

Webinar

ULI Austin Greater Austin Regional Luncheon - Emerging Trends in Real Estate

2024

Date: December 06, 2023

00:00:16 --> 00:00:18: All right, let me get situated up here.

00:00:19 --> 00:00:21: Thank you all for having me.

00:00:21 --> 00:00:25: I'm Josh Parks, partner, PwC, actually live in Dallas, but

00:00:25 --> 00:00:27: this is the second year I've come to present here

00:00:28 --> 00:00:28: in Austin.

00:00:29 --> 00:00:32: I was involved with a lot of these emerging trends

00:00:32 --> 00:00:35: interviews and as well as putting the report together, this

00:00:35 --> 00:00:37: is our 45th year of doing this.

00:00:38 --> 00:00:41: It's all survey and interview based.

00:00:41 --> 00:00:43: So if you guys, if anybody participated in either, thank

00:00:43 --> 00:00:45: you because we really couldn't do it without you.

00:00:47 --> 00:00:51: Compiling this publication is a little more complex, volatile

00:00:51 --> 00:00:57: times, circumstances and viewpoints change frequently, sometimes

00:00:57 --> 00:00:58: daily as you see

00:00:58 --> 00:01:03: in the headlines.

00:01:03 --> 00:01:08: And there's really three areas that affect sentiment shifts,

00:01:08 --> 00:01:14: economic interplay, So think rates, inflation, global trade, GDP, which

00:01:14 --> 00:01:18: have all been quite volatile, behavioral economics, so our

00:01:18 --> 00:01:21: attitudes, perceptions, this impacts our decision making and sentiment and then

00:01:21 --> 00:01:23: external influences, unforeseen events.

00:01:23 --> 00:01:28: This is normally negative.

00:01:28 --> 00:01:32: So you could think wars, natural disasters, government

00:01:32 --> 00:01:36: shutdowns, strikes, but there are some positives you could think about that

00:01:36 --> 00:01:36: are external influences, unexpected technology.

00:01:36 --> 00:01:38: So think AI.
00:01:38 --> 00:01:38: It's all the buzz.
00:01:38 --> 00:01:39: As you guys know.
00:01:40 --> 00:01:43: Another one have to mention Taylor Swift.
00:01:44 --> 00:01:47: Her tour grossed \$5.7 billion.
00:01:47 --> 00:01:50: Her movie has already made \$200 million.
00:01:50 --> 00:01:53: Two 100 million in added hotel revenue.
00:01:53 --> 00:01:54: 3000 employees.
00:01:54 --> 00:01:58: Just a huge economic boom across the board.
00:01:58 --> 00:01:59: All good.
00:01:59 --> 00:02:00: Not so much.
00:02:00 --> 00:02:03: So some CE OS actually say the increased spending on
00:02:03 --> 00:02:07: experience has decreased the good spending and actually
hurt their
00:02:07 --> 00:02:08: bottom line.
00:02:09 --> 00:02:11: So Long story short, I use this as an example
00:02:11 --> 00:02:14: because one, she's helped the economy and two, if you
00:02:14 --> 00:02:17: mentioned Taylor Swift, something good is bound to happen
to
00:02:17 --> 00:02:17: you.
00:02:17 --> 00:02:19: So I'm counting on that.
00:02:20 --> 00:02:21: Next slide please.
00:02:23 --> 00:02:25: Sorry, we'll go one more.
00:02:26 --> 00:02:26: There we go.
00:02:27 --> 00:02:28: OK.
00:02:28 --> 00:02:31: So if you know emerging trends, you know we like
00:02:31 --> 00:02:33: quotes, this might be the longest one ever.
00:02:34 --> 00:02:35: Not going to read it to you, but I think
00:02:35 --> 00:02:36: it's really good.
00:02:36 --> 00:02:39: It has a negative and positive industry tones within it.
00:02:40 --> 00:02:42: The negative that there will be disruption.
00:02:42 --> 00:02:45: The positive, if you do your homework, there are going
00:02:45 --> 00:02:46: to be opportunities.
00:02:48 --> 00:02:49: Next slide.
00:02:50 --> 00:02:51: All right.
00:02:51 --> 00:02:53: So let me bring some stuff from the surveys.
00:02:53 --> 00:02:56: So the top concern remains interest rates and cost of
00:02:56 --> 00:02:59: capital followed closely by credit availability.
00:03:00 --> 00:03:04: Debt is viewed as slightly more available than last year
00:03:04 --> 00:03:06: from all sources except the banks.
00:03:06 --> 00:03:10: Still, respondents believe that both debt and equity
underwriting will
00:03:10 --> 00:03:11: become more rigorous.

00:03:12 --> 00:03:16: Despite these challenges, many industry participants remain at least somewhat

00:03:16 --> 00:03:17: optimistic.

00:03:17 --> 00:03:21: 41% now rate prospects as good to excellent, and that's

00:03:21 --> 00:03:22: the lowest showing.

00:03:23 --> 00:03:26: While that's the lowest showing since the 2011 edition, when

00:03:26 --> 00:03:29: the industry was still trying to climb out of the

00:03:29 --> 00:03:32: GFC, the top social political concern remain housing costs and

00:03:32 --> 00:03:35: availability, which was touched upon the emerging trends.

00:03:35 --> 00:03:40: Barometer for 2024 registered the highest buy rating since 2010.

00:03:41 --> 00:03:46: Now this is likely reflecting recent and expected price declines.

00:03:46 --> 00:03:49: So people might be looking this as a nice entry

00:03:49 --> 00:03:53: point for acquisitions after a decade of just relentless appreciation.

00:03:54 --> 00:03:55: The worst inflation.

00:03:56 --> 00:03:58: Our respondents say the worst of inflation is behind us.

00:03:58 --> 00:04:01: Over 90% think it will either decline or at least

00:04:01 --> 00:04:03: stabilize during 2024.

00:04:04 --> 00:04:07: However, almost half expect cap rates to rise further next

00:04:07 --> 00:04:10: year, which will depress values and returns.

00:04:12 --> 00:04:16: So notwithstanding the importance of the office property sector as

00:04:16 --> 00:04:19: a share of the commercial real estate market, the deep

00:04:19 --> 00:04:22: problems should not color the entire industry.

00:04:23 --> 00:04:27: There's a disconnect between property fundamentals and capital markets And

00:04:28 --> 00:04:33: office sector aside, property fundamentals remain surprisingly strong, transaction levels

00:04:33 --> 00:04:37: remain subdued and core investors do remain on the sidelines

00:04:37 --> 00:04:41: for the most part, waiting for the right entry point,

00:04:41 --> 00:04:43: but few owners face real distress.

00:04:44 --> 00:04:47: Investors are also waiting for greater clarity from the Fed

00:04:47 --> 00:04:52: regarding interest rates, but most interview interviewees do not anticipate

00:04:52 --> 00:04:54: much recovery until mid to late 2024.

00:04:56 --> 00:05:00: More diversity of sentiment and outlooks now were came out of the surveys more than the GFC or even the

00:05:00 --> 00:05:03: COVID lockdown.

00:05:04 --> 00:05:05: COVID lockdown.

00:05:05 --> 00:05:08: So there's there's a lot of diversity and opinions or

00:05:08 --> 00:05:08: responses.

00:05:09 --> 00:05:13: Despite the capital market slowdown, some investors and developers are

00:05:13 --> 00:05:17: more positive about near term prospects than they have been

00:05:17 --> 00:05:20: and opportunistic investors remain more optimistic than core.

00:05:21 --> 00:05:21: Next slide.

00:05:23 --> 00:05:23: All right.

00:05:23 --> 00:05:26: So here are the trends, the main trends we've got.

00:05:26 --> 00:05:29: We're not going to touch on all of them in

00:05:29 --> 00:05:31: detail, but we will highlight a few.

00:05:32 --> 00:05:34: Let's go to the next slide.

00:05:35 --> 00:05:35: All right.

00:05:35 --> 00:05:38: It's been nearly 18 months since economists began predicting a

00:05:38 --> 00:05:39: recession.

00:05:40 --> 00:05:42: While the jury may still be out on whether or

00:05:42 --> 00:05:45: not we're headed for a recession, there's a growing consensus

00:05:45 --> 00:05:48: that the economy is going to get that soft landing

00:05:48 --> 00:05:49: or a growth recession.

00:05:49 --> 00:05:53: There's still some concerns about, you know, household saving rates

00:05:53 --> 00:05:57: are below historical levels, student loan payments have resumed, oil

00:05:57 --> 00:06:03: prices are rising, Banks are tidying, regulations, obviously, widespread geopolitical

00:06:03 --> 00:06:03: uncertainty.

00:06:04 --> 00:06:07: Overall, the broader economy, slower for longer path might avoid

00:06:07 --> 00:06:10: a recession, but it really doesn't bode well for the

00:06:10 --> 00:06:12: commercial real estate industry.

00:06:13 --> 00:06:14: Rates are likely to remain high.

00:06:14 --> 00:06:17: Demand for space may decline with a weaker economy.

00:06:17 --> 00:06:21: Higher for longer may define the current market scenario, but

00:06:21 --> 00:06:23: the duration remains unknown.

00:06:24 --> 00:06:27: Brings us to our next trend, the great reset.

00:06:27 --> 00:06:29: I promise it'll get a little more optimistic.

00:06:30 --> 00:06:33: OK, so the real estate industry is grappling with the

00:06:34 --> 00:06:37: new scenario of higher rates combined with slower growth.

00:06:37 --> 00:06:43: Current sales volumes are 60% below 21 and 22 levels.

00:06:44 --> 00:06:48: However, the market activity is only 25% below the 15

00:06:48 --> 00:06:50: to 19 average.

00:06:51 --> 00:06:55: So when you from a broader historical perspective, transaction volume

00:06:55 --> 00:06:58: might not be as dire as perceived from short term
00:06:58 --> 00:07:01: memory, but it does still reflect the reset.
00:07:03 --> 00:07:09: Unfortunately, this recent experience of higher transaction level has led
00:07:09 --> 00:07:12: to a resource misalignment.
00:07:12 --> 00:07:17: So think excessive staffing, idle brokers and all that's on
00:07:17 --> 00:07:19: top of unused capital.
00:07:20 --> 00:07:23: Cue the reset cap rates are up and headed into
00:07:23 --> 00:07:27: 2024 / 40% of the emerging trends respondents believe they
00:07:27 --> 00:07:31: will continue to increase and even 35% more said they'll
00:07:31 --> 00:07:32: stay the same.
00:07:32 --> 00:07:34: So we're not really seeing the expectation of cap rates
00:07:34 --> 00:07:36: going back down or compression.
00:07:38 --> 00:07:41: As shown on the slide, return expectations are adjusting with
00:07:41 --> 00:07:43: 40% expecting to remain at current levels.
00:07:44 --> 00:07:47: Interestingly though, 60% of respondents do believe that the cap
00:07:47 --> 00:07:51: rates will decline over the next five years and that
00:07:51 --> 00:07:52: may be some silver lining.
00:07:52 --> 00:07:56: So despite the immediate headwinds, the current environment may present
00:07:56 --> 00:08:00: opportunities to take advantage of future cap rate compression that
00:08:00 --> 00:08:03: could bolster returns in the face of slower growth and
00:08:03 --> 00:08:04: lower demand.
00:08:05 --> 00:08:07: 1st, we must go through the next trend, a painful
00:08:07 --> 00:08:11: and needed capitulation, but that might present opportunities.
00:08:11 --> 00:08:11: Next slide.
00:08:14 --> 00:08:17: OK, so despite the onset of the pandemic being 3-4
00:08:17 --> 00:08:21: years behind us, the lacklustre return to office is is
00:08:21 --> 00:08:22: really undeniable.
00:08:22 --> 00:08:25: I feel it in my business, in my clients businesses.
00:08:26 --> 00:08:29: It's resulted in a painful need for capitulation, returned off
00:08:29 --> 00:08:32: at office, mandate struggle in the face of desire for
00:08:32 --> 00:08:33: hybrid work from home.
00:08:33 --> 00:08:34: I'm sure we're all feeling it.
00:08:35 --> 00:08:39: Castle Systems badge swipe data for the 10 city average
00:08:39 --> 00:08:42: edged up to 50% from 47% after Labor Day.
00:08:43 --> 00:08:46: That was not nearly the rush that was hoped for
00:08:46 --> 00:08:51: given the weakening attendance demand as you can see is
00:08:51 --> 00:08:56: down in downtown Class A occupancy, sorry the occupancy has
00:08:56 --> 00:08:59: has gone up, sorry the vacancy has gone up.

00:08:59 --> 00:09:03: So we've got 10 to 18% between Q 419 and
00:09:03 --> 00:09:04: 2023.
00:09:05 --> 00:09:07: I don't know about you guys, but at our office
00:09:07 --> 00:09:09: it's become more of a place to foster collaboration and
00:09:09 --> 00:09:12: build culture opposed to just the critical need for the
00:09:12 --> 00:09:14: equipment that used to be in the office.
00:09:14 --> 00:09:16: I mean everybody can do their job from home.
00:09:18 --> 00:09:20: What this will do, I the respondents think this will
00:09:20 --> 00:09:23: do to the Class A, is that there'll be haves
00:09:23 --> 00:09:26: and have nots and really the the office in general,
00:09:26 --> 00:09:29: there's likely not enough stock of high quality Class A
00:09:29 --> 00:09:32: that meets the current demands and attracts workers back.
00:09:34 --> 00:09:36: That should be positive for leasing and pricing of those
00:09:37 --> 00:09:37: buildings.
00:09:37 --> 00:09:41: Comparatively though, the Class B, their owners are likely
00:09:41 --> 00:09:42: facing
00:09:42 --> 00:09:46: a dilemma.
00:09:46 --> 00:09:50: Should they invest in upgrades with uncertain returns, face
00:09:50 --> 00:09:51: loan defaults, or consider the limited conversion
00:09:52 --> 00:09:57: opportunities?
00:09:57 --> 00:09:59: We'll talk about that a little later.
00:10:01 --> 00:10:04: Successful conversions are just dependent on factors like
00:10:04 --> 00:10:07: location, building
00:10:09 --> 00:10:12: quality and perhaps most significantly, price.
00:10:12 --> 00:10:14: As a result, the conversions might go the way of
00:10:15 --> 00:10:15: retail, where they're better in theory than actual execution.
00:10:18 --> 00:10:23: Next slide, All right.
00:10:23 --> 00:10:24: If there is one trend that needs no introduction, it's
00:10:24 --> 00:10:26: this.
00:10:26 --> 00:10:31: The rising cost of debt and lack of availability is
00:10:31 --> 00:10:34: front and centre for all, for all government, corporate,
00:10:34 --> 00:10:40: household,
00:10:40 --> 00:10:43: all those debt.
00:10:43 --> 00:10:46: All that debt is at record levels.
00:10:47 --> 00:10:51: However, corporate and household debt seem to be
generally sustainable
with low default rates comparatively.
Commercial real estate delinquencies are slowly increasing,
especially for CMBS,
Life Cos and banks, but they remain healthier than in
their set during previous recessions.
Generally, lenders are using the extend and pretend
approach, but

00:10:51 --> 00:10:54: not without asking for something to return.

00:10:54 --> 00:10:57: Borrowers must make concessions, putting up cash or even expanding

00:10:57 --> 00:10:59: the overall banking relationships.

00:11:02 --> 00:11:05: While that may work for some, particularly in the short

00:11:05 --> 00:11:09: term, perhaps more troubling than the delinquency rates going up

00:11:09 --> 00:11:12: slightly, the fact is the banks, the prime primary providers

00:11:12 --> 00:11:16: of commercial real estate, they're just sitting on the sidelines

00:11:16 --> 00:11:18: and that's a concern for all.

00:11:19 --> 00:11:22: This is clearly evidenced the responses and emerging trends where

00:11:22 --> 00:11:25: as you can see up here, over 3/4 of respondents

00:11:25 --> 00:11:27: believe debt financing is undersupplied.

00:11:28 --> 00:11:32: To quantify this decline, originations have dropped 54% in the

00:11:32 --> 00:11:35: first half of 23 compared to the first half of

00:11:35 --> 00:11:35: 22.

00:11:36 --> 00:11:37: I don't think this comes as any surprise to anybody

00:11:38 --> 00:11:38: in this room.

00:11:38 --> 00:11:43: While debt being described as the oxygen of commercial real

00:11:43 --> 00:11:49: estate, transaction volume and price discovery may struggle to normalize

00:11:49 --> 00:11:50: further.

00:11:50 --> 00:11:54: A significant amount of mortgage debt will expire in 2024

00:11:54 --> 00:11:55: and into 2025.

00:11:56 --> 00:11:57: There's a confluence of considerations.

00:11:57 --> 00:12:01: Higher interest rates, reduced asset values, weakening loan to value

00:12:01 --> 00:12:02: ratios.

00:12:02 --> 00:12:06: The inability to refinance for many might result in increased

00:12:06 --> 00:12:10: distress selling, which would bring clarity to pricing and support

00:12:10 --> 00:12:12: the growth in transaction volume.

00:12:12 --> 00:12:16: Still such price discovery, it might come piece meal.

00:12:16 --> 00:12:17: I don't know if you're just going to see a

00:12:17 --> 00:12:17: wave of it.

00:12:18 --> 00:12:22: So the current market dynamics, everybody's probably heard this, have

00:12:22 --> 00:12:25: given a rise to the adage survive until 25.

00:12:26 --> 00:12:28: I think a lot of people are taking that into

00:12:28 --> 00:12:29: consideration.

00:12:29 --> 00:12:32: Many, many investors are utilizing cash in the short term

00:12:32 --> 00:12:36: hoping to refinance when rates reset, which is probably 2025

00:12:36 --> 00:12:36: and beyond.

00:12:38 --> 00:12:44: Next slide, All right, Housing affordability crisis, again, that was

00:12:44 --> 00:12:45: touched on.

00:12:46 --> 00:12:49: Housing affordability in the US has significantly declined.

00:12:49 --> 00:12:52: Home prices have risen 40%.

00:12:52 --> 00:12:57: Mortgage interest rates have surged by 150% from 3% to

00:12:57 --> 00:12:58: nearly 8%.

00:12:58 --> 00:13:01: So a little back of the envelope calculation.

00:13:01 --> 00:13:04: If you made 67 grand, we're looking to buy a

00:13:04 --> 00:13:07: \$400,000 house in 2020, you could get a three 3

00:13:07 --> 00:13:08: 1/2 percent rate.

00:13:08 --> 00:13:12: You're paying 1800 bucks a month, 33% of your salary.

00:13:12 --> 00:13:15: The golden rule is typically 28%.

00:13:15 --> 00:13:17: So you're already over that.

00:13:17 --> 00:13:19: Fast forward to 2023, you might be making a little

00:13:19 --> 00:13:20: more money.

00:13:21 --> 00:13:24: Say you're if you buy the same 400, same house,

00:13:24 --> 00:13:29: same \$400,000 house in 2023, you're probably getting a lot

00:13:29 --> 00:13:31: less house but also 8% rate.

00:13:31 --> 00:13:34: That puts you at \$2700 a month, 46% of the

00:13:34 --> 00:13:37: salary which is is probably not what you want to

00:13:37 --> 00:13:37: do.

00:13:38 --> 00:13:40: So it's just it's becoming further and further out of

00:13:40 --> 00:13:42: reach and just more of a national perspective, the income

00:13:42 --> 00:13:42: gap.

00:13:43 --> 00:13:47: So mortgage payment for a medium priced home is now

00:13:47 --> 00:13:51: that that mortgage payment will be \$2600 and \$26149.

00:13:52 --> 00:13:56: That would need an income of about \$113,000, which is

00:13:56 --> 00:13:59: 50% more than the median income in the United States.

00:14:00 --> 00:14:02: And there's really no immediate relief that we see.

00:14:03 --> 00:14:04: Mortgage rates are expected to stay high.

00:14:04 --> 00:14:07: I know they've come off that high sevens, and maybe

00:14:07 --> 00:14:10: they're close to the low sevens, even high sixes somewhere.

00:14:11 --> 00:14:14: But homeowners are reluctant to move due to the higher

00:14:14 --> 00:14:15: mortgage payments.

00:14:15 --> 00:14:18: They don't want to give up the 3% rate housing

00:14:18 --> 00:14:19: shortage.

00:14:19 --> 00:14:22: the US faces a gap of about 3.8 million homes.

00:14:23 --> 00:14:25: Construction hasn't been able to keep up with the population

00:14:25 --> 00:14:26: growth since the Great Recession.

00:14:29 --> 00:14:30: Future outlook.

00:14:30 --> 00:14:35: So permits and home builder confidence indicate the increase in

00:14:35 --> 00:14:39: housing deliveries in 24 and 25, but it's unlikely to

00:14:39 --> 00:14:42: close that housing gap that we're seeing.

00:14:43 --> 00:14:46: This was other also interesting to me that just a

00:14:46 --> 00:14:49: generational perspective, 18% of millennials and 12% of Gen.

00:14:49 --> 00:14:51: Z believe they'll never own a home.

00:14:52 --> 00:14:55: It's kind of bleak renting scenario.

00:14:55 --> 00:14:58: Over 1.2 million apartment units have been added since the

00:14:58 --> 00:14:58: pandemic began.

00:14:59 --> 00:15:04: However, most of those units are are they're only accessible

00:15:04 --> 00:15:06: to 41% of America's renters.

00:15:06 --> 00:15:09: So it's more in the luxury or not the mid

00:15:09 --> 00:15:13: level low income type of apartments, potential solutions, 3D printing,

00:15:13 --> 00:15:17: we've been talking about this for a couple years.

00:15:17 --> 00:15:20: It offers potential to reduce housing construction costs, make it

00:15:20 --> 00:15:24: faster and more efficient than standard construction, revising local zoning

00:15:25 --> 00:15:29: laws, reducing minimum lot sizes, increasing building limit building height

00:15:29 --> 00:15:31: limits, reducing parking requirements.

00:15:31 --> 00:15:32: And we'll talk a little bit more about this in

00:15:32 --> 00:15:33: the panel.

00:15:34 --> 00:15:37: And just really anything we can do to innovatively produce

00:15:37 --> 00:15:40: affordable housing, which help can help address the crisis.

00:15:41 --> 00:15:41: Next slide?

00:15:43 --> 00:15:45: All right, Eco anxiety.

00:15:45 --> 00:15:49: So if if the financing environment wasn't already anxiety inducing

00:15:49 --> 00:15:50: enough.

00:15:50 --> 00:15:53: We've got the presidential election and other global headlines.

00:15:53 --> 00:15:56: There's the trend of eco anxiety So to level set

00:15:56 --> 00:15:59: emerging trends has talked about ESG in the past but

00:15:59 --> 00:16:01: this year it kind of takes new shape.

00:16:01 --> 00:16:03: In the report, 2023 is set to be one of

00:16:04 --> 00:16:07: the hottest years ever, the number of billion dollar climate

00:16:07 --> 00:16:11: events continues to rise nearly each year, and the severity

00:16:11 --> 00:16:15: of climate related events has dramatically increased

00:16:15 --> 00:16:16: insurance cost or even availability.

00:16:16 --> 00:16:20: If you think of places like California and Florida, asset
00:16:20 --> 00:16:26: asset managers need a balance between making climate
resilient investments,
00:16:26 --> 00:16:29: adhering to ESG mandates, and societal pushback.
00:16:31 --> 00:16:35: Not only are certain investor groups predict particularly
inbound demanding
00:16:35 --> 00:16:40: ESG policies, but municipalities are passing local laws on
sustainability
00:16:40 --> 00:16:41: requirements.
00:16:42 --> 00:16:47: Ideology aside, a focus on sustainability and resiliency drives
financial
00:16:47 --> 00:16:50: performance and the preservation of capital.
00:16:50 --> 00:16:53: So really it's important devise a strategy on how to
00:16:53 --> 00:16:57: incorporate these considerations into an investment mandate
and that may
00:16:57 --> 00:16:59: ease some of this eco and anxiety.
00:17:00 --> 00:17:05: Next slide, All right, changes in portfolio allocation they've
been
00:17:05 --> 00:17:08: taking place for some time as this data shows, which
00:17:08 --> 00:17:13: essentially summarizes the percentage of market value by
property type
00:17:13 --> 00:17:15: in the Nacref property index.
00:17:16 --> 00:17:20: That said, the current trend of portfolio pivot requires
differentiation
00:17:20 --> 00:17:23: between cyclical and secular trends.
00:17:23 --> 00:17:27: So overall, portfolio managers are facing a number of
challenges
00:17:27 --> 00:17:30: that will contribute to shaping these new portfolio allocations,
some
00:17:30 --> 00:17:34: of which include climate risk decarbonization and really
capital capital
00:17:34 --> 00:17:37: competition considering the higher interest rate environment.
00:17:38 --> 00:17:41: And as a result, strategies for current cycle, for the
00:17:41 --> 00:17:45: current cycle involves decisions on do you dispose devalued
assets,
00:17:45 --> 00:17:47: do you sell, do you need to sell to meet
00:17:48 --> 00:17:51: redemption requests and determining the right time for
market re
00:17:51 --> 00:17:52: entry.
00:17:53 --> 00:17:57: Comparatively secular trends are impacting decisions related
to sector and
00:17:58 --> 00:17:58: risk exposure.
00:17:59 --> 00:18:03: Office in real estate were once cornerstone of portfolio
allocations.
00:18:03 --> 00:18:07: They're hard to replay through replaced with respect to both

00:18:07 --> 00:18:10: capital deployment and strategy niche sectors.

