Strategic Advantage
Real Estate Insights, Forecasts & Strategies
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A Mandate To Lead
Now Who Will Step Forward?

In This Issue

Friends & Colleagues:

For nearly a year, the real estate industry has been inundated by a tsunami of temporary, permanent, and transformative changes. From COVID-19 to social unrest, from divisive political discourse to seemingly arbitrary mandates, from the CARES Act/COVID Relief legislation to the impact of the Paycheck Protection Program ["PPP"], and from what-one-could-depend-on to uncertainty and doubt, the real estate industry has dealt with unique economic and financial challenges facing those who finance, develop, acquire, lease and manage hard assets. In addition to unprecedented joblessness, seemingly endless lockdowns, massive government borrowings, bailouts and repetitive stimulus legislation, the redefinition of work and working, and new consumption patterns, the real estate industry has experienced shifting occupancy levels, rent declines, challenges to obtain construction crews and approvals on development projects, eviction prohibitions, tenant bankruptcies, and requirements to add "health and safety" protection protocols, every day has presented a flood of unexpected surprises. Working remotely; furloughs and layoffs; development, entitlement, and construction delays; financing challenges; technology advancements; the Internet of Everything; PropTech innovations; and a growing gap between buyers' and sellers' expectations…plus the added distractions of political soundbites, global unrest, trade wars, bailouts/stimulus legislation, vaccine rollout, and election pontifications **have made 2020 not only a "year to remember," but the "year that truly changed everything."**

This issue of *Strategic Advantage*, unlike any other over the past 27 years, is an appeal…no…rather, an invitation for the real estate industry to take this moment and lead instead of reacting to or navigating around the infinite challenges facing our country. This issue is a call to lead…by creating real estate-based solutions and opportunities in every market where one invests, operates, and/or calls home.

From ancient Rome to the Zhou dynasty in China, from the Habsburg monarchy to the nation states of Europe, and from the cradle of civilization in Mesopotamia to the Egyptian dynastic era, **the world has been shaped by real estate. Where people live, work, shop, worship, and play has been the cornerstone of great cities**. Tourists [pre-COVID] flocked to visit, explore, and admire achievements of the past…wondering what was and envisioning what could be. Iconic buildings, well-conceived retail destinations, great residential projects, dynamic mixed-use properties, cultural marvels, and interactive entertainment facilities have defined CBDs, suburban communities and our geo-centric mosaic of regional markets. **Great real estate projects and buildings never were created in the comfort zone…they were the product of transformative leadership**. It was that transformative leadership that created value and positive social and societal changes by transcending self-interests.

What we are experiencing today is, at times, surreal ["I can't believe all this is happening simultaneously"]. **However, leading is less about resisting and far more about initiating. You don't lead from behind, you lead through inspiration, innovation, aligned purpose, and collaborative intent**. Rather than accept roadblocks to change, real estate leaders must create proactive solutions in response to change. Change is evolutionary and a result of many factors, but **leading in times of change is the delicate balance between today's priorities and tomorrow's opportunities**. Today, unfortunately, we have far too many reactors and responders to change, inner-directed leaders, and industry advocates who are comfortable maintaining the status quo [doing what we always do]. Too often, bottom-line decisions take precedence over creating scalable places that connect a wide range of experiences. **Today, more than ever, is the time and need for the real estate industry, real estate organizations, real estate leaders and real estate professionals to do what they do best…lead to make a difference.**

Social media, email and other forms of digital interaction have created as many disconnects as connections. For example, you cannot shake hands or hug with electronics. Social and workplace interactive structures decline with PDAs and artificial interaction. Consequently, individuals can feel less in control and sometimes even powerless over their lives. Striving to get ahead, fear of falling behind and concern about the unknown create a counter-productive level of fear, apprehension, and anxiety. When people feel isolated, forgotten or disengaged, they often cast blame. **Real estate is the catalyst for reattachment, creating safe havens and achieving connectivity and positive outcomes for all Stakeholders**.

Real estate, which was often the catalyst for binding a society together, connecting the fabric of cultural intersections, and providing a gathering place where people live, work, and shop, has strayed from its original purpose toward more quantitative and financial metrics of success. The impact of real estate is now measured in IRR, multiples, cap rates, and returns, and far less on societal and occupier/use outcomes. **The role of real estate in society must be qualitative as well as quantitative**. Real estate is the unfinished business of society and the continued responsible catalyst for creating opportunities by building upon a legacy of values, principles, inclusion, and optimism. **Real estate is a shared vision of expectations, fulfillment, and rewards**. The recovery outcomes of the past year are highlighted below.

The Real Estate Industry's Recovery Outcomes From COVID-19

- Industry consolidation has accelerated.
- Legacy exits/retirements continue to grow.
- New investment analytics emerged.
- Operating models are being reset and revitalized.
- New organizational architecture has been embraced.
- Assembling the best talent has become a 24/7 focus.
- Client/Customer-centric strategies are being implemented.
- Standards of Excellence and Social Purpose have been adopted.
- Succession and sustained governance are now a priority.
- Strategic planning and long-term perspectives have become essential.
- Growth opportunities are being created not found.
- Operational redundancy and duplicity are being eliminated.
- Transparency is now highly valued.
- Communications and connectivity have become organizational priorities.
- Capital, platform, and outcomes are being aligned.
- Transformational leadership and change management have been embraced.
- Technology has become a valued resource…when fully integrated.
- Retaining next generation stars and HIPOs has become essential.
- Health, wellness, and work/life balance has taken center stage.
- The past is no longer an accepted indicator of future outcomes.
- DEI and ESG values are readily being created/adopted.
- Securing a long-term source of growth capital has become a priority.
- Developing recurring income to cover G&A has been embraced.
- Investing in tomorrow is now a part of every budget.
- Building brand value has become essential for growth.
- The unexpected is now becoming the expected planning perspective.

Source: CEL & Associates, Inc.

Real estate cannot solve systemic societal challenges, but it can provide the physical and experiential environments that bring people together. Real estate is not an experiment,

movement or cause…it is the structural fabric that defines and shapes how people connect, interact, celebrate, and link society to shared outcomes. While individualism and achievement must be encouraged, in order for real estate to reclaim its mantle of shaping what defines community success and fulfill individual expectations, the industry must lean in. **Real estate can and must be inspirational, inclusionary, and invaluable. The future is measured on what *can be* rather than what *is*. Progress is defined by exceeding expectations. Goal achievement is measured in human, in addition to financial, terms**.

In this edition of *Strategic Advantage,* we will examine the role of real estate in society, the cyclical shifts creating challenges and opportunities, what is ahead for each asset class, and why now is the perfect time to make a difference…the perfect time to pivot.

It Is A Fact

Today technology is reshaping the way users view, interact with, and value real estate. It is turning upside down the way real estate companies acquire, develop, finance, lease, operate, and dispose of real estate assets. COVID-19 merely accelerated shifts that were methodically moving forward [some at glacial speed]. The meaning of space [individual and shared], location, accessibility and occupancy or use is being redefined. **Data aggregators and PropTech innovations have leveled the playing field and given many the proprietary insights formally reserved for a few**. New competitors are emerging, new building materials are changing design and construction practices, and predictive analytics are replacing instincts in investment decisions. Legacy real estate icons are retiring, entity consolidations are accelerating, and operating practices and processes are being reshaped. **The primarily outer-directed nature of the real estate industry has been turned on its head as value creation inside the four walls takes priority.** Real estate assets are no longer single purpose as work from home or remotely, online shopping and interactions are now integrated in the new normal of everyday life. Homes become offices, coffee shops are now small meeting spaces, hotels offer gathering places, office buildings now provide lifestyle services and industrial properties have embraced robotics and AI to improve efficiency. Technology has enabled and empowered many real estate firms to compete in a world where speed of delivery, flawless execution and personalization matters. **Winning the game is no longer about sites, it is about creating valued customer experiences and customer share**. The best sites with poor service are losing to accessible sites with best-in-class services. **Today and tomorrow are all about identifying, anticipating, responding, and providing greatly appreciated customer experiences that are valued, recurring, and lasting**.

For years the leading industry professional organizations featured “Biggest Deal,” “Top Managers,” “Capital Raised,” “Deal of the Year,” “Highest Producer,” “Building of the Year,” or rankings by AUM, square feet, units managed, or gross revenues.

While these traditional metrics may have worked 10 – 20 years ago, today's value metrics are increasingly based on user or occupier benchmarks.

Startling…to our knowledge no one in the real estate industry has created, implemented or leveraged the "Network Effect" [1990s phenomena universally embraced by the tech industry] **to create greater enterprise value or enhanced performance**. Historically the real estate industry has been a reactor to events. **Too often, many in the real estate industry have been observers to unfolding events, great responders to moments in time, and champions of "wait and see what others are doing" before making a decision**. That follower or herd mentality is not the entrepreneurial foundation of what has made real estate and the real estate industry a move-the-needle leader in society's evolution.

The Real Estate Industry Must Pivot To Assure Future Prosperity

Shift From:

- Building/managing space to creating environments and valued experiences.
- Focusing on four walls [structural] to what is inside the four walls [occupiers or users].
- Buildings as properties to buildings as catalysts to connect, network and interact.
- Traditional to contemporary performance evaluative metrics.
- Buildings as an end point to buildings as a cornucopia of synergies/adjacency opportunities.
- Asset-centric to customer-centric priorities.
- Human resources to talent management.
- Hierarchical to matrix decision-making.
- Traditional to non-traditional business practices.
- An organization to an enterprise.
- One-time income streams to recurring fee income.
- Historically based to predictive analytics.
- Employee to team/partner mindset.
- Following others to moving the needle.
- Single or multichannel to omnichannel.
- Technology as a tool to technology as a strategic resource.
- The unknown/uncertain to sustainable governance.
- Client lists to recurring, valued client relationships.
- Brand awareness to brand equity.
- Static to dynamic business perspectives.

Source: CEL & Associates, Inc.

Demographic, economic, social, and technology shifts are rapidly changing our everyday lives. Attitudes, perceptions, opinions, perspectives, and expectations of Americans are changing. In his book, *The Rise of the Creative Class*, Richard Florida wrote about the "no collar workplace" and the "experiential lifestyle." Cities throughout the U.S. are struggling with how to create productive shared, experiences amid increasing political and social divide. The solutions for our cities and towns cannot be utopian [a path with no end point] but must be real/practical with demonstrable outcomes [economic and job growth, reduced crime, higher education attainment, health and wellness, and gateway opportunities for all]. It does not matter whether you are an employee or a freelancer, a white collar or blue-collar worker, a Baby Boomer or a Millennial, or a conservative or liberal. What matters are outcomes, and the best catalyst or agent to lead that change is the real estate industry. Why? Because the real estate industry creates, develops and manages where we live, work, shop and recreate. **Other than social media and mega search engines, no one has as many daily touches to the fabric of society as the real estate industry.** No one! However, everyone needs to do their part…collectively. Like Aesop's fable of the bundle of sticks, "…together you are invincible…union gives you strength."

The Real Estate Industry's Decades of Themes & Opportunities

One clear fact of history is that it has rarely ever worked out the way it was intended. A decade is a period of 10 years that begins with a year ending in zero and ends in a year ending with nine. A decade is an interval of time that historically has defined real estate themes. The table below highlights those prior, current, and future themes.

Decade Real Estate Themes

1920s	Real estate accelerated rapid industrialization and speculative investing
1930s	Real estate as a result of government intervention, regulation, and mass migration
1940s	Real estate to support the common good
1950s	Real estate enables the American Dream [consumerism and suburbia]
1960s	Real estate connects the geographic dots and revitalizes U.S. cities
1970s	Real estate disconnects from urban dependency and stagflation
1980s	Real estate utilizes financial engineering and preferential tax legislation
1990s	Real estate becomes geocentric with generational purpose
2000s	Real estate and technology collide to create 24/7 outcomes
2010s	Real estate shifts to accommodate a rental- and digital-based society
2020s	Real estate becomes a personalized place and portal to connect, work, shop, and entertain
2030s	Real estate intersects with technology to redefine space and location
2040s	Real estate ventures into oceans, space and dynamic repurposing

Source: CEL & Associates, Inc.

