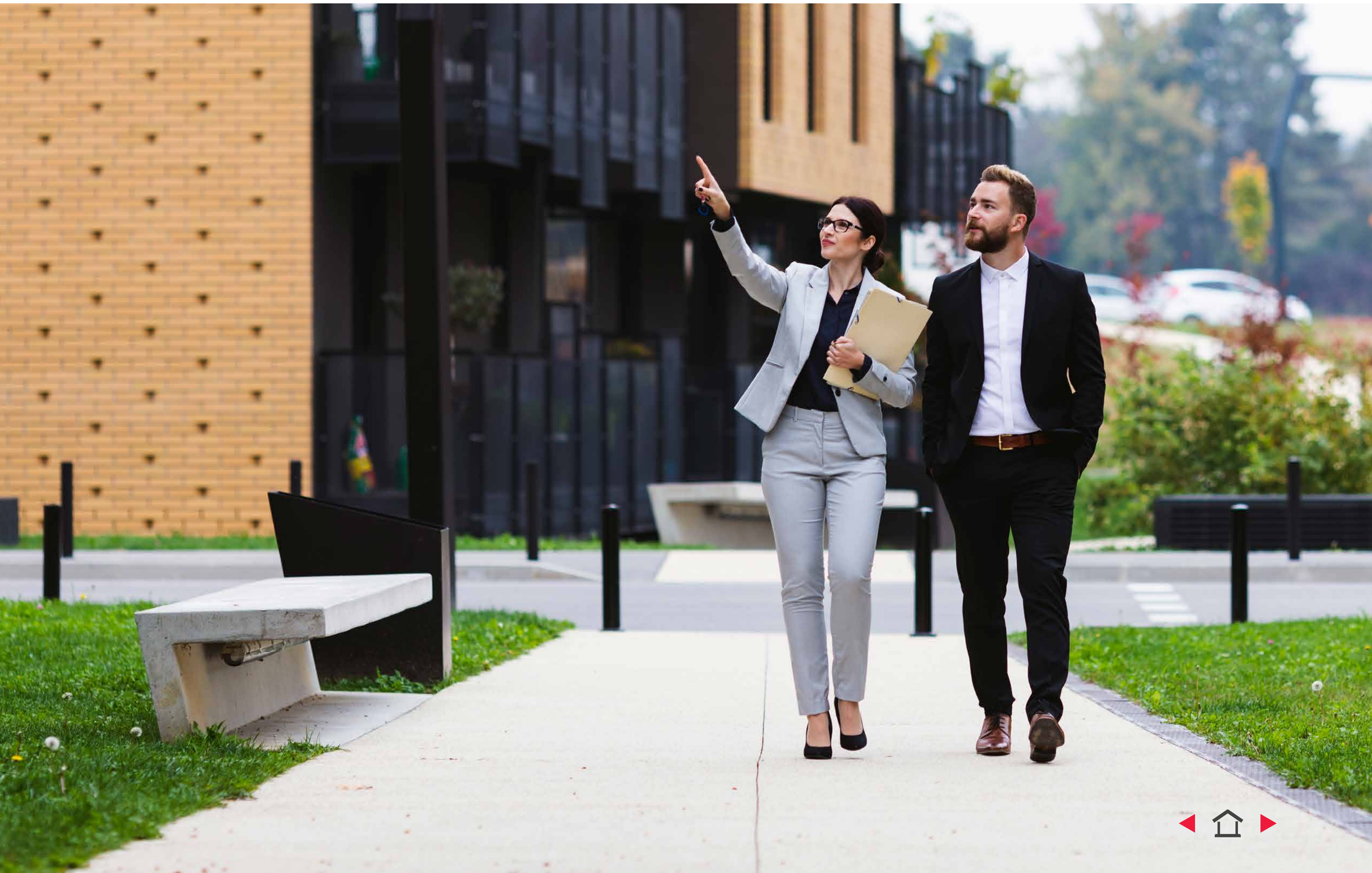
Our current project is designed with residents' health and well-being in mind. Residents will enjoy a touchless experience from the moment they enter the building and will benefit from touchless bathroom fixtures in common areas, bio-polar ionization filtering and HVAC modifications. Newcastle will seek Fitwell Certification for the project, which integrates science-based strategies to optimize health within buildings.

## Q: How have certain submarkets merged to accommodate the influx of new residents?

**A: Mike McMahon, EVP, and Director of Tax for RXR, a leading real estate owner, investor, operator and developer committed to building socially, economically and environmentally responsible communities:**

Using New Rochelle as a prime example, RXR was able to work with the city government and local community leaders to develop a zoning overlay based upon feedback from the community as to how they wished to see their city transformed. With people looking for a live, work and play lifestyle, and with pricing getting out of control in Manhattan, we recognized that areas like New Rochelle were at the intersection of what we referred to as the push-pull phenomenon. Residents were getting pushed out of New York City based upon pricing, while at the same time the city of New Rochelle was looking to pull in residents to become once again a healthy, thriving city.

