

Symposium Wrap Up

BY WILLIAM L. RAMSEYER, CRE

Speakers:

John Barton

Director, Stanford Architectural Design Program

James Curtis III, CRE

Managing Partner, Bristol Group, Inc.

Bowen 'Buzz' McCoy, CRE

Member, Stanford Real Estate Hall of Fame

Moderator:

William L. Ramseyer, CRE

Consultant, Guest Lecturer

ALL OF US WHO HAVE BEEN IN THE REAL ESTATE investment and counseling business over the years have attended many conferences allowing us to hone our skills and mix with peers in the business. These conferences tend to have a common thread throughout all of their agendas — discussing cap rates and spreads, expected IRRs and risk, identifying market trends/opportunities and so on. The gathering at Stanford was different and unique. We spent the entire two days talking about relatively new concepts for the real estate industry and society at large — innovation and the disruption that results from it will arguably be the largest influences on the real estate industry since the suburbanization of America in the 1950s. Although disruption has been with us in several property sectors, particularly hospitality, retail and logistics, the pace of disruption has massively accelerated over the past decade.

About 150 senior executives of leading real estate services and development companies from around the world, most of whom are active in the SPIRE (Stanford Professionals in Real Estate), CRE (The Counselors of Real Estate) and RICS organizations had the privilege of taking an informed peek into the future of how we're all projected to live, work and play. This peek was the courtesy of an incredibly talented and broadly experienced panel.

Before delving into a summary of the program we should all thank Stanford for hosting the program in

About the Author



William L. Ramseyer, CRE, recently retired after a long and successful career in the institutional real estate consulting and investment management businesses. He currently serves as consultant to several real estate companies seeking to initiate or expand their investment management activities.

Prior to his retirement, Mr. Ramseyer was Managing Director of Cornerstone Real Estate Advisers' Business Development Group, expanding the firm's assets under management from under \$4 billion to more than \$9 billion during his tenure. While with Cornerstone, Mr. Ramseyer's principal focus was developing investment strategy for the firm's clients, raising capital and servicing its growing client base. Prior to Cornerstone, Mr. