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 times,
00:00:51 --> 00:00:57: circumstances and viewpoints change frequently, sometimes daily as you see
00:00:57 --> 00:00:58: in the headlines.
00:00:58 --> 00:01:03: And there's really three areas that affect sentiment shifts, economic
00:01:03 --> 00:01:08: interplay, So think rates, inflation, global trade, GDP, which have
00:01:08 --> 00:01:14: all been quite volatile, behavioral economics, so our attitudes, perceptions,
00:01:14 --> 00:01:18: this impacts our decision making and sentiment and then external
00:01:18 --> 00:01:21: influences, unforeseen events.
00:01:22 --> 00:01:23: This is normally negative.
00:01:23 --> 00:01:28: So you could think wars, natural disasters, government shutdowns, strikes,
00:01:29 --> 00:01:32: but there are some positives you could think about that
00:01:32 --> 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

00:05:00 --> 00:05:03: of the surveys more than the GFC or even the

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 facing
00:09:41 --> 00:09:42: a dilemma.
00:09:42 --> 00:09:46: Should they invest in upgrades with uncertain returns, face potential
00:09:46 --> 00:09:50: loan defaults, or consider the limited conversion opportunities?
00:09:50 --> 00:09:51: We'll talk about that a little later.
00:09:52 --> 00:09:57: Successful conversions are just dependent on factors like location, building
00:09:57 --> 00:09:59: quality and perhaps most significantly, price.
00:10:01 --> 00:10:04: As a result, the conversions might go the way of
00:10:04 --> 00:10:07: retail, where they're better in theory than actual execution.
00:10:09 --> 00:10:12: Next slide, All right.
00:10:12 --> 00:10:14: If there is one trend that needs no introduction, it's
00:10:15 --> 00:10:15: this.
00:10:15 --> 00:10:18: The rising cost of debt and lack of availability is
00:10:18 --> 00:10:23: front and centre for all, for all government, corporate, household,
00:10:23 --> 00:10:24: all those debt.
00:10:24 --> 00:10:26: All that debt is at record levels.
00:10:26 --> 00:10:31: However, corporate and household debt seem to be generally sustainable
00:10:31 --> 00:10:34: with low default rates comparatively.
00:10:34 --> 00:10:40: Commercial real estate delinquencies are slowly increasing, especially for CMBS,
00:10:40 --> 00:10:43: Life Cos and banks, but they remain healthier than in
00:10:43 --> 00:10:46: their set during previous recessions.
00:10:47 --> 00:10:51: 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 insurance cost or

00:16:15 --> 00:16:16: 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 reimagined 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 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 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 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 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.