COVID has not dampened the spirit of the community, nor has it slowed the transformation; if anything, it seems that now, more than ever, folks are looking for the high quality, affordable product offerings that we at RXR have been focused on in New Rochelle and other areas like it.



## HOSPITALITY

After two years of a pandemic and the precipitous decline in tourism, hospitality is gearing up for a period of renewed interest in corporate and leisure travel. The industry is focused on creating unique guest experiences with guests' health in mind.

**Q: What development opportunities lay ahead for the hospitality industry?**

**A: Roger Baker, Chief Investment and Financial Officer for First Hospitality, which converts older office buildings into hotels.**

Today you must develop something that gives the owner/operator an edge whereby a unique guest experience can be created and delivered. This is now seen in the proliferation of various soft brand options in the market, or another option today is the redevelopment and conversion of older office or apartment buildings in urban locations to something which is one of a kind for the guest. To assist developers with a conversion/adaptive reuse decision, there are many options for financial assistance to incentivize and assist developers on costs and to enhance investor returns in the form of federal and state tax credits, tax increment financing (TIF), property assessed clean energy (PACE) financing and local grants. We have one such conversion underway of an office building into a Tapestry by Hilton (Hotel Ardent) in Dayton, Ohio. This is just the type of opportunity we are always in search of and want to capitalize on.

**Q: Which destinations are recovering most quickly from the pandemic?**

**A: Francis Lively, President and CEO at the LCP Group, LP, which on growth markets characterized by population and employment growth in key economic sectors:**

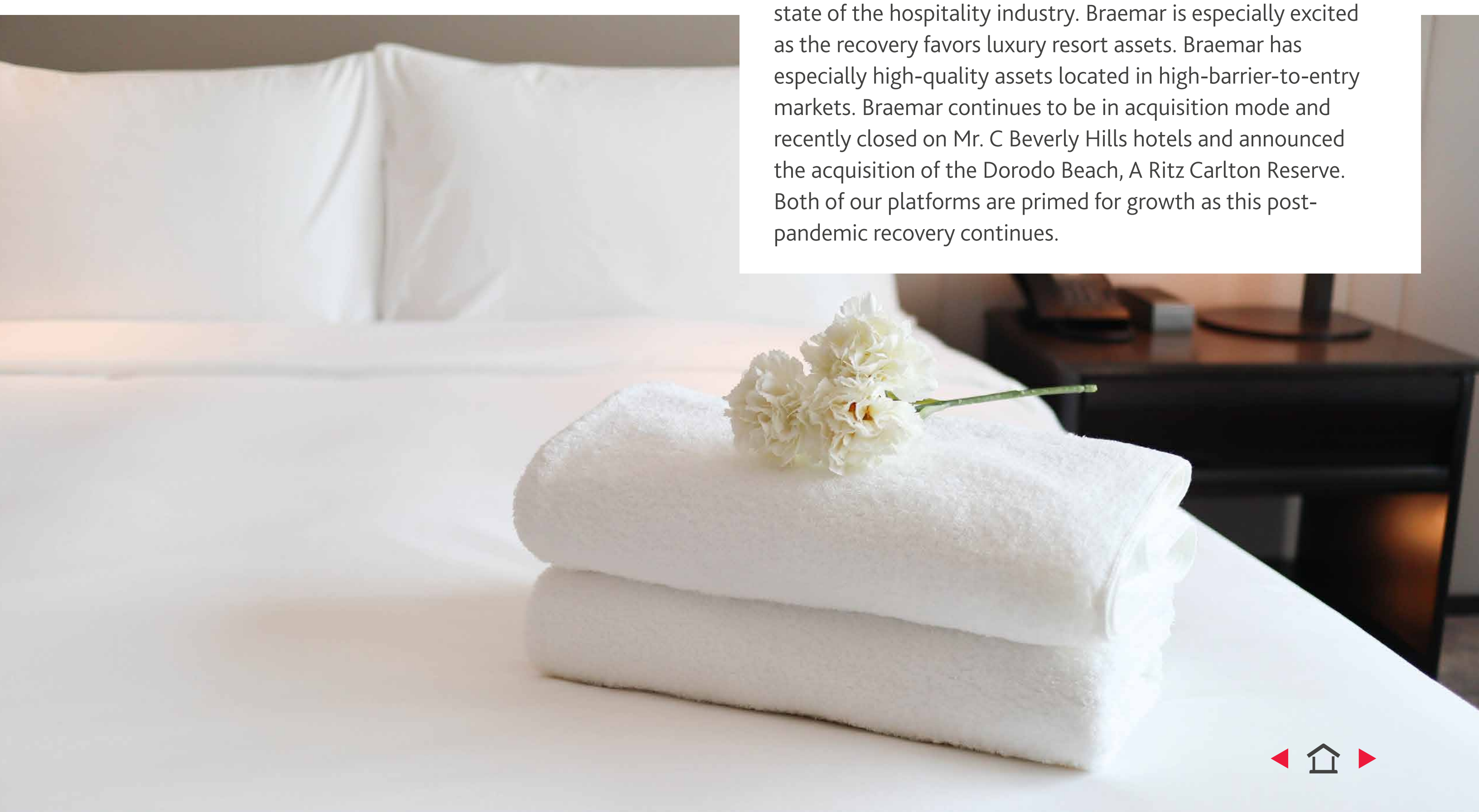
Leisure travel in places like Florida has been booming, and business and group events have already started to make a more robust recovery.  It so happens that many of these locations (e.g., Arizona, Florida, Tennessee, Texas) were already benefitting tremendously from transformative economic growth due to population migration and job creation fueled by low taxation and a better cost of living.