00:18:10 --> 00:18:14: So thanks storage, manufactured housing, medical office, they're in vogue

00:18:14 --> 00:18:17: more and more, but they do present unique challenges.

00:18:17 --> 00:18:21: The inherit smaller value of these deals requires more deal

00:18:21 --> 00:18:24: volume or portfolio transactions.

00:18:24 --> 00:18:29: These assets are also that you really need specialized knowledge.

00:18:29 --> 00:18:32: So you got the dilemma, do you hire specialist or

00:18:32 --> 00:18:36: do you partner with experts, both of which are costly

00:18:36 --> 00:18:36: propositions.

00:18:38 --> 00:18:42: All told, the portfolio pivot goes well beyond property sector

00:18:42 --> 00:18:42: allocations.

00:18:43 --> 00:18:44: Next slide please.

00:18:47 --> 00:18:47: All right.

00:18:47 --> 00:18:51: The keyword in this trend is remote, as remote use

00:18:51 --> 00:18:53: of office is clearly here to stay.

00:18:53 --> 00:18:56: The data on the slide is from the US Census

00:18:56 --> 00:19:00: Bureau's 2022 survey and it details the significant rise in

00:19:00 --> 00:19:01: remote working.

00:19:01 --> 00:19:02: You know, no surprise here.

00:19:03 --> 00:19:07: Overall, remote working in the US increased from 5.7% in

00:19:08 --> 00:19:09: 2019 to 15.2% in 2022.

00:19:10 --> 00:19:14: And interestingly, the impact in tech heavy metros is even

00:19:14 --> 00:19:15: more pronounced.

00:19:15 --> 00:19:20: Seattle 9 to 35%, San Francisco 7 to 32%, Austin

00:19:20 --> 00:19:21: 8 to 30%.

00:19:22 --> 00:19:25: And while remote workers may con, remote work may conjure

00:19:25 --> 00:19:30: visions of empty office, it also opens up optionality, specifically

00:19:30 --> 00:19:32: relocation or extending the commutes.

00:19:33 --> 00:19:37: It's worth noting that such optionality typically skews younger, as

00:19:37 --> 00:19:40: you'd expect those That's mostly because the workers may not

00:19:40 --> 00:19:43: be as rooted in their communities, and without a doubt,

00:19:43 --> 00:19:45: remote work has crushed office.

00:19:46 --> 00:19:49: But it may also have positive impacts on the housing

00:19:49 --> 00:19:52: sector or if you branch out to other metro or

00:19:52 --> 00:19:53: suburban communities.

00:19:55 --> 00:19:57: Next slide All right.

00:19:57 --> 00:20:00: It was only three years ago in the 2021 edition

00:20:00 --> 00:20:05: that the trend of reinventing cities post COVID was introduced.

00:20:05 --> 00:20:08: Now we've got, as mentioned, the sluggish return to office,

00:20:08 --> 00:20:11: compounding declines in property values, rising interest rates.

00:20:12 --> 00:20:13: Some camps are thinking of the.

00:20:14 --> 00:20:16: Urban doom loop.

00:20:16 --> 00:20:17: That's a new quote from this.

00:20:18 --> 00:20:22: Cue the deja vu sequence, because downtowns really do need

00:20:22 --> 00:20:23: to reinvent themselves again.

00:20:24 --> 00:20:29: Interestingly, and maybe not surprisingly, smaller cities have rebounded quicker

00:20:29 --> 00:20:30: post pandemic.

00:20:30 --> 00:20:33: Specifically, less than 150,000.

00:20:33 --> 00:20:37: They've experienced a faster post pandemic recovery than the greater

00:20:37 --> 00:20:39: than 1.5 million cities.

00:20:39 --> 00:20:41: So I thought this that was interesting.

00:20:41 --> 00:20:45: Central business district visits for large cities is still down

00:20:45 --> 00:20:49: 40% based on phone mobility data, it shows.

00:20:49 --> 00:20:51: The data also shows the millennials have largely moved to

00:20:51 --> 00:20:52: the suburbs.

00:20:53 --> 00:20:54: However, Gen.

00:20:54 --> 00:20:56: Z is nearly the same size as their predecessor.

00:20:56 --> 00:21:00: Generation is potentially poised to move in where others have

00:21:00 --> 00:21:00: moved out.

00:21:02 --> 00:21:05: We'll stay away from the urban doom loop a little

00:21:05 --> 00:21:07: bit and highlight the glass half full camp.

00:21:08 --> 00:21:12: They envision adaptive CBDS whereby cities will innovate and diversify

00:21:12 --> 00:21:13: in the face of the challenge.

00:21:14 --> 00:21:18: Urban transit and infrastructure is likely going to need to

00:21:18 --> 00:21:22: be reimaged to cater to these evolving patterns.

00:21:23 --> 00:21:25: Shorter trips, reduced parking, more connectivity.

00:21:25 --> 00:21:28: But we're optimistic that some cities can succeed.

00:21:30 --> 00:21:30: Next slide.

00:21:33 --> 00:21:33: All right.

00:21:34 --> 00:21:37: Technology, you know, we've touched on this year after year

00:21:37 --> 00:21:39: and it's been a recurring theme in emerging trends.

00:21:39 --> 00:21:43: Not long ago, we categorized real estate as an analogue

00:21:43 --> 00:21:44: industry in a digital world.

00:21:45 --> 00:21:48: AI is set to up in the status quo even

00:21:48 --> 00:21:50: for an industry historically slower to adapt.

00:21:51 --> 00:21:56: Firms in the real estate industry are increasingly integrating AI

00:21:56 --> 00:22:00: across various functions, from design to management and from leasing

00:22:00 --> 00:22:03: to sophisticated data data analysis.

00:22:03 --> 00:22:08: Large language models mimic human intelligence, enabling automation of routine

00:22:08 --> 00:22:12: tasks such as marketing plan creation, for example, and potentially

00:22:12 --> 00:22:14: more complex tasks like drafting leases.

00:22:15 --> 00:22:17: The potential for AI is evidence.

00:22:17 --> 00:22:21: As insurance companies, they're using this for risk management and

00:22:21 --> 00:22:23: a lot of a lot of firms on the forefront

00:22:23 --> 00:22:26: of this think that AI can be used for portfolio

00:22:26 --> 00:22:29: allocation, diversification, finding sites.

00:22:30 --> 00:22:34: As it relates to worker productivity, there's less of debate,

00:22:34 --> 00:22:38: but it does present new considerations on policies and procedures.

00:22:39 --> 00:22:41: So some of the examples that came out of the

00:22:41 --> 00:22:47: interviews interviewees indicated that investment committee memos must indicate where

00:22:47 --> 00:22:50: AI was used as part of the analysis and then

00:22:50 --> 00:22:53: must say how did, how did the human check the

00:22:53 --> 00:22:56: output, like what was done as a person so that

00:22:56 --> 00:22:58: you're not just relying on the AI.

00:22:59 --> 00:23:01: Others have indicated that it can only be used for

00:23:01 --> 00:23:02: certain instances.

00:23:02 --> 00:23:05: Think rent roll extraction opposed to forecasting.

00:23:05 --> 00:23:08: And so everybody's in a different place on their AI

00:23:08 --> 00:23:08: journey.

00:23:09 --> 00:23:12: But any boardroom I go in, any CEO I meet

00:23:12 --> 00:23:16: with CFOAI is on the forefront of the discussions And

00:23:16 --> 00:23:17: funny anecdote.

00:23:18 --> 00:23:20: I think it's funny, we I was in the Midwest

00:23:21 --> 00:23:24: for Thanksgiving and just to visit my parents and my

00:23:24 --> 00:23:27: 10 year old daughter came up and she was like,

00:23:27 --> 00:23:30: dad, can I use ChatGPT to write grandma poem?

00:23:30 --> 00:23:31: Because we had played around with her before.

00:23:32 --> 00:23:36: Like, all right, so she puts in a grandma from

00:23:36 --> 00:23:39: Ohio named Sue nurse poem.

00:23:39 --> 00:23:43: And so 3 seconds later it spits out this beautiful

00:23:43 --> 00:23:44: 16 line sonnet.

00:23:45 --> 00:23:48: And so she goes and reads it to my mom.

00:23:48 --> 00:23:50: Of course, my mom cries.

00:23:50 --> 00:23:56: And we reluctantly say, you know, grandma, that was AI.

00:23:56 --> 00:23:58: And so she's like, OK, I'm a little disappointed, but

00:23:58 --> 00:24:01: it's the thought that counts, like any good grandma would

00:24:01 --> 00:24:01: say.

00:24:02 --> 00:24:04: So this is certainly one trend where there will be

00:24:04 --> 00:24:07: more to come and the learning curve is going to

00:24:07 --> 00:24:07: be steep.

00:24:08 --> 00:24:13: Next slide, I think you can prep, maybe press it

00:24:13 --> 00:24:14: again.

00:24:16 --> 00:24:16: There we go.

00:24:18 --> 00:24:18: All right.

00:24:18 --> 00:24:19: As mentioned, Austin.

00:24:19 --> 00:24:20: Well, maybe one more.

00:24:21 --> 00:24:22: Let's get some rankings.

00:24:22 --> 00:24:23: There we go.

00:24:24 --> 00:24:24: All right.

00:24:24 --> 00:24:27: So I don't think there's ton of surprises here, but

00:24:27 --> 00:24:28: let's go through it a little bit.

00:24:29 --> 00:24:32: Really it was pessimistic expectations as a whole, but some

00:24:32 --> 00:24:33: states did stand out.

00:24:33 --> 00:24:37: 74 of the 80 markets were lower in 2024 based

00:24:37 --> 00:24:38: on survey results.

00:24:39 --> 00:24:41: But some markets still did better than others.

00:24:42 --> 00:24:45: Investors were more selective this year, but there's always a

00:24:45 --> 00:24:47: number one Nashville, they did a three peat and it

00:24:47 --> 00:24:48: was fun.

00:24:48 --> 00:24:50: I don't know if anybody saw on CNBC they were

00:24:50 --> 00:24:52: highlighting Nashville right before I came over here.

00:24:54 --> 00:24:55: What's the equation?

00:24:55 --> 00:25:00: Jokingly music people Bachelorette parties like investors love

00:25:00 --> 00:25:01: going there

00:25:00 --> 00:25:01: for for those reasons.

00:25:03 --> 00:25:05: But I I did hear also today I didn't that

00:25:05 --> 00:25:09: the music scene, while huge, their healthcare industry is

00:25:09 --> 00:25:13: something

00:25:09 --> 00:25:13: like 6 times their music scene from an economic perspective.

00:25:13 --> 00:25:15: So again, Congrats to Nashville.

00:25:15 --> 00:25:16: Three in a row is a big deal.

00:25:16 --> 00:25:20: Other notable moves, Phoenix jumps to number 2-3 in the

00:25:20 --> 00:25:23: top 10 for Texas, which is always great.
00:25:24 --> 00:25:26: A little surprise here I guess was Florida.
00:25:26 --> 00:25:27: Nothing in the top ten.
00:25:28 --> 00:25:30: You know all the headlines over the last couple years
00:25:30 --> 00:25:32: has been an influx to Florida, but they are not
00:25:32 --> 00:25:34: in the top 10 for a specific city.
00:25:34 --> 00:25:38: Sunbelt communities, you know the OR the smile
communities as
00:25:38 --> 00:25:41: as it's referred to, they remain attractive.
00:25:41 --> 00:25:45: Big pandemic growth, demographic trends are good, good
weather, business
00:25:45 --> 00:25:47: friendly, quality of life.
00:25:47 --> 00:25:49: I mean you guys are in Austin, so I'm not
00:25:49 --> 00:25:50: telling anybody anything they don't know.
00:25:52 --> 00:25:52: Next slide.
00:25:54 --> 00:25:55: All right.
00:25:55 --> 00:25:58: Here are the more granular on property sectors to watch.
00:25:58 --> 00:26:02: So an interesting note is this was the largest top
00:26:02 --> 00:26:04: to bottom gap since 2016.
00:26:04 --> 00:26:08: So big diversions, no surprise Office was last.
00:26:09 --> 00:26:11: Will there be adaptive reuse?
00:26:12 --> 00:26:14: What's going to happen with the work from home?
00:26:14 --> 00:26:16: It's just difficult, expensive.
00:26:16 --> 00:26:20: There's just so many unknowns that no surprise that that's
00:26:20 --> 00:26:24: that's last Hotels took a step back, that leisure travel
00:26:24 --> 00:26:26: boom kind of slowed down.
00:26:26 --> 00:26:29: It hit really hard right after the pandemic, but the
00:26:29 --> 00:26:32: stats say that inflation put the brakes on that a
00:26:32 --> 00:26:32: bit.
00:26:33 --> 00:26:36: So again I think that's why that investment prospect has
00:26:36 --> 00:26:38: slowed down a little bit.
00:26:38 --> 00:26:40: Business travel was back though, I mean at least what
00:26:41 --> 00:26:43: I'm seeing not not all the way back pre pandemic
00:26:43 --> 00:26:46: but our company and our clients are are getting on
00:26:46 --> 00:26:49: the planes for the three hour meetings where that wasn't
00:26:49 --> 00:26:51: happening the last couple years.
00:26:51 --> 00:26:55: So that's something living spaces dominated you know
between single
00:26:55 --> 00:26:59: family housing and multi family that was that was number
00:26:59 --> 00:27:03: one and two relatively positive outlook right.
00:27:03 --> 00:27:06: The challenges remain, it's expensive to buy single family
housing.
00:27:06 --> 00:27:10: Lots of millennials have the financial headwinds and there's

lots

00:27:10 --> 00:27:13: of renters out there but like I said there's not
00:27:13 --> 00:27:15: enough low and mid level multi family.
00:27:15 --> 00:27:17: So even the number one and two slots still have
00:27:18 --> 00:27:20: their potential issues and challenges.
00:27:21 --> 00:27:23: All right, let's go Austin specific.
00:27:26 --> 00:27:30: As you can see here, Austin has done better than
00:27:30 --> 00:27:35: the national average for each of the property sectors.
00:27:35 --> 00:27:39: Not surprising, the home building prospect number one was
really
00:27:39 --> 00:27:39: solid.
00:27:40 --> 00:27:42: But yeah, just kind of good news all around.
00:27:42 --> 00:27:45: I know there's challenges and we'll get into a lot
00:27:45 --> 00:27:46: of that with the more micro panel.
00:27:46 --> 00:27:51: But yeah, this is the Austin market insight and one
00:27:51 --> 00:27:53: more the Austin buy and hold.
00:27:54 --> 00:27:55: So this was interesting.
00:27:55 --> 00:27:58: I actually emailed the head of research this morning to
00:27:58 --> 00:28:00: get a little more color on this one because I
00:28:00 --> 00:28:01: noticed it.
00:28:01 --> 00:28:05: It it seems contradictory a bit to the previous slide
00:28:05 --> 00:28:09: where you know the buy for national average on a
00:28:09 --> 00:28:13: few of these categories is higher than Austin and that
00:28:13 --> 00:28:18: might be investors seeing relative you know relative deals
elsewhere
00:28:18 --> 00:28:22: where Austin some of the prices already baked in but
00:28:22 --> 00:28:26: these were the survey respondents results.
00:28:27 --> 00:28:28: So food for thought.
00:28:33 --> 00:28:36: So that covers that the we went to a completely
00:28:36 --> 00:28:39: as you mentioned only online but it's also very interactive
00:28:39 --> 00:28:40: now and searchable.
00:28:41 --> 00:28:44: So instead of flipping through hundreds of pages or scrolling
00:28:44 --> 00:28:47: through APDF, it's much more user friendly for research.
00:28:47 --> 00:28:50: So I encourage you to peruse it and thank you
00:28:50 --> 00:28:51: guys for your time.
00:28:51 --> 00:28:52: I really appreciate it.
00:28:59 --> 00:29:01: And up next we've got the panel.
00:29:07 --> 00:29:08: Oh, yeah, sure.
00:29:27 --> 00:29:30: One that got voted up is should we start doing
00:29:30 --> 00:29:30: shots?
00:29:32 --> 00:29:32: I feel, yeah.
00:29:32 --> 00:29:35: A little early for me, but it is past 12,
00:29:35 --> 00:29:38: so I'll be at the airport in a couple hours

00:29:38 --> 00:29:40: if anybody wants to join me.

00:29:44 --> 00:29:45: All right.

00:29:45 --> 00:29:46: Welcome.

00:29:47 --> 00:29:47: How are you guys doing?

00:29:49 --> 00:29:49: You know, I'll stand.

00:29:49 --> 00:29:50: I'm, like, moving around.

00:29:50 --> 00:29:50: Yeah.

00:29:50 --> 00:29:51: Thank you, though.

00:29:53 --> 00:29:54: All right.

00:29:54 --> 00:29:56: So we're going to introduce our panel and by me

00:29:56 --> 00:29:58: introducing them, I mean, they'll introduce themselves.

00:29:58 --> 00:30:00: So would you like to start?

00:30:01 --> 00:30:08: It's Robert Bingo.

00:30:10 --> 00:30:14: Testing Hi, I'm Robert Lee.

00:30:15 --> 00:30:20: I'm CEO of Pearlstone Partners and we're a private
development

00:30:20 --> 00:30:25: company here in Austin working primarily to Central TX area

00:30:25 --> 00:30:30: and our current concentration has been in housing in the

00:30:30 --> 00:30:32: form of condo development.

00:30:35 --> 00:30:38: Hi, Jennifer Wenzel, I'm with the Teacher Retirement System
of

00:30:38 --> 00:30:39: Texas here in Austin.

00:30:40 --> 00:30:44: We invest the retirement dollars for the teachers and I've

00:30:44 --> 00:30:46: been at TRS about 15 years.

00:30:46 --> 00:30:50: Our real estate allocation is about 15% of the trust

00:30:50 --> 00:30:52: and happy to be here.

00:30:54 --> 00:30:55: Terry Mitchell, I just want to get to know her

00:30:55 --> 00:30:56: because she has the money.

00:30:59 --> 00:31:02: Terry Mitchell Development Company, Montmartre
Development.

00:31:02 --> 00:31:06: We do master plan communities, mixed-use projects, single
family, multi

00:31:07 --> 00:31:08: family and some condos.

00:31:09 --> 00:31:10: All right.

00:31:10 --> 00:31:11: Well, thank you guys for being here.

00:31:12 --> 00:31:14: Let's start out more high level and one of the

00:31:15 --> 00:31:18: questions that we've seen in a lot of other panels

00:31:18 --> 00:31:21: around the country that just give a good jumping off

00:31:21 --> 00:31:24: point is what are the trends you're seeing in your

00:31:24 --> 00:31:25: asset class area focus?

00:31:26 --> 00:31:30: Would you like to start, Robert, just go down the

00:31:30 --> 00:31:33: line, you can go as macro micro as you'd like

00:31:33 --> 00:31:34: more.

00:31:34 --> 00:31:35: We're thinking more broad to start.

00:31:37 --> 00:31:39: Well, I mean it's definitely slower than it was a

00:31:39 --> 00:31:43: few years ago and it's averaged obviously for off multiple

00:31:43 --> 00:31:43: reasons.

00:31:43 --> 00:31:47: It's getting much more challenging both from cost and land

00:31:47 --> 00:31:49: cost, construction costs and everything else.

00:31:50 --> 00:31:53: I think demand obviously absorption right now particularly in the

00:31:53 --> 00:31:56: areas that we're working are are slowing and we've all

00:31:56 --> 00:31:57: seen that for obvious reasons.

00:31:58 --> 00:32:02: It's it's something interesting to note and I've been doing

00:32:03 --> 00:32:06: this for a little while in various forms and Washington

00:32:07 --> 00:32:10: has always had an interesting impact on all of us

00:32:10 --> 00:32:12: for lots of different reasons.

00:32:13 --> 00:32:16: But this is honestly the first time that I felt

00:32:16 --> 00:32:19: that the federal government was in trying to stick a

00:32:19 --> 00:32:20: fork in us.

00:32:21 --> 00:32:24: So they've they've made every effort to slow everything down

00:32:24 --> 00:32:27: and and that's helped that's that's actually occurred for obvious

00:32:27 --> 00:32:28: reasons.

00:32:28 --> 00:32:31: So we we do see a a difficult period of

00:32:31 --> 00:32:34: time that we're that we're in right now and but

00:32:35 --> 00:32:37: we do believe that it's going to be a near

00:32:37 --> 00:32:39: term, near term issue.

00:32:41 --> 00:32:41: OK.

00:32:41 --> 00:32:42: Thank you, Jennifer.

00:32:42 --> 00:32:42: How about you?

00:32:43 --> 00:32:45: Yeah, I mean it's an interesting time.

00:32:45 --> 00:32:47: You know I I think you've you've been here doing

00:32:47 --> 00:32:50: this presentation and everyone was in the past few years

00:32:50 --> 00:32:53: was probably like oh it's you know good news again

00:32:53 --> 00:32:55: let's just look at our phone, I think everyone was

00:32:55 --> 00:32:58: listening with on pins and needles to what you're saying

00:32:58 --> 00:33:01: because you know everyone's trying to figure out what to

00:33:01 --> 00:33:03: do in this market environment.

00:33:04 --> 00:33:07: At TRS I've we've grown our allocation from 3% when

00:33:07 --> 00:33:10: I started 15 years ago to now 15%.

00:33:10 --> 00:33:12: So we have a very diversified portfolio.

00:33:13 --> 00:33:16: We thankfully don't have a lot of exposure to Office.

00:33:16 --> 00:33:19: And I think the biggest theme that we've tried to

00:33:19 --> 00:33:23: capitalize on is the pivot away from a lot of

00:33:23 --> 00:33:25: the main 4 food groups.

00:33:26 --> 00:33:29: You've seen Odyssey go from mainly, you know, majority office

00:33:29 --> 00:33:33: to now majority industrial and the REIT sector has always

00:33:33 --> 00:33:35: kind of reflected that as well.

00:33:35 --> 00:33:37: The eight of the top ten Reit's I think were

00:33:37 --> 00:33:40: alternative considered alternatives not in the top four.

00:33:40 --> 00:33:43: So that's been kind of the biggest change and I

00:33:43 --> 00:33:45: think something that we're focused on.

00:33:47 --> 00:33:47: That's great.

00:33:49 --> 00:33:52: Short term headwinds in almost every area, if you're in

00:33:52 --> 00:33:56: single family you have affordability issues because you're meeting home

00:33:56 --> 00:33:58: price in the metro area is about 4:30 and and

00:33:59 --> 00:34:02: the costs are substantially higher with interest rates.

00:34:03 --> 00:34:06: If you're in multi family, your typical garden apartment project

00:34:06 --> 00:34:09: has two million more in financing costs than it did

00:34:09 --> 00:34:12: two years ago and and rents haven't necessarily covered that.

00:34:12 --> 00:34:15: So that's a challenge but but long term if you're

00:34:15 --> 00:34:18: in the development business you're driving.

00:34:18 --> 00:34:20: I was telling you Jennifer, this had a boss tell

00:34:20 --> 00:34:22: me one time said if you're in the development business,

00:34:22 --> 00:34:23: you're driving a tanker.

00:34:23 --> 00:34:27: Unfortunately demand is a speedboat and so speedboats can change

00:34:27 --> 00:34:27: on you.

00:34:27 --> 00:34:30: And so for me it is very true.

00:34:30 --> 00:34:32: I look at long term trends and and I'm pretty

00:34:33 --> 00:34:35: optimistic about Austin, so I I will keep my head

00:34:35 --> 00:34:36: down keyboard.

00:34:37 --> 00:34:37: Got it.

00:34:37 --> 00:34:40: And what this is broad, I know is a lot

00:34:40 --> 00:34:42: we covered and I don't know if you had a

00:34:42 --> 00:34:45: chance to go through the report, but is there any

00:34:45 --> 00:34:49: areas in the in my presentation and report that surprising

00:34:49 --> 00:34:53: disagreements, agreements, Just curious on your general reaction kind of

00:34:53 --> 00:34:56: what do you expect Jennifer, why don't we start with

00:34:56 --> 00:34:56: you?