Interestingly, future decades [the '20s, '30s, '40s] will be defined by technology, not bricks and mortar; touchpoints and relationships, not rankings or lists; and will be shaped by those who can anticipate not respond to evolving trends. As highlighted above, the 2020s, despite the significant impact of COVID-19, will be shaped by the redefinition of space and location. Real estate assets will be viewed as "personalized" places to live, work and shop. The generic "building" will shift to become a living laboratory of an evolving new normal. **Real estate has become a portal for connecting, communicating and collaborating**. Buildings, regardless of their primary use, are more than four walls or an asset on a spreadsheet…they are the fabric of our daily lives. **Real estate is not just a financial asset with users…it is a connective hub where 95% of all major decisions in life and business originate or are made.** However, the real estate industry is composed of a number of national and hundreds of statewide real estate organizations. While all real estate organizations listed below are outstanding in their "specific industry focus," overall the fragmentation of messaging, misalignment of shared outcomes, and redundancy of purpose limits/inhibits constructive legislative leverage. According to a November 2020 study by the Federal Reserve, **the U.S. real estate combined residential and commercial sectors are valued at $59.7 trillion.** I am not convinced the real estate industry gets the same seat at the table in Washington, D.C. or state capitals as others with far less overall sector value. The need to create a **National Real Estate Coalition** is required …today.

Need To Bring Single Purpose Focus
To A Fractured Industry

– NMHC	– CREW	– SIOR	– ASA
– ULI	– NAIOP	– NAREB	– NAMB
– NAA	– ICSC	– NAHB	– NAREA
– IREM	– NAREIM	– NAHREP	– ARES
– NARPM	– NAREIT	– USGBC	– BOMA
– REAA	– CRE	– REIAC	– ASHA
– CCIM	– RERI	– APREA	– AFIRE
– NIC	– AIA	– MBA	– NACREIF
– APA	– NACTO	– PREA	– WELL

Plus hundreds of statewide real estate organizations

"The National Real Estate Coalition"

Source: CEL & Associates, Inc.

As the real estate industry's Decade of Themes evolves, the shift is underway from bricks to clicks, from space to environment, and from intuition to analytics. **By 2030, the intersection of VR, AR, AI and holograms will likely mandate a repurposing and/or "Tech Proofing" of 60% - 75% of today's real estate properties.**

The table below highlights the three distinct real estate cycles.

The Real Estate Industry Is In 3 Distinct Cycles

Mega Cycles – Occur Every 40 Years	
1920 – 1960	Nation Building
1960 – 2000	Boomer Awakening
2000 – 2040	**Digital Age**
Super Cycles – Occur Every 20 Years	
1920 – 1940	Infrastructure Expansion
1940 – 1960	Post-War Economy
1960 – 1980	Period of Social Change & Challenge
1980 – 2000	Financial Engineering
2000 – 2020	Internet of Everything
2020 – 2040	**Generational & Demographic Transition**
Decades Cycles – Occur Every 10 Years	
1990 - 1999	Age of Start-ups, Entrepreneurism & Multiculturism
2000 – 2009	Age of Exuberance and Debt
2010 – 2019	Age of Capital, Asset, Entity Rebalancing & Consolidation
2020 – 2029	**Age of Legacy Exits, Disrupters, Disruption, Innovation & Social Change**
2030 – 2039	Age of AI, Automation & Individualization

Source: CEL & Associates, Inc.

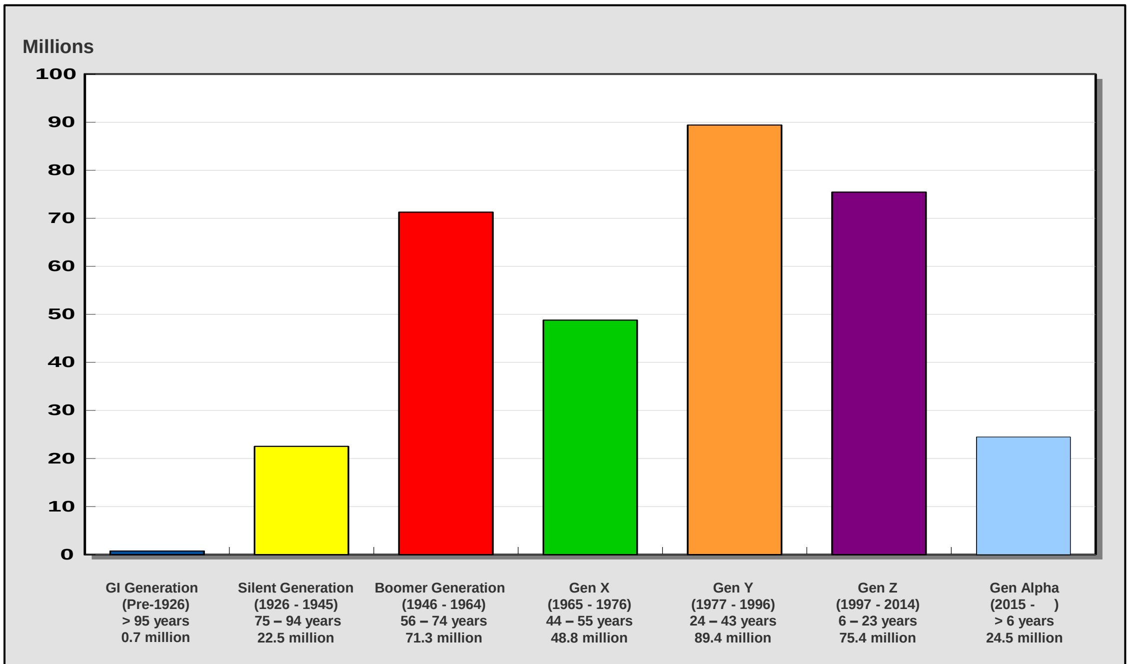
Real estate time is not only linear, but is measured in periods of relief, optimism, blind entrepreneurism, anxiety, fear, and discontinuity. Real estate time is cyclical, experiential, and transformative. As the industry evolves through the 2020s, it will move simultaneously through one decade, plus half of a 20-year cyclical shift. However, when one looks at the "average interwar period," historians such as Joshua S. Goldstein [professor emeritus of international relations at American University], George Modelski [professor of political science emeritus at the University of Washington], and L.L. Farrar, Jr. [independent scholar] have forecast a decade of challenge ahead. Forbes magazine expects the 2020s to be "The Great Reset." As we all know, humans and societies are not precise, so one cannot predict with accuracy when or if a major global, domestic, or cultural event will occur. **The current political, social, and societal divides in America are early warning signs that significant changes are ahead**.

For the real estate industry, a moment of opportunity arises amid the "saecular turning" [a phrase used by the Etruscans to acknowledge the rhythmic cycle of cultures]. While the real estate industry has generally moved in accordance with supply/demand, capital and tax/regulations, and "incentives," the 2020s will be a decade of transformative opportunities. Similar to post-WWII, the

1960s' Boomers coming of age, the 1980s' Reagan revolution, the digital age and "great divide" of the 2020s, these seminal moments provide unprecedented opportunities amid the tsunami of market, social, economic, and demographic challenges. **The real estate industry can seize this moment to be one of the architects of tomorrow or stay on the sidelines and let others determine future outcomes**. Now is the time to lead remembering the quote from French statesman Charles Alexandre de Calonne (1734–1802), *"…the impossible takes a little longer."*

Generational Shifts Are Impacting Demand

Generational Groupings - 2020



Source: CEL & Associates, Inc., 2017 Projected U.S. Census data for 2020.

From an aging generation of Baby Boomers to the emerging Gen Zs, **generational shifts not only drive the demand for real estate, they create the demand generators shaping real estate outcomes**. Baby Boomers view real estate as a source for wealth creation, while Millennials and Gen Zs tend to believe real estate should be a catalyst for societal interaction and community wellbeing. Xers seem to view real estate as a place to connect and engage, while the Silent Generation [now 75 – 94 years of age] reminisce about real estate being the structure foundation of a great society. The younger one is, the more real estate is viewed as a portal to connect, a place to network, and an environment for wellbeing.

Each generation brings its own values, experiences, expectations, and perspectives to how real estate "fits into their lives." In 2020, we are seeing the first signs of generational transfer in America.

Generational Shifts Are Impacting Demand For Real Estate

Generation	Age Range [2020]	Impact On Real Estate Demand
"Old Baby Boomers" [1946 – 1953]	67 – 74 Years	▪ Healthcare And Home Care ▪ Retirement Living With Time To Travel ▪ Downsize To Walkable Lifestyle ▪ Seeking Accessibility
"Generation Jones" [1954 – 1964]	56 – 66 Years	▪ Driving "Green" Revolution ▪ Remodeling To Stay ▪ Struggling Financially ▪ Digital Nomads & Online Champions
"Generation X" [1965 – 1976]	44 – 55 Years	▪ Driving The Urban Tribe ▪ Mixed-Use Product Preferred ▪ Connective Retail & "For The Moment" Devotees ▪ "Settling Down" Residential
"Millennials" [1977 – 1996]	24 – 43 Years	▪ Lifetime Rental Lifestyle ▪ Online Retail Channel Surfers ▪ 24/7 Cities Preferred ▪ Seeking Collaborative Environments
"Generation Z" [1997 – 2014]	6 – 24 Years	▪ View Internet As "Their" Link ▪ Gravitate to Trusted Brands ▪ View Real Estate As An Environment ▪ Self-Actualized.

Source: CEL & Associates, Inc.

Over the 2020 – 2040 period, **aging Baby Boomers will push for a revitalization of our cities, an increase in funds to rebuild our infrastructure for the future digital highway, and a return to the walkable communities and neighborhoods where they grew up**. Baby Boomers will be the drivers of ESG and DEI initiatives as their legacy fulfillment seeks self-defined redemption. Xers will be in positions of power [government and institutions], but with limited ability to move the needle. Boomers may allow inflation to occur in order to reduce a burgeoning debt culture…yet, as a result, wipe out much of Xers' net worth. The Millennials will become the next Boomer-like demographic upon which future foundational/structural outcomes be primarily based. During this time, **real estate will be oriented to "future ideals" as environmentally friendly assets will be rewarded with tax breaks to spur [re]development**.

Apartments, during this generational shift, will move from a place to rent to a place to call home. Retail assets will be places to connect and experience, not just a place to shop and leave. **Industrial assets will be dynamic**, robotic-driven assets to provide "what is needed" in a "just in time" environment. **Office properties will become 24/7 places to connect, network, link and interact in real time.** Workers will not "come to the office," the workers will have the "office come to them."

Aging Boomers will need healthcare and safe places to blend "winding down" work and retirement. Xers will continue to view real estate as a necessity versus an opportunity, a part of life not a part of living, and a respite from perceived life challenges. **Millennials and Gen Zs will demand/expect "affordable" housing, digitally connected neighborhoods, and will increase their reliance upon online purchases**. Sometime in the mid-2020s, the pessimistic mindset brought about during COVID-19 will give way to a "New Beginning," a "Reset" of values and societal needs. **The real estate industry is poised to be not only the creator of asset-based solutions, but the architect of the rebuilding of our social fabric**. Future real estate opportunities will benefit from the urban growth machine theory [growth and development are vital to the economic health of a city] and an alignment of interests among all Stakeholders. However, that visionary transformation and "taking ownership" of the solutions requires leadership. Who will step forward?

Repurposing Our Cities

The actualization of urban and suburban regeneration over the next decade, will require an aligned partnership between the real estate industry and external network of Stakeholders [governmental agencies, lenders, community groups, employers, residents, and nonprofit entities]. Focused initiatives around creating people-centric spaces and accessibility connectors will mandate a complete overhaul of zoning, entitlement and land use practices. **Success will be defined by quality of life, increased access to opportunities, affordability, proximity to mass transit, reduced displacement, infrastructure upgrades and investments in open spaces, entertainment, arts, and recreation**. Buildings must be multi-dimensional [single purpose properties will slowly disappear]; community experiences will be aligned, shared and celebrated; and digital access and seamless delivery of services must be commonplace. The required real estate tools for success will be sensitivity to demographics, social inclusion, and balancing demands for accelerated economic growth with environmental sensitivity. **Removing politics and Luddites from the process will be challenging, but the importance of repurposing our cities for tomorrow will drive mutually desired outcomes**.

