Professor Kermit Roosevelt, Professor of Law, University of Pennsylvania

Research Sponsor Dinner at the National Constitution Center

The Fall 2016 Members' Meeting began with a dinner and talk for Zell/Lurie Research Sponsors, Executive Committee members and guests at the National Constitution Center. Kermit Roosevelt, Professor of Law at the University of Pennsylvania, spoke engagingly on the "Ramifications of Democratic and Republican Appointments to the Supreme Court." Afterward, guests had the opportunity to tour several of the exhibits offered by the National Constitution Center.

The following day's meeting opened with a continental breakfast, during which mentors met with their student mentees and other guests had the opportunity to network.

Spencer B. Haber, CEO, H/2 Capital Partners LLC; Chair, Advisory Board, Zell/Lurie Real Estate Center at Wharton, and Joe Gyourko, Nancy A. Nasher and David J. Haemisegger Director, Zell/Lurie Real Estate Center at Wharton, opened the program by welcoming members and guests.

Spencer B. Haber, Chair, Advisory Board, Zell/Lurie Real Estate Center at Wharton Opens the Proceedings

Matthew Pfeiffer of CenterSquare Investment Management Exchanges Thoughts with his Mentee

The first panel of the day, entitled “Can the Suburbs Battle Back, or Are Work and Play City Bound?” was moderated by Asuka Nakahara, Associate Director at the Zell/Lurie Real Estate Center at Wharton.

The panelists were E. Todd Briddell, CEO and CIO, CenterSquare Investment Management; Susan B. Carras, Senior Managing Director & Co-Office Head at HFF, L.P.; Donald J. Childress, Senior Managing Partner, Childress Klein and Douglas C. Yearley Jr., CEO, Toll Brothers Inc.

Asuka Nakahara Moderates a Formidable Panel

Nakahara began with, “Why should urban markets continue to thrive, and will they, at least in the short run, given millennials’ preference to live, work and play in cities?”

Several panelists commented on the connection between the declining crime rate in cities, the later age at which millennials are starting families, and the expectations millennials have for the places they live.

Briddell expressed that “millennials want experiences over possessions. Most suburbs are woefully unprepared to address millennial desires.”

This makes cities appealing to millennials—Yearley noted that city residents want world-class gyms, rooftop pools and golf simulation rooms in great locations. Long term, however, panelists were not certain that millennials would continue to choose cities over suburbs.

“The millennials are a bigger population than baby boomers and are getting married and having kids later. Many stay in the cities only until their kids reach kindergarten, when they will want safe, great schools and swing sets in the yard, despite the nasty commute,” said Yearley.

Density and price were also addressed by the panelists. Carras noted that if inflation kicks in or interest rates go up, rents on urban properties can rise, while older suburban properties that have redevelopment in their future are inviting to entrepreneurial investors. “There is no risk there,” she stated. “It’s new construction that holds the risk.”

Susan B. Carras

Childress, who builds in both urban and suburban areas, said there is a 33 to 44 percent premium for the same square footage when offices are built downtown. "If you have the same quality of building … the land is more expensive and you have to provide parking underground, which is also more expensive."

Conversely, Briddell noted that, as density increases, "You're seeing people squeezed into smaller areas, which doesn't mean much for urban markets, where people walk or take public transportation," but "in suburban markets, you quickly run out of parking to accomplish that same density, making building more constrained."

Overall, panelists agreed that suburban markets have been and must continue adapting to remain viable in the face of the trend toward urban living. "The urban approach of live, work and play in one area has had influence on the suburbs," said Childress. "There is no more building on a block with trees and ponds. Now people want more mixed-use that is amenity-based."

E. Todd Briddell

Yearley predicted that certain suburbs and office corridors will suffer, causing suburban developers to react. As Carras pointed out, suburban markets are already responding to certain trends in the urban market, with trophy properties existing in both cities and suburbs. Childress predicted that while the suburbs will remain viable, nuanced change will occur and the suburbs will ultimately look a bit different than they do now.

Zell/Lurie Real Estate Center Chair Joe Gyourko and Members Confer Between Panels

The day continued with participants breaking out into five separate cohorts to discuss topics including: two venture capital initiation program companies from the Penn/Wharton Entrepreneurship Program; multifamily and co-working spaces; the effect of public policy on real estate investing; the overlapping fields of technology and real estate and a talk on Penn's real estate holdings.

Cohort A, led by Mitch Clarfield, Senior Managing Director, Berkeley Point Capital and Andy Isikoff, Managing Director, Silverfern Real Estate Partners, participated in a "Shark Tank" cohort session.