00:34:58 --> 00:35:00: Yeah, I think, I think it was pretty spot on

00:35:00 --> 00:35:03: as far as you know people are have like the

00:35:03 --> 00:35:06: the debt it's hard to come by and anyone who's

00:35:06 --> 00:35:09: put you know floating rate short term debt on, I
00:35:09 --> 00:35:12: think everyone kind of it's been a long run 15
00:35:12 --> 00:35:15: years, everyone kind of just thought it always would keep
00:35:15 --> 00:35:16: going up.
00:35:16 --> 00:35:18: And so you know real estate used to be where
00:35:18 --> 00:35:21: you had to have match term financing and everyone kind
00:35:22 --> 00:35:23: of wanted to chase yield.
00:35:23 --> 00:35:26: So you know I think the debt situation is you
00:35:26 --> 00:35:29: know gonna have to work itself out.
00:35:29 --> 00:35:32: Valuations are where they are, nothing too surprising.
00:35:32 --> 00:35:34: I mean, I think it was pretty spot on.
00:35:35 --> 00:35:36: Robert or Terry, anything to add?
00:35:38 --> 00:35:41: The only thing I want to mention is the what
00:35:41 --> 00:35:44: people haven't said subject to who's in the audience and
00:35:44 --> 00:35:45: everything.
00:35:45 --> 00:35:49: There is a huge bifurcation between those that have never
00:35:49 --> 00:35:53: seen a down market and those that have lived through
00:35:53 --> 00:35:55: a few of them or many of them.
00:35:56 --> 00:35:59: So what's interesting is an even in our company we
00:35:59 --> 00:36:02: we have a a sizable number of individuals that have
00:36:02 --> 00:36:04: never, never seen a down market.
00:36:04 --> 00:36:06: So this is not abnormal.
00:36:07 --> 00:36:08: This is fairly normal.
00:36:08 --> 00:36:11: And so for those that have been around a while
00:36:11 --> 00:36:13: and seen this, I think it's the same old, it's
00:36:13 --> 00:36:15: the same old story with different issues.
00:36:16 --> 00:36:18: But no, there to answer your question, no, I I
00:36:18 --> 00:36:20: think everything I've seen on the reports kind of jive
00:36:20 --> 00:36:22: with everything that we're seeing out there ourselves.
00:36:22 --> 00:36:25: So it is what it is.
00:36:26 --> 00:36:29: This to me does not seem like an atypical correction.
00:36:29 --> 00:36:32: One of my business partners pointed out to me a
00:36:32 --> 00:36:34: couple weeks ago that this is downturn number six that
00:36:34 --> 00:36:37: he and I have experienced starting in 1980 with high
00:36:37 --> 00:36:40: interest rates and high interest rates are defined as 21%,
00:36:40 --> 00:36:40: right?
00:36:40 --> 00:36:41: 7.
00:36:43 --> 00:36:46: But from that to the SNL crisis to the .com crash,
00:36:46 --> 00:36:49: to the housing crash to the pandemic and now we're
00:36:49 --> 00:36:53: in this, it's it's a correction and and you know,
00:36:53 --> 00:36:55: take take multifamily for example.
00:36:55 --> 00:36:58: We I I suspect I saw a market research person

00:36:58 --> 00:37:01: in the audience who who will give you the real
00:37:02 --> 00:37:05: data, but we overbuilt in the early 20s when interest
00:37:05 --> 00:37:09: rates were very low and and we're we're absorbing that
00:37:09 --> 00:37:09: now.
00:37:09 --> 00:37:12: But when the numbers stop working that means projects stop
00:37:12 --> 00:37:15: getting built which means rents increase which means
projects start
00:37:15 --> 00:37:16: getting built again.
00:37:16 --> 00:37:18: So this is a cycle we're in and we're in
00:37:18 --> 00:37:21: the cycle of we're going to absorb this excess supply.
00:37:22 --> 00:37:26: I will repeat again, the fundamental characteristic for me is,
00:37:26 --> 00:37:29: is Austin's economy strong and is it going to continue
00:37:29 --> 00:37:30: to grow?
00:37:30 --> 00:37:32: And if it is, we're in a good place and
00:37:32 --> 00:37:34: and my belief is, is that Austin's economy is as
00:37:35 --> 00:37:37: strong as it's ever been, if not stronger.
00:37:38 --> 00:37:41: Yeah, I mean the only other thing I'd point out
00:37:41 --> 00:37:44: is the demographic shift and the, I think there is
00:37:44 --> 00:37:47: a slide on the absolute number of people in each
00:37:47 --> 00:37:51: generation and it goes from like 60 million down to
00:37:51 --> 00:37:54: 30 or 40 million starting with the, what do they
00:37:54 --> 00:37:55: call it, generation Alpha.
00:37:56 --> 00:38:00: And so while we've always been really bullish on multi,
00:38:00 --> 00:38:03: I think that that's going to be you know a
00:38:03 --> 00:38:07: huge head headwind because there's just an absolute much
lower
00:38:07 --> 00:38:10: generation that's coming that's following through.
00:38:10 --> 00:38:12: So just something to think about.
00:38:12 --> 00:38:13: Yeah, It's interesting.
00:38:13 --> 00:38:15: Well, you mentioned headwinds, so let's stay there.
00:38:15 --> 00:38:18: Anything that you have, you guys haven't mentioned thus far
00:38:18 --> 00:38:18: on headwinds.
00:38:18 --> 00:38:23: What are some other headwinds you see over the next,
00:38:23 --> 00:38:25: call it 6/12/18 months?
00:38:28 --> 00:38:30: I'm, I'm going to state the obvious, but the obvious
00:38:30 --> 00:38:32: is what the hell is office demand going to be?
00:38:33 --> 00:38:36: I mean it's historically you could, you could, you know,
00:38:36 --> 00:38:38: tech startups would need office space and they would grow
00:38:38 --> 00:38:40: and they'd get a big funding and you'd say, OK,
00:38:40 --> 00:38:42: we're going to need more space.
00:38:42 --> 00:38:43: Are they working remotely?
00:38:43 --> 00:38:44: Are they there?

00:38:44 --> 00:38:45: They're doing a hybrid.

00:38:45 --> 00:38:46: I mean it's really a conundrum.

00:38:46 --> 00:38:48: And is office space going to go away?

00:38:48 --> 00:38:51: So 100% certainty it won't go away is there's 100%

00:38:51 --> 00:38:54: certainty it's going to be like it was in 2019,

00:38:54 --> 00:38:55: probably not.

00:38:55 --> 00:38:57: It's going to be something in the middle and trying

00:38:58 --> 00:39:00: to figure that out is is probably the the biggest

00:39:00 --> 00:39:02: issue facing a lot of our areas.

00:39:02 --> 00:39:02: Yeah.

00:39:02 --> 00:39:05: I think Office is going through what malls did you

00:39:05 --> 00:39:07: know eight years ago and it's a CapEx problem and

00:39:07 --> 00:39:10: you know Office is such a large asset class and

00:39:10 --> 00:39:12: has been such a large part of our index, the

00:39:12 --> 00:39:13: Odyssey index.

00:39:13 --> 00:39:16: But you know it never was like a great you

00:39:16 --> 00:39:20: know after CapEx, cash flowing investment you it was more

00:39:20 --> 00:39:23: of a timing play I think and you know it

00:39:23 --> 00:39:26: just needs to be reset, the underwriting needs to be

00:39:26 --> 00:39:27: more reasonable.

00:39:28 --> 00:39:31: You you have to rebuild it every time you release

00:39:31 --> 00:39:31: it.

00:39:31 --> 00:39:34: And so you know, I think it just has to.

00:39:34 --> 00:39:35: Capitulation.

00:39:36 --> 00:39:39: A couple of concerns that we're looking at and there's

00:39:39 --> 00:39:42: absolutely no, no way to control any of this is

00:39:42 --> 00:39:45: is the ongoing or the coming presidential race which will

00:39:45 --> 00:39:48: have obviously always has an impact on the economy.

00:39:49 --> 00:39:51: And then what is happening overseas.

00:39:52 --> 00:39:55: Right now we're in two land based wars, although not

00:39:56 --> 00:40:01: not specifically directly and the greater, greater probability

00:40:01 --> 00:40:02: that might

00:40:01 --> 00:40:02: grow even larger.

00:40:03 --> 00:40:06: So that although it won't have a direct impact on

00:40:06 --> 00:40:09: us here, it's obviously going to have impact on us.

00:40:09 --> 00:40:12: And should should should also be part of the conversation

00:40:12 --> 00:40:16: in terms of the tithing where, where, what things should

00:40:16 --> 00:40:17: be done over the next few years.

00:40:18 --> 00:40:20: So that that is a that is a concern we're

00:40:20 --> 00:40:21: looking at pretty hard.

00:40:22 --> 00:40:24: Yeah, that's good.

00:40:24 --> 00:40:27: So let's stick with government and actually stick with you,

00:40:27 --> 00:40:28: Robert.

00:40:28 --> 00:40:30: So how did the bills from the last This was

00:40:30 --> 00:40:32: one that was I think posed by Uli.

00:40:34 --> 00:40:37: How did the bills from the past legislation, legislative session

00:40:37 --> 00:40:38: affect the trends?

00:40:38 --> 00:40:43: ETGETJPFC bills as example and it could also include code

00:40:43 --> 00:40:48: changes, removal, removal, parking minimums, home initiative are.

00:40:49 --> 00:40:50: We are we talking local, local.

00:40:51 --> 00:40:51: Yeah, I think.

00:40:51 --> 00:40:54: I think that'd be useful for people in the room.

00:40:57 --> 00:41:00: Code Next never happened and now we've gone to I

00:41:00 --> 00:41:04: don't know what we call this now punt punt programs,

00:41:04 --> 00:41:08: the V1V2V3's like I don't know where we are on

00:41:08 --> 00:41:12: these terminologies now but and that's been challenged.

00:41:12 --> 00:41:15: So we we still have a, we still have a

00:41:15 --> 00:41:19: NIMBY issue and you know it if the puddles me

00:41:19 --> 00:41:26: to not understand why people can't understand basic fundamental economics

00:41:26 --> 00:41:31: supply and demand, you increase supply from the demand and

00:41:31 --> 00:41:33: and and prices should go down.

00:41:34 --> 00:41:37: So right now everything that we're seeing that's coming out

00:41:37 --> 00:41:39: of the city and and what the what with the

00:41:39 --> 00:41:43: economic with the political environment is, is that it looks

00:41:43 --> 00:41:46: like we're probably going to get stymied again in terms

00:41:46 --> 00:41:47: of the delivery.

00:41:47 --> 00:41:50: And so is this going to create additional problems.

00:41:50 --> 00:41:53: It's just, it's just it's just adding on to the

00:41:53 --> 00:41:53: overall.

00:41:53 --> 00:41:56: So it's not it's not world ending but it is

00:41:57 --> 00:41:59: it is we are spending a lot of time and

00:42:00 --> 00:42:03: effort going around and around over the same issues.

00:42:03 --> 00:42:08: So it's it's frustrating and and we'll have we'll we'll

00:42:08 --> 00:42:12: have impact on our our housing costs going forward.

00:42:15 --> 00:42:17: I'm wondering how far deep are we gonna go into

00:42:17 --> 00:42:18: this over there.

00:42:19 --> 00:42:21: We can, we can start, we can start talking about

00:42:21 --> 00:42:23: you guys wanna talk about state issues on 147 or

00:42:23 --> 00:42:24: maybe stepping on people.

00:42:24 --> 00:42:28: We're we're sometimes we as a metropolitan area don't know

00:42:28 --> 00:42:29: which way is up.