Current and pending investments in hotel opportunities in Nashville, Tenn., Palm Beach Gardens, Fla., and outside Tampa/St. Petersburg, Fla., all of which are markets we believe will continue a growth trajectory coming out of the pandemic.

**Q: What does M&A in the hospitality sector look like?**

**A: Mark Nunneley, CAO for Ashford Hospitality Trust, a REIT focused on investing in upscale, full-service hotels:**

Both of our REIT platforms, Braemar Hotels and Resorts and Ashford Hospitality Trust are both excited about the current state of the hospitality industry. Braemar is especially excited as the recovery favors luxury resort assets. Braemar has especially high-quality assets located in high-barrier-to-entry markets. Braemar continues to be in acquisition mode and recently closed on Mr. C Beverly Hills hotels and announced the acquisition of the Dorodo Beach, A Ritz Carlton Reserve. Both of our platforms are primed for growth as this post-pandemic recovery continues.



## INDUSTRIAL

The proliferation of e-commerce company warehouses and the trend of repurposing older buildings to support newly legal cannabis operations are just two examples that are indicative of how industrial real estate is adapting to rapid digitalization and emerging legislation.

**Q: How has the shift toward online shopping influenced industrial real estate trends?**

**A: Gideon Etra, a Principal at Excelsior, a New York City based industrial developer:**

The large e-commerce companies are looking for urban last-mile locations with enough parking for their delivery vehicles. Increasingly this means that developers need to build warehouses up a few levels to accommodate this need. We have designed our current project with a multi-level layout for this reason.

**Q: How has industrial real estate adjusted to emerging legislation?**

**A: Catherine Hastings, Chief Financial Officer for IIP, which focuses on acquiring specialized industrial real estate assets for the use as regulated cannabis cultivation and processing facilities in states that permit cannabis operations:**

The regulated cannabis industry is experiencing tremendous growth and evolution as state programs continue to be adopted and programs are modified over time. We work closely with our operator tenants as a provider of real estate capital, including in both ground-up construction and the repurposing of older industrial buildings across the United States for this use.

As our tenant partners expand operations to meet growing demand in a particular state, we partner again with them to provide additional real estate capital as they continue to build out capacity at a particular property. As new states legalize cannabis and roll out their programs for medical use and adult use, we expect continued strong demand for specialized real estate that is key to the production of high quality, consistent cannabis products.

## ENTERTAINMENT

Social distancing concerns piqued consumer interest in outdoor activities. Open air venues are thriving, and developers have plans for future expansion.

**Q: What sector of real estate is surprising you in terms of its performance?**

**A: Tom Tipton, Chief Financial Officer of Suntex Marinas, which owns, operates and invests in an extensive network of the best saltwater and freshwater marinas across the country:**

The ability to get outdoors and have fun without worrying about social distancing – and getting fresh air in general – has brought many members to join our boat clubs, traffic to our boat rental locations, and bookings for houseboat vacations. Boat club has thrived to the point that we are introducing clubs in at least three additional properties in Q1 of 2022. The robust nature of the boating industry bodes well for our core slip rental business as well in both the near and long term, with significant growth indicated for the post-COVID world.

Predicting and forecasting the future of the real estate industry is a challenging task. We must acknowledge and prepare for trends as they evolve. The trends of upgrading and modernizing real estate, coupled with adding new amenities and services to augment tenant experience, are clearly reshaping commercial real estate. Many of these trends that started during the pandemic will remain in place for many years. We will need to wait and see what provisions the Biden administration and future administrations enact to further stimulate the economy as the country recovers from the pandemic.

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