Members Enjoy Five Diverse Cohort Breakout Sessions

Two venture capital initiation program companies from the Penn/Wharton Entrepreneurship Program, LocalStove & Slice Capital, pitched their companies to a judging panel comprised of cohort members.

LocalStove was the first company to pitch, describing their company as a platform that connects home cooks (culinary students, chefs, etc.) with families and individuals looking to order home-cooked food.

They presented their company as a way to tap into millennials' desire to order delivery but also procure healthy foods at reasonable prices. When the judging panel raised questions on food safety concerns and how LocalStove would address these issues, the founders responded that they would "ease consumer concerns about food safety by implementing a kitchen inspection checklist and detailed food safety guide for employees."

Entrepreneurship Company LocalStove Pitches

The founders of the second company from the Penn/Wharton Entrepreneurship Program, Slice Capital, described themselves as a "mobile-first equity crowd-funding platform, allowing everyday individuals to invest in pre-vetted startups." Overall the panel indicated a strong interest in Slice Capital, emphasizing the potential of their company.

However, members of the panel felt the group downplayed back-office infrastructure and legal risks.

Cohort B, led by Robert Bellinger, President & CEO, ASB Capital Management Inc., held a discussion on "Innovations in Building Design and Development to Meet Rapidly Evolving Tenant Demand."

Bellinger began the discussion by describing how his company keeps up with tenant desires. "We have a deep, intimate understanding of our customers, as opposed to a heavy emphasis on IRR, reducing opex, or obtaining inexpensive capital," he said.

The members of Cohort B divided into two discussion groups—one on multifamily properties and the other on changing trends in the office markets.

The multifamily properties group explored the difference in tenant needs and between older residents and millennial residents. Millennials, it was concluded, valued apartment unit sizes and building security and amenities, such as free Wi-Fi.

The group focusing on shifting movements in the office market found that densification within office space is a trend that is here to stay.

The session closed with a final discussion of urban and suburban demand and whether or not millennials will eventually move out of cities when they start families.

Several participants posited that suburban flight would not take place, as many parents were pushing for better schools in urban locations, and that stronger demand would lead to a larger supply of high quality schools.

Robert Bellinger Leads Cohort B Discussion

Denise Olsen, Senior Managing Director, GEM Realty Capital and Carl B. Tash, Managing Director and Chief Investment Officer of Starwood Capital Group, served as joint leaders for Cohort C's discussion, entitled "How Public Policy Impacts Real Estate Investing."

The cohort session was guided by Professor Robert Inman, Richard King Mellon Professor of Finance at the Wharton School at the University of Pennsylvania.

Professor Inman began his lecture by introducing the concept of financing cities and how one would go about preventing and avoiding a crisis during this financing. "Property owners are the city's shareholders, and the city is an economic entity that can fail," he explained.

He went further with his analogy, citing the dividends that cities and suburbs yield their shareholders. "The suburbs are very competitive," Inman stated."You are selling education, safety and cleanliness."

The conversation transitioned into what factors lead people to leave urban areas for the suburbs.

"The issues that cities encounter are unions/managing labor, poverty, crime and education," Inman said.

Professor Robert Inman Gives Cohort C Lecture

He then introduced the concept of the "Laffer Curve," which backs the notion that there is a distinct relationship between tax rates and tax revenue. "At a certain rate, people will start to leave the city," he stated.

A question and answer session followed, with audience members posing questions to Professor Inman.

An audience member asked "From the perspective of public finance, what are some of the ways to incentivize public leaders to create better environments?"

Inman answered that he "would like to index/benchmark a retirement plan for mayors over predicted property values over forward time horizon. However, this probably will never happen."

He offered one solution: "Tie a package of returns to overall future performance of the city. Make sure political parties have a vested interest in having strong candidates."

Marty Burger, CEO of Silverstein Properties, led Cohort C's session, entitled "Real Estate Technology Businesses."

The panelists were Sterling Jawitz, Head of Real Estate Strategic Partnerships; Dmitry Koltunov, Co-Founder & CTO, ALICE; Ryan Simonetti, CEO & Co-Founder, Convene; and Brendan Wallace, CEO & Co-Founder, Fifth Wall Ventures.

The panelists initiated the discussion by elaborating on how their companies are changing the real estate industry from a technological standpoint.

(From Left to Right): Brendan Wallace, Sterling Jawitz, Dmitry Koltunov and Ryan Simonetti

Ryan Simonetti started by explaining how companies like his are changing the real estate industry. "Technology reduces friction," Simonetti articulated.

Simonetti used his company Convene, a tech-enabled hospitality platform available to tenants in a building or hotel, as an example of this reduction in friction. "Convene allows the end-user to frictionlessly interface with building services. Security, meeting room reservation and catering will all be automated," he said.