Examples Of Site-Specific Renewal Or Repurposed Assets

- L.A. Live, Los Angeles
- San Antonio River Walk, San Antonio
- Faneuil Hall, Boston
- Hudson Yards, New York
- World Trade Center, New York
- The River District, Portland, OR
- Discovery Green, Houston
- Port of San Diego
- Inner Harbor, Baltimore

The strength of a city is its spirit, camaraderie, and synergy. **Driving people inside for safety and protection is not a city, it is a dramatic plea for change**. Cities whose residents feel uncomfortable walking about, venturing out after dark, or sitting in a park are vestiges of local leaders' failure to think beyond their re-election. Cities void of art, trees, gathering places to talk with friends or watch their children play, is a reflection of a leadership void. Owners, developers, operators, and occupiers can change that. **Cities cannot exist and prosper without form, structure, continuity, synergy, compatible adjacencies, visual order, and aligned leadership**. Today we have a governmental problem [the Dunning-Kruger effect] with on-the-sidelines or "in-waiting" transformative solutions unable or unwilling to step forward. The visions of LeCorbusier [the "Radiant City"], Ebenezer Howard [the "Garden City"], and Daniel Burham [the "City Beautiful"] cannot be realized in a vacuum. **Today the U.S. needs "balanced urbanization."**

Ten critical social or societal pillars are all in various stages of challenge, collapse, or restructuring. Those 10 platform foundation elements in every city and civil society are: [1] community and family; [2] faith; [3] environmental synergies/applications; [4] education; [5] freedom to speak, gather, and disagree; [6] equal opportunity for inclusion and realization of dreams; [7] visionary and transformational leadership; [8] care and concern for one another; [9] critical thinking; and [10] a commitment to engage in constructive solutions that take into account all Stakeholders. Rejection of facts and knowledge upends social alignment. Like Copernicus, whose theory that the earth was not the center of the universe, was rejected not on facts, but by dogma. **The real estate industry, in an age of discord, has a unique opportunity, once every 50 years or so, to lead this emergent path of bringing society together.**

The real estate industry must step forward to take a dominant seat at the table and shape future policies, design, planning, the sensory environment, property and user integration, transit planning, connectivity with the environment, and economic development. The keys for tomorrow will be holistic solutions that truly move the needle.

Great cities are where opportunities, leadership, residents, institutions, and stakeholders come together for a shared purpose and aligned outcome expectations. Outstanding urban achievement must balance educational, cultural, commerce, housing, and outdoor elements. Many accomplished researchers who study the evolution of cities (Jane Jacobs, Lewis Mumford, Colin Woodard, et al.) have concluded that **human beings cannot comprehend fragmentation, complexity, discontinuity, and dysfunction in their communities**. The real estate industry, as it has for centuries, can bring order, symmetry, form, and personal intersection to today's chaos. Visionary and transformative real estate leaders can shape the destiny of our cities. The recent Hudson Pacific Properties and Macerich grant program for artists and their One Westside project in Los Angeles, California, is a small yet meaningful example of "leading urban transformation."

We are now experiencing a massive outward migration from CBDs to growing suburban areas. The adage of "going to work downtown so I can eventually live in the suburbs," must be addressed. Many believe that the decay of our urban/public school system and failure to address rising crime, homelessness, high levels of COVID infection, and congestion have contributed to today's urban withdrawal.

Cities and CBDs, however, will not be out of favor forever. As Jeremy Kelly from JLL Global Research stated, the pandemic "struck at the heart of what cities are all about: togetherness, connectivity, shared services and shared spaces. Yet urbanization will continue." This is a **perfect opportunity for an urban and suburban reset**. Creating and assuring a prosperous tomorrow must begin today.

Today, more than before, the real estate industry must lead in the repurposing of our cities. This is not an urban or suburban issue; it is a societal challenge and real estate industry opportunity. Creating a web of environments [live, work, shop, play], linking all aspects of mobility, engaging all stakeholders, promoting wellness and health, integrating education and healthcare is real estate industry's leadership mandate. It is not who wins or loses a deal…it is about collaborating for a better tomorrow.

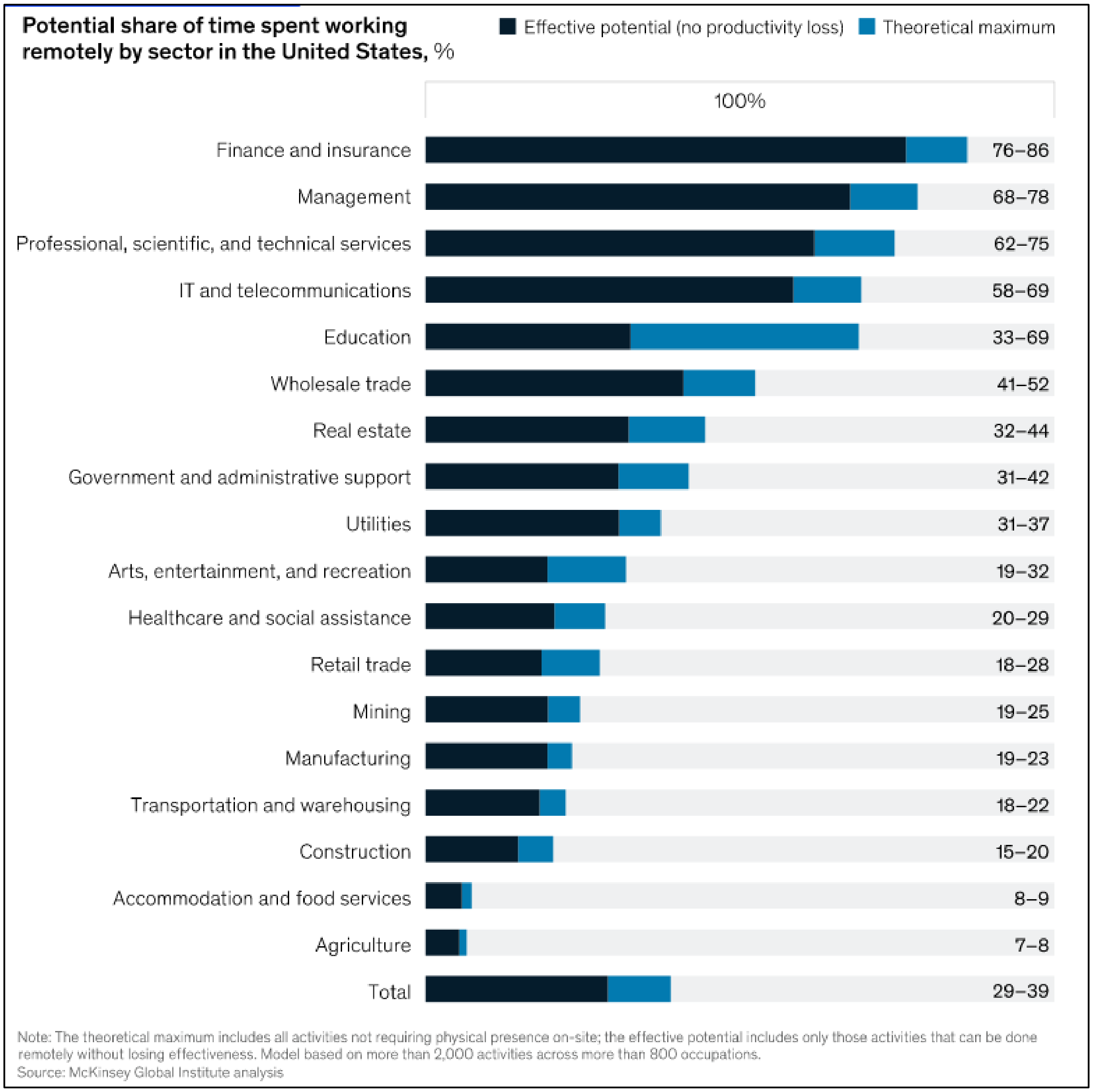
This current opportunity is unfolding in every city across America, regardless of size. We must avoid groupthink and encourage diversity of ideas, opinions, perspectives, and solutions. **There is no single answer…only great collaborative solutions to one of America's growing challenges**. Who will step forward to address these "forks in the road?" As Robert Frost, one of my favorite poets, wrote in the poem, "The Road Not Taken," *"…Two roads diverged in a wood, and I— I took the one less traveled by, and that has made all the difference."*