00:42:30 --> 00:42:32: On the other hand you know the the number one

00:42:32 --> 00:42:35: and #2 topic or #1 or #2 topic and everybody's
00:42:35 --> 00:42:37: mind is affordability and then we do everything we can
00:42:37 --> 00:42:40: to make it more expensive and it's like you know,
00:42:40 --> 00:42:42: did you just hear that And if you ask somebody
00:42:42 --> 00:42:45: at the city, anybody's from the city here, I'll apologize
00:42:45 --> 00:42:46: in advance.
00:42:46 --> 00:42:48: But you'll ask a certain department and say this is
00:42:48 --> 00:42:50: going to raise my cost.
00:42:50 --> 00:42:51: Affordability is not my issue.
00:42:51 --> 00:42:53: It's like it's everybody's issue.
00:42:53 --> 00:42:54: What are you talking about?
00:42:54 --> 00:42:57: And and so it's that that's a challenge a lot
00:42:58 --> 00:43:01: of these steps are attempting to address that.
00:43:01 --> 00:43:03: Is it going to make, are you going to see
00:43:03 --> 00:43:04: an overall wholesale change?
00:43:04 --> 00:43:05: Absolutely not.
00:43:05 --> 00:43:07: But is it moving in the right direction?
00:43:07 --> 00:43:08: Probably.
00:43:08 --> 00:43:12: So they're they're they're tough issues they're they're tough
issues
00:43:12 --> 00:43:15: and and sometimes like the the opt out rule that
00:43:15 --> 00:43:18: you referenced in terms of ETJ where if you're in
00:43:18 --> 00:43:21: the ETJ you can notify a city and say I'm
00:43:21 --> 00:43:24: opting out not going to be a part of your
00:43:24 --> 00:43:25: jurisdiction.
00:43:25 --> 00:43:28: There were good there there was good intent as to
00:43:28 --> 00:43:29: why that's happening.
00:43:29 --> 00:43:30: It's probably being abused a little bit.
00:43:31 --> 00:43:34: I'm personally aware there's been over 20 opt outs in
00:43:34 --> 00:43:36: the city of Austin and at first they were saying
00:43:36 --> 00:43:39: we don't care and they're now like what the Hell's
00:43:39 --> 00:43:42: going on You know everybody's leaving and and so it's
00:43:42 --> 00:43:44: a it's a challenge and and you know it the
00:43:44 --> 00:43:46: pendulum always swings back and forth.
00:43:46 --> 00:43:49: So I I firmly expect that there'll be some limitation
00:43:49 --> 00:43:51: on that come the next legislative session.
00:43:51 --> 00:43:55: But I'll go back to the fund.
00:43:55 --> 00:43:57: We got all these issues and they're all important.
00:43:57 --> 00:43:59: But if we have a good economy, we can we
00:43:59 --> 00:44:00: can jump these roads.
00:44:00 --> 00:44:00: Got it.
00:44:01 --> 00:44:02: Anything else to add, Jennifer?

00:44:02 --> 00:44:05: Yeah, I would just compare it to more like Dallas,
00:44:05 --> 00:44:08: Houston and the relative competitiveness of Austin.
00:44:08 --> 00:44:11: I mean you know those cities that I think are
00:44:11 --> 00:44:15: more business friendly attracting corporate tenants and have
the built
00:44:15 --> 00:44:19: the infrastructure to support businesses and you know the
the
00:44:19 --> 00:44:23: workers that need housing and and so I think Austin
00:44:23 --> 00:44:26: you know has to compete we're top three of the
00:44:26 --> 00:44:29: ten we're in Texas and we're all pretty close and
00:44:29 --> 00:44:32: in in in distance and so you know we've hopefully
00:44:32 --> 00:44:35: we can create the jobs in Austin that have that
00:44:35 --> 00:44:37: have sustained us this far.
00:44:37 --> 00:44:37: Yeah.
00:44:38 --> 00:44:41: So on that, actually this was another question, Uli, what's
00:44:41 --> 00:44:44: your outlook on labor in Central Texas that could be
00:44:45 --> 00:44:48: blue collar, white collar, what's, what's your guys take there?
00:44:50 --> 00:44:52: Labor, labor prices are going to go up.
00:44:54 --> 00:44:56: Labor prices have gone up.
00:44:56 --> 00:44:58: They're going to continue to go up.
00:44:58 --> 00:44:58: Yeah.
00:44:58 --> 00:44:59: I I I.
00:44:59 --> 00:45:02: You know in my 30 some ideas of being around
00:45:02 --> 00:45:06: here we always just knew people would come and and
00:45:06 --> 00:45:09: in the in the last several years we've actually seen
00:45:09 --> 00:45:14: you know shortages and and you're seeing substantial pay
raises
00:45:14 --> 00:45:18: in certain sub sectors to attract the talent etcetera you're
00:45:18 --> 00:45:19: going to see increased.
00:45:20 --> 00:45:22: It's a challenge today, but it it to correct itself,
00:45:22 --> 00:45:23: it means you pay more.
00:45:24 --> 00:45:24: That's what you do.
00:45:24 --> 00:45:27: It has that that rate of growth leveled off at
00:45:27 --> 00:45:30: all or to your point, Rob, it's still.
00:45:30 --> 00:45:33: Well, I mean, I I mean look I'm not an
00:45:33 --> 00:45:36: employment expert or a labored expert, but I I will
00:45:36 --> 00:45:38: say in our industries we we have, we have a
00:45:38 --> 00:45:41: shortage of of of manpower, right and not everywhere but
00:45:41 --> 00:45:43: in a lot of different places we have.
00:45:43 --> 00:45:46: I mean I look look like the look at the
00:45:46 --> 00:45:49: airports, I'm not sure I would be flying right now
00:45:49 --> 00:45:52: under the conditions of what they're reporting.
00:45:53 --> 00:45:54: Like 2 hours.

00:45:54 --> 00:45:54: Come on, Robert.

00:45:57 --> 00:46:00: He man insurance anyway it it is a concern right

00:46:00 --> 00:46:03: because how do you how do you write this issue

00:46:03 --> 00:46:05: or is there a right this issue in terms of

00:46:05 --> 00:46:09: Labor because labor is going to continue particularly in our

00:46:09 --> 00:46:13: industries that are related to construction and and everything we're

00:46:13 --> 00:46:17: doing on development they're just they're just not enough people

00:46:17 --> 00:46:20: the immigration policies don't exist to allow for for for

00:46:20 --> 00:46:22: that to grow and so we're we're we're in a

00:46:22 --> 00:46:26: conundrum which by the way isn't isn't something we can

00:46:26 --> 00:46:29: fix that's something that Washington is going to have to

00:46:29 --> 00:46:29: fix.

00:46:30 --> 00:46:32: But the point is, is that we know that if

00:46:32 --> 00:46:35: we, what is the definition of stupidity, keep doing the

00:46:36 --> 00:46:38: same thing even though it doesn't work.

00:46:38 --> 00:46:42: So anyway, that's kind of a negative opinion.

00:46:42 --> 00:46:44: But yeah, I I think things are going to continue

00:46:44 --> 00:46:44: to go.

00:46:45 --> 00:46:46: I think wages are going to continue to rise and

00:46:46 --> 00:46:48: I think we're going to, we're going to have this

00:46:48 --> 00:46:49: continued balance.

00:46:49 --> 00:46:52: You know in the construction industry we've been in a

00:46:52 --> 00:46:55: shortage for 15 years and it started in 2008 and

00:46:55 --> 00:46:58: 9:00 when we dismantled the construction industry because housing starts

00:46:59 --> 00:47:01: to drop from a million to up down to like

00:47:01 --> 00:47:03: 350,000 for a couple of years and then 500 and

00:47:03 --> 00:47:05: it just decimated the industry.

00:47:05 --> 00:47:08: So we've been rebuilding an industry for 15 years.

00:47:08 --> 00:47:11: It's it's felt like we've been at capacity every year.

00:47:11 --> 00:47:13: We just now and in 2021 we hit back where

00:47:14 --> 00:47:16: we were in 2007 or 8, you know, in terms

00:47:16 --> 00:47:19: of it, but it's at a substantially higher price 'cause

00:47:19 --> 00:47:20: we had to rebuild it.

00:47:21 --> 00:47:22: It's just it's it's been tight for a long time

00:47:22 --> 00:47:23: so.

00:47:23 --> 00:47:25: It'll help if everybody quit developing projects.

00:47:28 --> 00:47:29: Jennifer, anything to add on that?

00:47:29 --> 00:47:32: I would just say I think the optimistic view is

00:47:32 --> 00:47:34: that this is a time where a lot of people

00:47:34 --> 00:47:37: are shifting, you know spin outs are happening.

00:47:37 --> 00:47:40: We're thinking a lot about that like good talent is
00:47:40 --> 00:47:43: moving around and you know people maybe aren't gonna
see
00:47:43 --> 00:47:45: the promotes they thought they would.
00:47:45 --> 00:47:47: So they're willing to take risk and start up new
00:47:47 --> 00:47:50: firms and how do we kind of capitalize on that
00:47:50 --> 00:47:50: got?
00:47:51 --> 00:47:56: It OK another cost component that's top of mind.
00:47:56 --> 00:47:59: Insurance premiums, they've risen dramatically.
00:47:59 --> 00:48:03: Any clever solutions that you guys are coming up with
00:48:03 --> 00:48:07: her is you just have to take it like is.
00:48:07 --> 00:48:09: I'm I'm assuming you're everybody's seen them rise.
00:48:09 --> 00:48:13: But anything new, creative, different.
00:48:15 --> 00:48:16: They're away from the coast.
00:48:20 --> 00:48:23: Carving out some risks that you're comfortable taking.
00:48:24 --> 00:48:26: You know, I'm not too worried about earthquakes in Central
00:48:26 --> 00:48:26: Texas.
00:48:26 --> 00:48:28: Is that something you carve out?
00:48:28 --> 00:48:29: Higher deductibles?
00:48:29 --> 00:48:32: OK, stuff.
00:48:33 --> 00:48:36: Yeah, I think underwriting it, making sure so your expense
00:48:36 --> 00:48:40: growth doesn't get out of hand or what you're thinking.
00:48:40 --> 00:48:43: And yeah, I think the, the one nuance too is
00:48:43 --> 00:48:46: you know every market in the US used to be
00:48:46 --> 00:48:48: investable pretty much.
00:48:48 --> 00:48:50: And now this is the first time that I know
00:48:50 --> 00:48:54: of that we've actually talked a lot about like should
00:48:54 --> 00:48:57: we not invest in Chicago or the whole state of
00:48:57 --> 00:49:01: Illinois anymore, you know, Florida with the environmental
risk we
00:49:01 --> 00:49:04: you know and then the state of California, you know,
00:49:04 --> 00:49:06: with rent control and things like that.
00:49:06 --> 00:49:10: You know, I think it's there's a much more divergent
00:49:10 --> 00:49:13: of equal, equal analysis across the cities in the US
00:49:13 --> 00:49:17: We're all part of the United States, but it's becoming
00:49:17 --> 00:49:20: pretty differentiated and how you look at things.
00:49:20 --> 00:49:21: No.
00:49:21 --> 00:49:23: And I I have a a very large client, hundreds
00:49:23 --> 00:49:27: of millions, hundreds of billions of AUM and they're 100%
00:49:27 --> 00:49:28: out of Illinois.
00:49:28 --> 00:49:30: Yeah, I wouldn't go so far as to say like
00:49:30 --> 00:49:33: we've blacklisted any cities, but it's, you know, I don't,

00:49:33 --> 00:49:35: you know, we're thinking about it hard.

00:49:35 --> 00:49:35: Yeah.

00:49:37 --> 00:49:37: All right.

00:49:37 --> 00:49:41: Sources of capital, any new sources of a capital expected

00:49:41 --> 00:49:44: to become more active in the year ahead, Domestic foreign

00:49:44 --> 00:49:47: close in, have you seen that change at all in

00:49:47 --> 00:49:48: this environment?

00:49:49 --> 00:49:49: Yeah.

00:49:49 --> 00:49:54: I mean, I think, you know, it's definitely still interest

00:49:54 --> 00:49:58: and we've seen more Middle Eastern investors be active.

00:50:00 --> 00:50:03: I I think there's still a lot of capital coming

00:50:03 --> 00:50:05: here trying to find opportunity.

00:50:07 --> 00:50:11: We specifically partner with a lot of the Canadians MPs

00:50:11 --> 00:50:13: from Korea see them a lot.

00:50:14 --> 00:50:18: Obviously GIC this, the government of Singapore is huge and

00:50:18 --> 00:50:20: has been in pretty much every deal.

00:50:20 --> 00:50:22: I feel like this so.

00:50:22 --> 00:50:24: Robert Terry, anything down on that.

00:50:24 --> 00:50:25: I know it's not.

00:50:25 --> 00:50:27: You guys have a little different situation we're.

00:50:27 --> 00:50:31: Yeah we're Pearlstone is a little bit outside the box.

00:50:32 --> 00:50:34: We don't, we don't really use funds.

00:50:35 --> 00:50:40: So we're syndicated base investment over direct to invest.

00:50:41 --> 00:50:44: So I think the private equity side is going to

00:50:44 --> 00:50:48: continue to grow private money is is a tremendous amount

00:50:48 --> 00:50:51: of private money and both on debt and equity and

00:50:51 --> 00:50:53: we we see that as a as an opportunity for

00:50:54 --> 00:50:58: a direct connect rather than going through funds and different

00:50:58 --> 00:51:00: opportunities along those ends.

00:51:00 --> 00:51:02: But we've been doing that for 14 years, 15 years

00:51:03 --> 00:51:03: now.

