# CONFERENCE RECAP

NYU Schack Institute of Real Estate's
27th Annual REIT Symposium Recap


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## Introduction

On April 19th, 2023, the NYU Schack Institute of Real Estate hosted the 27th Annual REIT (Real Estate Investment Trust) Symposium with the conference slogan being "Mind the REIT Gap". This was a full-day conference with various panels covering the REIT industry. For example, we had the opportunity to witness events such as keynote speech from Ron Havner (Chairman of the Board of Public Storage), a one-on-one with Nadeem Meghji (Head of Blackstone Real Estate- Americas), a lunch conversation with Sam Zell (Founder and Chairman of Equity Group Investments) and others. This article will summarize the conference for those who were unable to attend and present the key takeaways that were discussed.

According to NAREIT, the worldwide representative for REITs, a REIT is a company that owns or finances income-producing real estate across various property sectors. There are certain qualifications the company must meet to become a REIT. Most REITs are publicly traded, however, some REITs are also private . A REIT is an attractive investment opportunity for investors looking to gain exposure to real estate, but who lack operational experience. This investment vehicle allows investors to purchase a stock in the company and receive dividends based on the REIT's real estate-derived cash flows.

## Navigating Complex Currents: Interest Rates, Valuation Gaps, Inflation, Capital Markets, and Changing Business and Regulator Dynamics

This panel was moderated by Mike Graziano (Managing Director at Goldman Sachs), with panelists Mark Parell (President & CEO of Equity Residential), Debra A. Cafaro (Chairman & CEO of Ventas, Inc.), Edward Pitoniak (CEO of VICI Properties), Conor C. Flynn (CEO of Kimco Realty Corporation), and Owen Thomas (Chairman & CEO of Boston Properties).

The participants of this panel were REIT CEOs from various sectors of the industry such as retail, multifamily, experiential operations, healthcare, and office. The main topic of discussion was each participant's opinions and future outlook for each company's primary asset class and the industry as a whole.

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A key discussion of this panel revolved around high-level secular trends and how CEOs are preparing for long-term goals. A common topic that all panelists addressed was the aging of baby boomers and the formation of millennial families. How can we target this new demographic of millennial families? How will they live, work, and play? Ed Pitoniak's advice was to invest further into opportunities that millennials enjoy such as Great Wolf Lodge resorts. He also discussed opportunities with sports gambling, as it continues to become legal in states around the country.

Mark Parell's focus was on adding amenities in Equity Residential's (EQR) properties to target millennials and create larger floor plates for families and remote-working professionals. How will millennials afford a down payment on a single family home as supply remains constrained, and prices and interest rates increase? These opportunities have been a focal point of EQR's target market as their supply cannot keep up with renter demand. Additionally, the firm is striving to ensure that millennial families remain renters rather than homeowners.

The panelists stressed the importance of healthy balance sheets, as the cracks in the system may be exposed during this turbulent economic period. Additionally, they believe cap rates are not increasing as quickly as expected because there is a lack of capital available in the market. Lastly, they advised to focus on longer-term themes rather than short-term, and to look beyond the currently inflationary environment. A major question posed was "Where do we expect or want to be in ten years?"

The panelists discussed their asset classes' ability to capture a shift in target demographic to millennials, aging baby boomers, and potentially millennials families. Connor Flynn highlighted the cleansing of retail as this is the only asset class with limited to no new supply coming online. Originally, retail was overbuilt but now is achieving a point where demand can meet or exceed supply for space in some markets. The outlook for retail is finally changing as it comes back into favor as an asset class. Owen Thomas' point of view for office was similar: it is overbuilt as things currently stand and lower quality buildings must be removed from the market through repositioning. This could eventually lead to a similar cleansing of office as retail has undergone in the last fifteen years.