The New Workplace Reality

There will be no return to normal, but many aspects of the old normal [face-to-face interaction and team-based collaboration], will reshape the workplace of tomorrow. According to an early 2020 Bain COVID-19 survey, 84% of all companies surveyed were "taking action to accelerate automation initiatives." In a 2Q 2020 McKinsey global business executives survey, 67% of companies have accelerated automation and artificial intelligence, and also noted 70% of global business executives wanted to hire onsite temporary workers and freelancers. During COVID, the desk-to-seat ratio was down 15% - 30%. **According to CEL & Associates, Inc. research, 35% - 55% of work formerly performed in an office building probably will be done remotely**. According to Chris Herd, Founder & CEO of Firstbase, **remote work could cut $1.2 trillion spent by tenants each year.** Long-term impacts on the amount and functional aspects of office space indicate a future far different than experienced over the past decade.

In 4Q 2020, and throughout 2021, we will see upticks in the recovery of office jobs, although clearly 100% will not be returning. Most office workers would like to return to the office on a part-time basis. According to a recent Gensler survey, 77% of office workers want to return to the office three or more days per week. Only 44% of office workers want to return five days per week.

Sectors With Highest Potential to Work Remotely



Source: McKinsey.

Workplace, work/life balance and wellness have moved center stage. **Buildings of tomorrow must be "welcoming and safe environments."** Amenities, services [e.g., space for package management and enhanced digital communications], design, "green features," and "convenience" features will be important. Creating people-centric spaces, focusing on what is inside the four walls and accommodating a 24/7 workplace environment will be needed. Use of environmentally friendly building materials, creation of open/public spaces, utilization of emerging energy generating building materials, access to food, transit options, childcare facilities, and walkable areas will be essential.

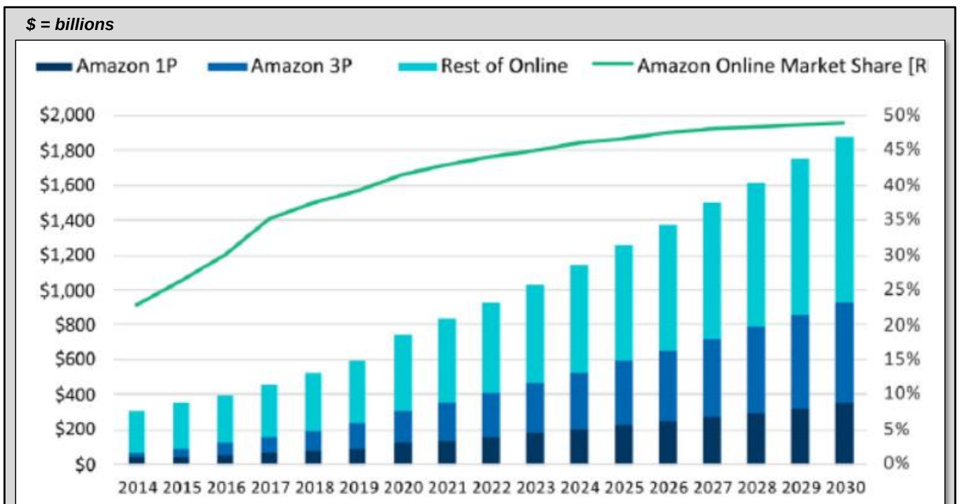
Office buildings of tomorrow may offer percentage or consumption leases and multi-location flex leases to accommodate the rapidly changing tenant environment. "Full Range" workspace will replace open floor plans. Office buildings will increasingly become "community assets" …the fulcrum for life in the areas surrounding each property. In many cases, art exhibits, meet-the-author events, travel seminars, social club meetings, and community philanthropy gatherings will take place in or will emanate from office buildings.

The new workforce reality replaces space with connectivity; square feet metrics with worker productivity measures; and work/life balance replaces the old "go-to-work" mantra. The next decade will be an exciting time for those owners/operators who can pivot, reinvent and embrace the new workplace reality.