00:51:03 --> 00:51:06: So that's that's something why I think we're still we

00:51:06 --> 00:51:10: just broke ground on another project and expect to continue

00:51:10 --> 00:51:11: in a in a controlled basis.

00:51:11 --> 00:51:14: We're not wildly out of control, but I think there's

00:51:14 --> 00:51:15: still some need.

00:51:15 --> 00:51:17: And I think part of that reason is because of

00:51:17 --> 00:51:19: the the way that our money's put together.

00:51:20 --> 00:51:22: I think we are blessed to be in Austin and

00:51:22 --> 00:51:24: there's no saying in the real estate of business in

00:51:24 --> 00:51:26: a downturn is a flight to quality.

00:51:26 --> 00:51:29: I get more phone calls today that people wanting to

00:51:29 --> 00:51:31: invest and do stuff and doesn't mean that would be
00:51:31 --> 00:51:32: a deal.
00:51:32 --> 00:51:34: But it's just they're the the investors are looking around
00:51:34 --> 00:51:36: saying which cities are going to do well over the
00:51:36 --> 00:51:37: next several years.
00:51:37 --> 00:51:39: Austin's in that top ten.
00:51:39 --> 00:51:41: Let's go, let's go talk to some folks in Austin.
00:51:41 --> 00:51:44: And so it's we're a little skewed you know in
00:51:44 --> 00:51:47: the sense that because we are sitting in a good
00:51:47 --> 00:51:50: location, I think capital comes here that might not be
00:51:51 --> 00:51:52: going to another.
00:51:53 --> 00:51:55: And I'll just add a note on the the funds
00:51:55 --> 00:51:58: because that's mostly the world I live in, the private
00:51:58 --> 00:52:01: fund rules that have come out and it'll be effective
00:52:01 --> 00:52:02: over the next couple years.
00:52:02 --> 00:52:05: That is that additional layer of regulation.
00:52:05 --> 00:52:08: It's I don't think it's going to kill the fund
00:52:08 --> 00:52:11: world, but it is causing some extra red tape that
00:52:11 --> 00:52:14: asset managers are thinking about and devoting a lot of
00:52:14 --> 00:52:17: attention to potentially having to adhere to all these new
00:52:17 --> 00:52:17: rules.
00:52:17 --> 00:52:20: It's not putting them all the way to the public
00:52:20 --> 00:52:23: market type of vehicles, but it's not that far off.
00:52:24 --> 00:52:25: Yeah, a lot more disclosure, right?
00:52:25 --> 00:52:27: A lot more disclosure.
00:52:27 --> 00:52:29: Timelines have increased.
00:52:29 --> 00:52:31: You know, a lot of you need financial statements out
00:52:32 --> 00:52:34: the door earlier than you otherwise would have.
00:52:34 --> 00:52:36: So your back office has to get a little bigger.
00:52:36 --> 00:52:39: More money to the administrators, more pressure on the
00:52:39 --> 00:52:39: property
00:52:39 --> 00:52:39: managers.
00:52:40 --> 00:52:40: It's a lot.
00:52:41 --> 00:52:45: OK, Which expansion will be the greatest for the region
00:52:45 --> 00:52:45: and why?
00:52:46 --> 00:52:48: Airport Convention Center, I-35.
00:52:49 --> 00:52:52: Anybody want to start there if not, ladies?
00:52:52 --> 00:52:54: 1st I have AI have a different.
00:52:54 --> 00:52:55: I have a different answer.
00:52:56 --> 00:52:59: I think the biggest growth in Austin is our human
00:52:59 --> 00:53:00: capital.
00:53:00 --> 00:53:00: OK.

00:53:01 --> 00:53:04: I heard an interesting talk by our friend Gary Farmer
00:53:04 --> 00:53:06: a few months ago and he, you know, Gary is
00:53:07 --> 00:53:10: an optimist and he's been an economic development
promoter for
00:53:10 --> 00:53:10: years.
00:53:10 --> 00:53:13: But his words had a lot of validity to me.
00:53:13 --> 00:53:15: And he, you know, he said, you know, we went
00:53:15 --> 00:53:18: through the S&L crisis and it was government UT and
00:53:18 --> 00:53:20: tech that took us out and we went through the
00:53:20 --> 00:53:22: the.com crash and it was tech and government.
00:53:22 --> 00:53:25: UT took us out and went through the housing crash
00:53:25 --> 00:53:27: and it was tech and and UT and government took
00:53:27 --> 00:53:27: us out.
00:53:27 --> 00:53:30: And he said now we have 6 sectors as opposed
00:53:30 --> 00:53:33: to two and all of them are hitting on all
00:53:33 --> 00:53:33: cylinders.
00:53:34 --> 00:53:38: And he feels much more strong strongly that our economy
00:53:38 --> 00:53:43: will from from manufacturing to army futures to Biosciences
to,
00:53:43 --> 00:53:46: you know, biotech and or tech and then government, UT
00:53:47 --> 00:53:48: and financial services.
00:53:48 --> 00:53:49: We got it.
00:53:49 --> 00:53:51: And he said, yeah, all of them have showed great
00:53:52 --> 00:53:52: growth prospects.
00:53:52 --> 00:53:53: None of them are in the tank.
00:53:54 --> 00:53:56: And so that's that's good for our to me, that's
00:53:56 --> 00:53:58: the most important thing.
00:53:58 --> 00:54:01: If that happens, the airport's gonna have to get bigger.
00:54:01 --> 00:54:03: You know, the the convention center's gonna get bigger.
00:54:03 --> 00:54:05: I mean, those other things are gonna happen.
00:54:05 --> 00:54:08: But if our human capital is here creating those jobs,
00:54:08 --> 00:54:11: then it's going to, it's gonna cause everything about it.
00:54:11 --> 00:54:13: Yeah, I was going to go a little different route
00:54:13 --> 00:54:13: too.
00:54:13 --> 00:54:15: We have some people on our team working on data
00:54:16 --> 00:54:16: centers.
00:54:16 --> 00:54:19: So I'm not the expert, but I know that there's
00:54:19 --> 00:54:24: a big planned facility, Lugerville, you know, north of Austin
00:54:24 --> 00:54:27: that could create kind of a new regional power hub
00:54:27 --> 00:54:29: for data centers.
00:54:29 --> 00:54:31: And you know, a lot of it's been, you know,
00:54:31 --> 00:54:33: focused in the DC area.

00:54:33 --> 00:54:35: But you know, power I think is going to become
00:54:36 --> 00:54:40: increasingly hard to get and important and obviously
everyone's using
00:54:40 --> 00:54:43: more computing and so if we could create some sort
00:54:43 --> 00:54:46: of data center hub in our region, I think that
00:54:46 --> 00:54:47: would be super.
00:54:47 --> 00:54:47: Yeah.
00:54:47 --> 00:54:50: And then throw AI into the mix as far as
00:54:50 --> 00:54:51: increasing demand.
00:54:52 --> 00:54:53: Anything to add, Robert?
00:54:56 --> 00:54:59: Well, everybody's a fan of Elon Musk or not, you
00:54:59 --> 00:55:03: know just remember, you know Jeff, Jeff Bezos just moved
00:55:03 --> 00:55:04: over to to the Florida.
00:55:04 --> 00:55:06: So we we have our own one number one or
00:55:07 --> 00:55:09: #2 and that that's had it also a very large
00:55:09 --> 00:55:11: impact on what we're doing.
00:55:11 --> 00:55:13: So all the all like Terry said I think is
00:55:13 --> 00:55:14: absolutely right.
00:55:15 --> 00:55:17: You know in the 80s we were almost a one
00:55:17 --> 00:55:20: hit wonder in terms of what we're relying on outside
00:55:20 --> 00:55:21: of the city and state.
00:55:21 --> 00:55:24: And I remember when UT let out it, it looked
00:55:24 --> 00:55:27: like a ghost town where we're not like that anymore
00:55:27 --> 00:55:30: but we've got so many other things going for us
00:55:30 --> 00:55:34: from all different levels that that the future of the
00:55:34 --> 00:55:36: city is very, very strong.
00:55:36 --> 00:55:38: But, but I think the outside influence of all of
00:55:38 --> 00:55:41: these different people that are coming in that have
tremendous
00:55:41 --> 00:55:45: amounts of money and technological influence and ideas on
the
00:55:45 --> 00:55:48: Elon's Game changer and there's a lot of other people
00:55:48 --> 00:55:49: following him along that line do.
00:55:50 --> 00:55:52: You have a cyber truck reservation.
00:55:53 --> 00:55:56: I own a Tesla, but that that's about it.
00:55:57 --> 00:55:57: All right.
00:55:57 --> 00:56:00: Jennifer, we've got one specifically for you from the
audience.
00:56:01 --> 00:56:04: How do your TRS allocations to commercial real estate
change
00:56:04 --> 00:56:07: over the next 36 months, which are crystal ball?
00:56:09 --> 00:56:12: Yeah, you know we, so I guess I can level
00:56:12 --> 00:56:13: set a little.

00:56:13 --> 00:56:17: We have 15% in real estate, that's like 30 billion
00:56:17 --> 00:56:18: of equity.
00:56:18 --> 00:56:19: And so we mainly invest through partners.
00:56:19 --> 00:56:21: We have 30 or 40 partners on what we call
00:56:21 --> 00:56:22: our premier list.
00:56:22 --> 00:56:25: Structure wise we're now about a little less than half
00:56:25 --> 00:56:29: funds and the rest is separate account programmatic, J, VS
00:56:29 --> 00:56:30: and we're in all property types.
00:56:31 --> 00:56:33: So you know we have rotated quite a bit.
00:56:33 --> 00:56:35: Like I said, thankfully we don't have a lot of
00:56:35 --> 00:56:36: office.
00:56:36 --> 00:56:38: Our biggest exposures are industrial and multi.
00:56:38 --> 00:56:42: We have single family rental, we have studio media space,
00:56:42 --> 00:56:45: we have life sciences, a little bit of everything.
00:56:45 --> 00:56:47: I would say in the last 12 months data centers
00:56:47 --> 00:56:50: has been the one and and that's a theme from
00:56:50 --> 00:56:52: several of our partners too that's new.
00:56:53 --> 00:56:55: You know we haven't traditionally done a lot in it.
00:56:55 --> 00:56:57: It's been our infrastructure team has done some.
00:56:57 --> 00:57:00: So it's a hybrid crossover between real estate and
infrastructure.
00:57:00 --> 00:57:03: But we're seeing you know the Blackstone Starwoods of the
00:57:03 --> 00:57:05: world also do a lot of data centers as a,
00:57:05 --> 00:57:06: you know a a theme.
00:57:07 --> 00:57:08: So that's new.
00:57:08 --> 00:57:11: I think student housing has a lot of tailwinds, something
00:57:11 --> 00:57:12: that we're looking into.
00:57:13 --> 00:57:17: You know, I think, yeah, that's probably no.
00:57:18 --> 00:57:18: That's helpful.
00:57:19 --> 00:57:21: So another one that's gotten voted up very quickly.
00:57:22 --> 00:57:23: This goes for everybody.
00:57:23 --> 00:57:27: How do we make middle and low income affordable housing
00:57:27 --> 00:57:30: attractive for private companies to build and buy?
00:57:32 --> 00:57:34: We'll give Jennifer a break, Terry.
00:57:34 --> 00:57:35: Robert.
00:57:36 --> 00:57:36: Any thoughts?
00:57:39 --> 00:57:43: Yeah, I have some thoughts and and that generally speaking
00:57:43 --> 00:57:47: you have to increase the density which lowers the land
00:57:47 --> 00:57:51: cost which then let lets you build smaller units.
00:57:51 --> 00:57:51: It's it's.
00:57:51 --> 00:57:52: It's a simple.
00:57:52 --> 00:57:53: Form.