Brendan Wallace also weighed in on technology's effect on the real estate industry by using his company as an example. One important thing his company does is "look at interesting ways...technology is re-imagining space."

Dmitry Koltunov stressed the power of platforms and their effect on real estate. "In a platform, everything is fully integrated, and these platforms allow you to make decisions leveraging technology," he stated.

Koltunov followed by asking his fellow panelists a question: "How can we facilitate relationships between company and consumer more effectively?"

Sterling Jawitz stressed that companies can provide community and convenience through technology in his reply. He used his company, Common Living, as an example, stating that "Common Living tries to focus on knowing your neighbor and creating that sense of community."

The cohort session broke into a question and answer segment. "What exactly are real estate technology investments?" one audience member inquired.

Simonetti answered, "It's in its infancy stage. We're seeing niche technology solving for niche problems. Technology is solving for one specific problem, such as GE creating technology relating to HVAC's. We're trying to build a platform on top of that."

Wallace concluded by shifting the conversation to the risk factor involved with technology and real estate.

"The biggest trend we're seeing is that when it comes to the adoption of technology, people will take more risk with technology that generates revenue, rather than cost-cutting."

Cia Buckley, CIO, Partner and Managing Director, Dune Real Estate Partners, led Cohort E's session, "Institutional Real Estate: Penn and Creating Opportunities/Managing Challenges."

Anne Papageorge, Vice President of Facilities & Real Estate Services at the University of Pennsylvania, delivered the talk about Penn's real estate holdings and plans for the future and her thoughts on the opportunities and challenges for higher eductation institutions in the field of real estate.


Anne Papageorge Talks Penn Development

Papageorge began by addressing her department's efforts to promote innovation at Penn. She illustrated this effort through reference to the Pennovation Works.

The land for the Pennovation Works (250,000 sq. ft.) was acquired six months ago from DuPont. "We were fortunate to acquire a work site which was listed at $26 million for $13 million," she said.

Transitioning to Penn's global initiatives, Papageorge spoke about the Penn Wharton China Center, a $6.2 million, 25,000 sq. ft. multipurpose training facility. "It was challenging initially to work with foreign partners, but ultimately, we completed the project on time," she reported.

Papageorge finished the discussion by touching on the University's West Philadelphia neighborhood initiatives. She discussed how the University has attempted to infuse the areas surrounding the University through economic inclusion, establishing good relationships and sponsoring community events promoting the spread of arts and culture.

"The University is very proactive in thinking about being a good neighbor to the broader West Philadelphia community whenever developing new projects," Papageorge stated.

During the question and answer segment, she was asked about the lack of retail in the University City area. Papageorge answered by saying, "Universities, meaning Drexel and Penn, are starting to cannibalize each other's retails assets. That being said, Penn is still looking to attract some bigger box/urban retailers into University City."

The day's keynote speech, "Superforecasting: How Good Can We Get When We Get Serious About Keeping Score?" was given by Philip E. Tetlock, Leonore Annenberg University Professor in Democracy and Citizenship, Professor of Psychology and Management, University of Pennsylvania.

Philip E. Tetlock, Ph.D. Delivers Keynote Speech

Tetlock discussed the value of learning how to forecast potential outcomes of initiatives, decisions and programs in business in order to grow and improve.

He said that often in business, the safe choice is to make vague verbiage forecasts such as "I think there's a distinct possibility…"

"Using the phrase, 'a real possibility' is great if you want to straddle the percentage of being correct," he said. "It is a dilemma for people in organizations, where what keeps you politically safe is to rely on these vague verbiage forecasts."

"Using numbers and quantifying your forecasts is what you need to do to improve. It's a teachable skill. It depends on what you want. Do you want to create psychological safety, so people feel safe to make mistakes?"

Learning how to forecast the outcomes of decisions hinges on your type of business and the decisions being made, he added. Calling certain things correctly can save money, time, energy and even lives. He cited the positive effects of forecasting events, such as the Iraq war and Brexit.

"You can compute how accurate people are if they make large numbers of judgments on large numbers of issues over extended periods of time. With this, you make one of the most beautiful laws of statistics – the law of large numbers – work for you," he said. "Forecasting is a skill that can be learned by doing."

The afternoon panel, "Relative Value Investing: What Does It Mean for Real Estate?" was moderated by Matthew Lustig, Head of Investment Banking, North America and Head of Real Estate, Gaming and Lodging, Lazard, Vice Chair, Advisory Board of the Zell/Lurie Real Estate Center at Wharton.