New Consumerism & The Repurposing Of Retail Properties

Everyone is aware of the dramatic shift from instore purchases to online shopping as a result of COVID-19. Tens of thousands of retail stores have closed, many permanently. According to Yelp, by September, nearly 100,000 restaurants and retail stores have closed. Online retail sales were less than 1% of total retail sales in 2000…today, online retail sales are over 16% of total sales. Black Friday retail sales this year saw nearly a 22% increase in online sales [$9.03 billion], while instore traffic declined 52%. Amazon has nearly 50% market share of online sales. **By 2025, online retail sales are expected to be $1 trillion**. The graphic below, created by FTI, highlights this trending data.

U.S. Online Retail Sales Forecast



Source: FTI analysis, U.S. Census Bureau, SEC filings.

Apps for Grubhub, Uber Eats and DoorDash are likely installed on most phones. **CEL & Associates, Inc. estimates that, as a result of COVID-19 and technology, up to 200,000 restaurant/retail outlets will be closed by year-end 2025**. America has gone "Clubbing" [e.g., Walmart's Sam's Club, Costco's Gold Star membership, Target's Circle membership, and Amazon's Prime membership, to name just a few]. Malls will struggle over the next five years. Percentage rent [now only 10% of retail leases] should grow over the next five years. The consumer has taken hold of retail interactions, and as a result, expect a 20% - 25% reduction in per capita of retail square feet to population ratio [currently around 23.5 sf].

Many pedestrian malls have failed. According to the *Journal of Urbanism: International Research on Placemaking and Urban Sustainability,* around 40 or so of the 125 pedestrian malls constructed during the 1960s and 1970s have closed. To attract pedestrians in the future, city shopping centers will need to install permanent protection from inclement weather, many comfortable seating areas, various types of water features, outdoor entertainment events, and a sense of containment.

One approach to achieving this challenge is the highly successful Mall of America ["MOA"] in Minneapolis. MOA opened in 1992 with 5.6 million square feet, and information on their website indicates: "Mall of America hosts more than 400 events a year, ranging from concerts, to celebrity appearances and fashion shows. Each year, 40 million people from around the world visit the mall, generating nearly $2 billion each year in economic impact for the state."

Another approach taken on the west coast is Caruso's The Grove LA which opened in 2002 with 575,000 square feet of shopping and entertainment; and according to *Fortune* magazine, it is the No. 2 most-productive U.S. shopping center.

Clearly, retail is one of the most challenging asset types today. It appears that to be successful, not only must one "think outside of the box," but **remain true to the vision of providing customers/guests with an exciting, anticipated experience**.

This tsunami of factors has turned nearly all retail business models upside down. Consumer behaviors are no longer easily predictable. Recovery to pre-COVID levels of consumption are unlikely to occur before 2023 – 2024. Entertainment [movie theaters, concerts, plays, etc.] will recover very slowly [2025 – 2026], even with the availability of a COVID-19 vaccine. Online gaming, Netflix, Disney+, virtual museum and travel tours, online performances, and pay-per-view sporting events will take an increasing share of consumers' discretionary expenditures. Travel will recover slowly, and RevPAR for hotels will likely not return to 2019 numbers until 2025.

What these consumer and consumption shifts mean to the retail industry, with some exceptions, is distress, discontinuity, and displacement. However, in this turmoil will be thousands of redevelopment, repurposing, and repositioning opportunities. Mixed-use redevelopment projects will flourish over the next decade. New retail concepts will emerge, presenting new development opportunities. The arrival of "dark stores" [purposely built or converted online-only stores], and micro fulfillment centers reflect the many emerging retail real estate opportunities.

"Online retail sales reach/exceed $1.0 trillion by 2023." *FTI*
"Online grocery sales will reach/exceed $250 billion by 2025. *Mercatus*
"78% of shoppers still prefer to visit a brick-and-mortar grocery store." *Mercatus*

Wellness, healthcare, medical retail, and the allure of finding something needed or unique will shape tenancy. It would not be surprising to see malls with different daily themes to attract various constituencies. **Retailers who have a valued relationship with their customers will thrive. Perhaps a demonstration of customer loyalty should be a lease condition? The blending of retail outlets, logistics, distribution, cold storage, and last-mile warehouse facilities could be recipients of the new consumerism**. New consumerism expects experience-based shopping encounters that are multi-dimensional and omnichannel. Digital optionality, virtual "try-on-before-you-buy," and hyper-personal experiences are some examples of new consumerism. While value and efficiency will drive shopping priorities, consumers want the feeling of discovery, adventure, surprise, and positive memories of the completed experiences. Staying relevant, highlighting what you stand for, and bringing a community connectivity will be tenant characteristics all retail real estate owners should design and appeal to. **"Putting on a show" may be better than extending store hours.**

Industrial Real Estate Pivots

The size, location, and purpose of the **industrial real estate sector are being transformed from "when it is ready" to "when it is needed," and from "just in time" to "already there."** Whether the asset is a warehouse, distribution center, assembly facility, service center, manufacturing, or flex space [collectively called industrial space or industrial real estate], the need for new and digitally compatible industrial space is accelerating. According to a July 2020 JLL report, **the demand for industrial real estate space could increase to 1 billion sf by 2025**. E-commerce, which JLL projects could reach $1.5 trillion by 2025, is driving the demand for new ways to assemble, store and distribute products. A McKinsey report, issued a few years ago, predicts that manufacturing GDP could rise to $3 trillion by 2025, or 20% above the current trend. Innovative supply chain management; digital, connective threads connecting suppliers and customers; and improved productivity/efficiency will drive future outcomes. And where will all of this e-commerce take place? In a real estate asset!

Robotics, new stacking systems, artificial intelligence, predictive analytics, driverless trucks [**Walmart is testing such vehicles, UPS has self-driving trucks on the road, and Amazon driverless trucks can now cover a 650-mile route],** and warehouse farming [think medical marijuana] are creating new opportunities every day. The need for on-demand warehouse facilities, buildings to house manufacturing, and need-it-now distribution centers, plus the replacement/upgrade needs of millions of square feet in industrial space are becoming the focus of value-add investors.

The non-hospital healthcare sector is poised to increase its use of industrial real estate. The medical device industry is expected to reach $613 billion by 2025. The future of biopharma, pharmaceutical manufacturing and packing, solar energy, spacecraft/satellite manufacturing, high security facilities, among many other sectors will further expand the industrial sector…already high on e-commerce steroids. The addition of a proposed national infrastructure plan will add to the space needs of the manufacturing products required for those structural upgrades. Watch for **"quick build factories"** [think Moderna] as an emerging trend driving future space demand.