00:57:53 --> 00:57:56: Formula the best example is if you take a single
00:57:56 --> 00:57:59: family lot and it's 100 grand, you got 100 grand
00:57:59 --> 00:58:00: basis.
00:58:00 --> 00:58:01: I've seen some bankers in the audience here.
00:58:01 --> 00:58:04: If it's 100 grand basis and it's an urban house
00:58:04 --> 00:58:07: that's going to be you know 303 hundred fifty \$400,000
00:58:07 --> 00:58:08: home.
00:58:08 --> 00:58:10: If you can divide that into a duplex it's now
00:58:10 --> 00:58:11: 50,000 basis.
00:58:11 --> 00:58:13: You can now build something that's going to sell for
00:58:13 --> 00:58:16: something in the you know 200 grand range or something.
00:58:16 --> 00:58:18: It's just you're going to have to do that and
00:58:18 --> 00:58:21: it and the issue is this is every jurisdiction in
00:58:21 --> 00:58:24: the country, not just Austin and and you're seeing this
00:58:24 --> 00:58:28: in other jurisdictions happen with quite a bit more increased
00:58:28 --> 00:58:28: frequency.
00:58:30 --> 00:58:32: So Robert has any.
00:58:33 --> 00:58:33: Thoughts.
00:58:33 --> 00:58:36: Yeah, it's everybody's done spreadsheets, everybody knows
or if not
00:58:37 --> 00:58:40: then even the financials, everybody's every looked at set
sheets
00:58:40 --> 00:58:41: and knows what what.
00:58:41 --> 00:58:43: There's only so many levers you can do and what
00:58:43 --> 00:58:44: I think Terry said is absolutely right.
00:58:45 --> 00:58:48: We we have to go dance and and that's the
00:58:48 --> 00:58:50: answer is to go denser and denser.
00:58:50 --> 00:58:53: The difference between a yield on a on a unit
00:58:53 --> 00:58:56: at 4 units, 2 units, 4 units, 50 units, 160
00:58:56 --> 00:59:00: units, there's there, there's a fixed cost no matter what
00:59:00 --> 00:59:03: we everything that we do and so if you spread
00:59:03 --> 00:59:07: that fiscal cost over more units then you get a
00:59:07 --> 00:59:08: cheaper price.
00:59:08 --> 00:59:11: There is a, there is a point to where we
00:59:11 --> 00:59:16: need to start talking about when there is a nowhere
00:59:16 --> 00:59:18: more to save situation.
00:59:18 --> 00:59:21: And I personally feel like we've reached that point where
00:59:21 --> 00:59:24: I call it the compression point that we can't get
00:59:24 --> 00:59:29: compressed any further and that's because of Labor,
construction, construction
00:59:29 --> 00:59:31: cost, material costs and so forth.
00:59:31 --> 00:59:34: And so you know what we've seen over the last
00:59:34 --> 00:59:37: 10 years of what prices for things to build, to

00:59:37 --> 00:59:40: be built, basis costs over there has gotten to a
00:59:40 --> 00:59:45: point where they're just there's no, there's no realistic, there's
00:59:45 --> 00:59:48: no reality in terms of us being able to step
00:59:48 --> 00:59:48: backwards.
00:59:49 --> 00:59:52: Let's put it this way, anybody expect to be able
00:59:52 --> 00:59:54: to buy a car cheaper than they did 10 years
00:59:54 --> 00:59:54: ago?
00:59:55 --> 00:59:58: No, it's impossible.
00:59:58 --> 01:00:00: So the comonent parts of everything that we're doing to
01:00:00 --> 01:00:03: put a building together or anything that you're doing is
01:00:03 --> 01:00:05: getting to be more expensive both for labor and material.
01:00:06 --> 01:00:09: So we're chasing our tail on this end.
01:00:09 --> 01:00:13: What what could help is financing changes in financing.
01:00:13 --> 01:00:14: Changing maybe.
01:00:14 --> 01:00:16: Maybe For the residential we go to a 40 year
01:00:16 --> 01:00:17: mortgage.
01:00:17 --> 01:00:19: I I know there's a lot of people that are
01:00:19 --> 01:00:21: out here, but but the truth of the matter is
01:00:21 --> 01:00:23: there are other ways to slice and dish this labor.
01:00:23 --> 01:00:25: Labor pay goes up.
01:00:25 --> 01:00:27: People can afford to pay more in terms of what's
01:00:27 --> 01:00:28: happening.
01:00:28 --> 01:00:32: So it's not just how do we get yielding cheaper
01:00:32 --> 01:00:32: units.
01:00:33 --> 01:00:36: Maybe there's other ways to look at how to fix
01:00:36 --> 01:00:37: this problem, right?
01:00:37 --> 01:00:39: But it it's a, it's a, it's an, everything and
01:00:39 --> 01:00:40: all.
01:00:40 --> 01:00:42: But I'm saying right now from what we're saying, I
01:00:42 --> 01:00:44: think there is a compression point and I feel like
01:00:44 --> 01:00:45: we're reaching that point.
01:00:45 --> 01:00:47: Now you've reached that point.
01:00:47 --> 01:00:49: Yeah, I just add, I think I think you have
01:00:49 --> 01:00:52: to have subsidies or government support for the lower end
01:00:52 --> 01:00:53: of the spectrum.
01:00:54 --> 01:00:56: I think the one thing I've seen that concerns me
01:00:56 --> 01:00:58: a little is the whole, you know, attainable workforce.
01:00:58 --> 01:01:03: Housing is important, but some of the plans basically create
01:01:03 --> 01:01:07: micro units with no amenities and no balconies and they're
01:01:07 --> 01:01:11: trying to value engineer and cost engineer it down.
01:01:11 --> 01:01:14: And I just don't think that's great for the consumer
01:01:14 --> 01:01:14: either.

01:01:14 --> 01:01:17: So I I You know, you have to avoid unintended
01:01:17 --> 01:01:20: consequences too, just to try and meet the market.
01:01:21 --> 01:01:22: Yeah, understood.
01:01:23 --> 01:01:24: All right, lightning round.
01:01:24 --> 01:01:25: Got a couple minutes left.
01:01:26 --> 01:01:28: We will start with Terry.
01:01:28 --> 01:01:31: What economic indicators are you watching most closely and
why?
01:01:34 --> 01:01:41: Job growth, population growth, venture capital investment,
investment of any
01:01:41 --> 01:01:42: kind into companies.
01:01:43 --> 01:01:45: If those are happening, I'm feeling OK.
01:01:45 --> 01:01:46: Got it, Jennifer.
01:01:47 --> 01:01:51: I second that, you know, I think we look a
01:01:51 --> 01:01:55: lot at you know our partners research and focus on
01:01:55 --> 01:02:01: sustainable rent growth that you can underwrite which is
harder
01:02:01 --> 01:02:02: to find these days.
01:02:02 --> 01:02:05: But I think in this type of market focusing on
01:02:05 --> 01:02:08: what you know anybody who's doing any pro formas right
01:02:08 --> 01:02:11: now, it's really hard to make anything pencil and you
01:02:11 --> 01:02:13: have to there's no optimism left.
01:02:13 --> 01:02:16: And so focusing on like where you can actually quantify
01:02:16 --> 01:02:19: actual rent growth that's happening today that you might be
01:02:19 --> 01:02:22: able to forecast into the future is important.
01:02:23 --> 01:02:23: Robert.
01:02:24 --> 01:02:27: Yeah, we're we're, we're tracking the same things that
everyone
01:02:27 --> 01:02:28: is tracking over.
01:02:28 --> 01:02:31: And then a couple other things is because of what
01:02:31 --> 01:02:35: we're doing, we're looking at wealth transference, 50% of the
01:02:35 --> 01:02:39: younger generation is being subsidized by the older
generation.
01:02:39 --> 01:02:43: And we're looking at about \$1.7 trillion of wealth transference
01:02:43 --> 01:02:45: over the next four or five year, four or 5-6
01:02:45 --> 01:02:48: years that we're looking at right now.
01:02:48 --> 01:02:51: If you look at residential housing as a whole, total
01:02:51 --> 01:02:54: net worth of all housing about \$52 trillion, look up
01:02:54 --> 01:02:58: the balance sheets on both public and private, that's a
01:02:58 --> 01:03:00: pretty large chunk of money and that a lot of
01:03:00 --> 01:03:03: that is going to get transferred over.
01:03:03 --> 01:03:05: So what I'm trying to say is we are, we're
01:03:05 --> 01:03:08: creating a bifurcated market and we're watching that along

the
01:03:08 --> 01:03:11: way because that that's something that you guys haven't talked
01:03:11 --> 01:03:11: about.
01:03:12 --> 01:03:14: It's a little outside of what you guys usually manage,
01:03:14 --> 01:03:17: but it is going to have an impact, particularly on
01:03:17 --> 01:03:17: housing.
01:03:18 --> 01:03:18: That's good.
01:03:19 --> 01:03:21: Last one, want to be respectful of everyone's time.
01:03:22 --> 01:03:24: We'll go back to Terry and go down the line.
01:03:24 --> 01:03:26: What are we not talking about in the industry that
01:03:26 --> 01:03:28: we should be talking about?
01:03:31 --> 01:03:40: Wow, I'm not sure.
01:03:40 --> 01:03:43: And I actually think as high as rents are and
01:03:43 --> 01:03:47: we're talking about rents flattening, you know when projects stop
01:03:47 --> 01:03:50: making sense and Austin continues to grow rents are going
01:03:50 --> 01:03:53: to be higher two years from now and it's or
01:03:53 --> 01:03:54: the numbers won't work.
01:03:54 --> 01:03:56: When I go building a product unless it unless the
01:03:56 --> 01:03:58: numbers work and the and the capital folks and the
01:03:58 --> 01:04:00: bankers want to do it then you're then we'll do
01:04:00 --> 01:04:00: it.
01:04:00 --> 01:04:03: But that means rents are higher and and the issue
01:04:03 --> 01:04:04: gets bigger.
01:04:04 --> 01:04:07: So that that's in the back of my mind.
01:04:07 --> 01:04:08: How do I, how do I mitigate that?
01:04:08 --> 01:04:09: Jennifer.
01:04:12 --> 01:04:15: Yeah, I think you know the the refinancing situation is
01:04:15 --> 01:04:18: is talked about a lot, but I think maybe in
01:04:18 --> 01:04:21: a nuanced way of like who is going to be
01:04:21 --> 01:04:24: the first to break is, is it the banks, Oregon,
01:04:24 --> 01:04:26: is it the equity that's going to have to be
01:04:27 --> 01:04:27: infused.
01:04:28 --> 01:04:31: And so I think you know, focusing on the wall
01:04:31 --> 01:04:35: of maturities, that's what happened coming out of the GFC
01:04:35 --> 01:04:38: and then there wasn't ever, you know, a big break.
01:04:39 --> 01:04:41: And so these things, you know, kind of get worked
01:04:42 --> 01:04:45: out behind the scenes and it'll be either be regulatory
01:04:45 --> 01:04:48: driven by the banks being forced to capitulate or equity
01:04:48 --> 01:04:50: will have to be raised to recapitalize.
01:04:50 --> 01:04:52: Going to be interesting, Robert.
01:04:52 --> 01:04:52: Last word.

01:04:56 --> 01:04:59: This is, this is a, this is a log or
01:04:59 --> 01:05:03: a hole or whatever we're going into.
01:05:04 --> 01:05:07: But remember, this is there's a brighter day past this
01:05:07 --> 01:05:08: point.
01:05:08 --> 01:05:10: And like we've all said, I think that the future
01:05:10 --> 01:05:13: is very, very bright for Texas and for Austin in
01:05:13 --> 01:05:14: particular.
01:05:15 --> 01:05:17: And so we just have to weather the storm We're
01:05:17 --> 01:05:20: we're going to see some capitulation in some areas.
01:05:20 --> 01:05:24: And in the meantime that doesn't mean that everybody when
01:05:24 --> 01:05:28: they talk about these things, it's almost like it's you're
01:05:28 --> 01:05:31: 100% or 0, that's never the case, right.
01:05:31 --> 01:05:33: I mean people I was selling homes and I was
01:05:34 --> 01:05:35: 18% interest rates.
01:05:35 --> 01:05:39: So the market still moves, there is still movement, right.
01:05:39 --> 01:05:41: It's just not zero.
01:05:41 --> 01:05:43: So let's not take away the ideas that we're just
01:05:43 --> 01:05:44: going to end up being a crater.
01:05:44 --> 01:05:45: We're not.
01:05:45 --> 01:05:47: It's just getting around the corner of where we're at.
01:05:48 --> 01:05:51: And then, you know, long term this, this city's future
01:05:51 --> 01:05:52: is very bright.
01:05:52 --> 01:05:54: So I I think it, I think we're in a
01:05:54 --> 01:05:55: good spot.
01:05:55 --> 01:05:57: It's just going to be a little rough sailing for
01:05:57 --> 01:05:58: a year or so.
01:05:58 --> 01:06:00: So that's the way life is.
01:06:00 --> 01:06:00: I love it.
01:06:01 --> 01:06:02: We'll end on some optimism.
01:06:02 --> 01:06:03: Thank you, panel.
01:06:03 --> 01:06:04: Really appreciate it.
01:06:05 --> 01:06:06: Thank you all for coming.

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