Panelists included Susan M. Doyle, Managing Director, Commercial Strategies Leader, Co-Head of Real Estate, State Street Global Advisors; Ronald J. Kravit, Senior Managing Director, Co-Head of U.S. Real Estate, Cerberus Capital Management; and Taimur Hyat, Chief Strategy Officer, Prudential Global Investment Management.

Lustig opened the discussion by commenting on the unprecedented length of time the country has experienced low interest rates. "Ten years from now, interest rates will be about 110 basis points higher," he said, adding that "since 2008, returns have been driven by the Federal Reserve


Matthew J. Lustig Moderates the Afternoon Panel

and the market has become fixated on expectation of future interest rates in a way that is extraordinary."

Lustig continued to note that since the bottom of the recession, there has been real estate market recovery highlighted by a doubling in prices. Most of the appreciation has come from drops in cap rates, as opposed to a growth in income levels. He talked about a correlation between the real estate and bond markets.

"The world sees real estate as a low-risk asset class," he said. "It's clear to us that if we're wrong and interest rates go the other way, we have volatile prices." He asked the panelists their thoughts on real estate allocation.

Hyat answered that he directs real estate investing within a $60 billion operation. He believes the return to positive interest rates will be slow, and there is recognition that the low-interest rate environment is unusually long.

"Investors have to be realistic… to move up the yield spectrum from core fixed income investing that is often 50 percent of investing. This leads to talking about how to find higher yield within your fixed income business, moving into emerging market debt and avoiding energy and credit into higher yielding fixed income. This is increasingly about real estate debt."

Susan Doyle commented that many investors assume real estate investments are illiquid. "There are a lot of real estate investments that are much more liquid than in those bonds they're buying," she said.

Lustig asked Hyat to explain his approach to clients who need an expected return to deal with their liability structure. Hyat answered that he looks not only at allocation, but also at the different asset classes. "They're taking a big bet on private equity and hedge funds."

Lustig next inquired whether Doyle's switch from working for General Electric to a giant financial firm has changed her investment objectives and the tools she uses.

"Yes and no," Doyle answered. "GE wasn't interested in growing a financial services platform and it's exciting to be at a firm that does. We customize investment strategy and use a combination of things. You have to have real estate investment, or else money is sitting in cash," she added. "The reality is you have to stay allocated through a combination of development, higher cash flow deals, from core, from opportunistic… a blend of everything. And we find that's what a lot of people want."

(From Left to Right): Matthew J. Lustig, Taimur Hyat, Susan M. Doyle and Ronald J. Kravit

Kravit was asked where he is looking today and answered that he is waiting for the "ultimate opportunity." Nine years into this cycle we all know something is coming–not another 2007, when housing took everybody down, but something. We don't put money out just because we have it, we wait for things we like," he said.

The panel discussed how they choose investments, agreeing they would rather take a lower return and deal with people they trust.

"No one knows what the next U.S. shock will be," said Hyat. "Maybe it's the election. In other parts of the world, people are focused on central banks and political risk. Brexit, France, Syria, leverage in China … socioeconomic risk is higher up on the agenda than it's ever been."

Hyat shared that said he had done some research on the returns from many alternative asset classes from 2000 to 2015, asking which asset classes within alternatives provided the highest diversification value in terms of uncorrelated to public asset classes. He found that real estate provides a true diversification benefit and yielded absolute returns in the 7-to-10 percent return over this time period. "This varies and does have risks associated with it, but does provide an uncorrelated return stream," he said.

Taimur Hyat Discusses Global Economic Risk

Kravit asked Hyat if he thought that equity markets will continue to go up, given the length of this business cycle.

Hyat answered that, at some point, real estate prices will soften and the market will turn, but "conviction in other asset classes is declining more rapidly than in real estate. There is a lot of risk in fixed income. Real estate is almost a safe haven compared to the risk in the other asset classes."

Doyle added that the current cash in real estate is great and there are various points of entry, REITs private equity funds and more. "This is another reason allocations are increasing," she said.

"It's difficult as a real estate investor to divorce yourself from the broad capital market liquidity issues," noted Lustig.

The panel concluded with a discussion on changing demographics and technologies and their impact on the markets.


Taimur Hyat and Susan M. Doyle

"People went back to cities, which will probably reverse when their children are growing," said Kravit. "There is no demand in suburban high-end houses now."

Lustig offered driverless cars as an example of a technology that could impact the market, effecting parking garages, supply chain employment for car manufacturers, and the demand for cars and supporting infrastructure. He asked whether exogenous risks of this kind should be taken into consideration during portfolio construction.

"We do seek out long-term investors who think about demographics and mega trends," Hyat replied. "These things have real implications."

The Spring Members' Meeting will be held April 26 and 27, 2017.