## Deals in Complicated Times- M&A, Activism, JV & Fund Models, Structures Outside the Box

This panel was moderated by Guy Metcalfe (Managing Director & Global Chairman of Real Estate at Morgan Stanley) with panelists Christina Chiu (EVP, COO, & CFO of Empire State Realty Trust), Colin Connolly (President & CEO of Cousins Properties), Joseph F. Coradino (Chairman & CEO of PREIT), Matthew J. Lustig (Chairman of Investment Banking, N. America & Head of Real Estate & Lodging at Lazard), and Benjamin W. Schall (President & CEO of AvalonBay Communities).

The panel focused on the turbulent market conditions that REITs are facing as a recession looms, interest rates soar, and the market digests the collapse of Silicon Valley Bank (SVB) and Signature Bank. Some of the major takeaways from this panel were that public REITs are trading below their net asset values (NAV) meaning the stock is worth less than the value of the real estate the company operates. Additionally, all the panelists discussed preparing for the downside even when you are in good times.

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Another trend that kept resurfacing was the concept of REITs trying to diversify their properties rather than being "pure-play", and whether this was a good idea. Pure-play refers to REITs that are focused on one particular property type rather than diversifying or including mixed-use assets. Investors prefer investing in pure-play REITs, but lenders and other stakeholders may be more open to diversified holdings. It was also pointed out that no REITs are truly pure-play to begin with. As an example, Empire State Realty Trust continues to expand its horizon into multifamily as Christina Chiu discussed various office-to-residential conversions they are evaluating, while Vornado and SL Green both have significant retail holdings.

## Investor Roundtable

This panel was moderated by Mary Hogan-Preusse, (Senior Advisor at Fifth Wall) with panelists Nick Joseph (Head of US REIT & Lodging Research at Citigroup), Lisa Kaufman (Head of Global Securities at LaSalle Investment Management), Cedrik Lachance (Director of Research at GreenStreet) and Gina Szymanski (Lead PM, NA REITs at AEW Capital Management).

The participants of this panel research or invest in REIT securities, so the focus was on the current metrics and future outlook of that market.

REITs are currently experiencing a difficult period, the panelists concurred, and most are trading at significant discounts to their NAVs, indicating a disconnect with the private market. Having said this, they are in a much stronger position than before the Global Financial Crisis (GFC), with stronger balance sheets and constructive cash flows across sectors (even office).

Many REITs are now only tangentially connected to traditional real estate and are included in indices such as the S&P 500, so they are increasingly correlated with the broader equity markets. The panelists jokingly griped, however, that REITs "only act like real estate when CRE is struggling". Just like the public real estate market leads on the way down, it will also lead on the recovery and REITs can be expected to resume their key role as consolidators and providers of transparency in the CRE industry.

There was extensive discussion around dividends. Cutting them has historically been a "third rail", as REITs by law must devote the lion's share of their income to investor distributions, so their value and investor interest is more dependent on dividends, and predictability in this aspect is key. However, we were reminded that though important, dividends are only one piece of a security's total return, so future growth prospects and cash flow generation, as well as management competence, have to be taken into account as well. In other words, don't judge a book by its dividend yield cover.

A key theme was the potentially beneficial impact of shareholder activism in the industry. Boards are understandably often not thrilled by the prospect of activist investors shaking things up, but they should always keep an open mind to constructive feedback and welcome the opportunity to improve operations, even if it results in board members losing their jobs. Often, the mere threat of activism is enough to keep boards on their toes and focused on shareholder value.

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## Conference Luncheon with Sam Zell

We were lucky to witness a wide ranging discussion between Sam Zell and our NYU Schack dean, Marc Norman. Mr. Zell covered a number of topics, from his view of the current market conditions and the work from home (WFH) phenomenon to practical life and business advice.

He made headlines when he proclaimed that work from home "is a bunch of B.S." (but without using the acronym). As his now-infamous retort suggests, he is bullish on the office as a key driver of business success and career development. In light of the recent wave of layoffs, he questioned how many of those let go were remote workers, suggesting those employees you don't see regularly are "top of the list to get fired". He also highlighted the importance of being present around others for the purposes of motivation, productivity ("how productive can you be in your pajamas with little kids running around?"), workplace culture, developing skills, and properly assessing risk.

Mr. Zell also shared some of the key business concepts which he believes helped make him successful. The key theme was "opportunity": how to identify it and how to take advantage of it. In his view, opportunity is always present but it takes a special kind of person to understand it, be willing to take a risk ("specialize in things you don't know you can't do"), and be able to execute on it. Having a healthy dose of fear is key to this - those without it and who think everything is easy, will fail to take things seriously and underappreciate risks, and therefore will fail. Having a balanced sense of what might happen, he said, is what separates the men from the boys.

Another key takeaway was to focus on specific opportunities, not markets. We should target situations where there is limited competition and superior margins, and shouldn't be afraid to look beyond the beaten path. He also reminded us that opportunities also exist in selling, because "every time you are a seller you are also a buyer of something else".

## Convergence: Will COVID and its Aftermath Blur the Sectors and Other Lines

This panel was moderated by Lauren Hochfelder (Co-CEO & Head of Americas at Morgan Stanley Real Estate Investing), Sandeep Mathrani (CEO of WeWork), Michael J. Bilerman (EVP CFO and CIO of Tanger Factory Outlet Centers), Andrea Olshan (President & CEO of Seritage Growth Properties), and Scott Brinker (President & CEO of Healthpeak Properties).

The topic of this panel focused on how Covid-19 affected each respective company and asset class and how they expect to move forward.

Surprisingly, Covid-19 ultimately proved beneficial to the retail industry, as it washed out weaker properties and tenants out of the market. The surge in industrial demand helped brick and mortar stores serve as last mile distribution centers and for in-store returns. The retailers that closed stores during the pandemic created an opportunity for competitors to enter and capture market share. The curation of mixed-use environments also demonstrated dominance as people required space suitable for simultaneous live, work, and play activities. This could be through the same environment that people previously lived in, or a relocation directly or closer to a mixed-use development.

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Malls were a major topic in this panel. Brands have begun leaving department stores and opening individual locations in open-air centers. Andrea Olshan believes that the mall industry is oversaturated as landlords do not control their real estate and therefore redevelopment strategies may become tricky. She also discussed the strategies for Seritage Growth Properties' 189 properties, which include former Sears and Kmart locations. Each location is unique so they are tasked with developing 189 different business plans, each trying to determine the highest and best use for the site, which may include disposition, reposition, partnership and/or redevelopment.

The healthcare space has seen a shift, as urgent care centers and various medical tenants left office buildings and expanded closer to the consumer. The goal of these external medical centers is to alleviate the stress on the hospital system from the pandemic, by treating patients closer to their homes. Similarly, the hospital experience has changed to outpatient care centers and healthcare campuses. This altered the hospital experience into a one-stop shop for all medical care.

Similar to other panels, there was a discussion on WFH. It is a trend that affects many asset classes, some positively and some negatively. As an example, it has a positive effect on daytime traffic for retail centers but hurts central business district (CBD) foot traffic for office and retail properties. Amenities also came up as a topic of discussion, particularly in marketplaces such as malls, open-air, and shopping centers. Similar to the trend in housing and office assets, customers have shown that they are seeking an experience, so amenities which will help increase the shopping duration are prioritized.

The ending questions of this panel for listeners to consider were: How do I maximize value? How do I create generational wealth? How do I minimize risk?

## Conclusion

Overall, the 27th Annual REIT Symposium was a unique learning experience for NYU Schack students, as major industry players covered all facets of commercial real estate and the REIT industry in various discussions. Students were graced with a guest appearance from Larry Silverstein and a famously candid luncheon with Sam Zell as well as CEOs from all corners of the REIT industry.

There were numerous panels discussing stimulating topics, and many insightful questions posed, as REITs are attempting to navigate these turbulent markets. We hope this piece was informative both for those present and those unable to attend. The Blueprint team would like to thank Dean Marc Norman, Professor Scott Robinson, and the whole Schack team for putting together an excellent event.