The real estate industry must be "at the table" when industrial/manufacturing policies are being shaped, not at the receiving end of what has already been decided.

Multifamily Continues Its Trajectory

Unlike retail or office classes, the multifamily sector has shown great resilience, despite government mandated prohibition of rent increases and evictions. In November and December 2020, NMHC's Rent Payment Tracker revealed 90.3% and 89.8% of apartment households made full or partial payments by the 20th of the month. With a renewal conversion rate in the 55% - 65% range for many major metro markets, and the fact that around 37% of renters live in apartments, and 44.1 million U.S. households are renters, the residential for-rent marketplace remains fairly strong throughout the COVID crisis. Passage of the CARES Act and the Emergency COVID Relief Act of 2020 and other economic/financial stimulus programs have benefited the multifamily industry. The availability of historically low interest rates and the Maslowian-like need to seek and have affordable shelter, even in times of significant challenges, highlights the continued, positive attributes within the multifamily industry.

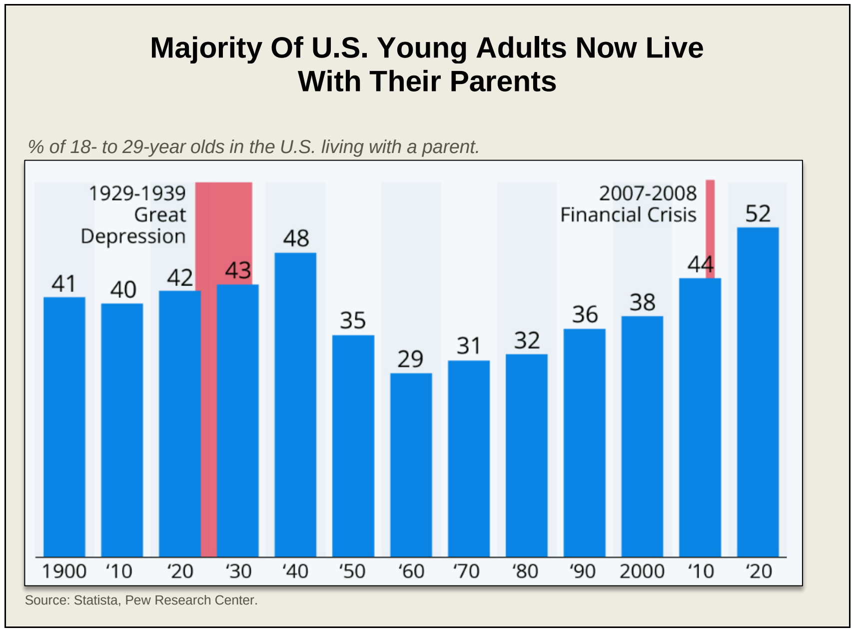
This stable foundation structure has held strong, despite massive job losses and dislocations, remote learning at most colleges and universities, and stay-in-place policies. While multifamily asset performance has remained fairly strong, transactional activity has declined significantly over 2019 totals. In addition, the **total of distressed multifamily loans through the 3Q 2020, stood at $21.4 billion**. Cap rates remain low, and investor interest is rapidly improving ["at the right price"].

However, in the U.S., approximately 29 million adults, according to the recent January 2021 U.S. Census Bureau's Household Pulse Survey, reported that their household did not get enough to eat, and **26% of renters with children lived in a household that was behind in rent.** Fifteen percent of adult renters, according to the Pulse survey, lived in a household that was behind in rent. The percentage of households paying more than 30% of their income for housing is growing. **Throughout most of major U.S. metropolitan areas, housing affordability has moved from a problem to a crisis**. To address this crisis, a coalition of private, public, government,

> **The Housing Act of 1949**
>
> The Housing Act of 1949 was passed to help address the decline of urban housing following the exodus to the suburbs. The legislation provided governance over how federal financial resources would shape the growth of American cities. Components of the legislation aimed at reducing housing costs, raising housing standards, and enabling the federal government for the first time, to aid cities in clearing slums and rebuilding blighted areas. The program emphasized new construction. In addition to improving the available housing stock, the program made open space land, neighborhood facilities, and basic water and sewer facilities eligible for federal assistance.
>
> *Source: American Planning Association*

nonprofit, and quasi-government entities must come together for a shared purpose. Key components of providing solutions could include a national plan similar to the 1948 Marshall Plan, as well as revisiting the National Housing Act of 1949. Affordable housing, community [re]development, and conventional for-rent projects must become a national priority…led by the real estate industry, and specifically all Stakeholders within the multifamily sector.

We have more than enough capital, more than enough capacity to fulfill and desire to get started, and there is more than enough demand and need to assure a successful outcome. The combination of tax, finance, and subsidy legislation, plus the ability to transcend outdated and restructure local, regional, and state government regulatory policies and zoning/entitlement laws will create positive outcomes for all Stakeholders. Since the late 1940s, there have been multiple attempts to create such a national policy, but unfortunately, many well-intended programs were lost in the abyss of theories, political agendas, scandals, and economic/financial crises. The solutions are multi- not single-dimensional.



The multifamily industry must build upon, rather than repeat, the positive attributes of the Housing and Community Development Act of 1974 and 1980; Community Reinvestment Act of 1977, the unique benefits contained in the Housing & Community Development Act of 1992, the Low-Income Housing Preservation and Resident Homeownership Act of 1990 and many other similar Federal and State programs. There has not been a lack of progress, just a list of additive programs that addressed moments in time.

Like all other real estate classes, now is the time for visionary and transformative leadership. Focusing on the solutions must become a real estate industry priority.

Closing Comments

The path to tomorrow's success can be seen easily today. To quote Fleet Admiral William "Bull" Halsey, "There are no great people in this world, only great challenges which ordinary people rise to meet." Today is an extraordinary time to be in the real estate industry, a time when the real estate industry, its leaders and professionals can align to achieve great outcomes. **Today is a "Mandate to Lead"…who will step forward to make a lasting difference?**

Regards,

Christopher Lee
Editor

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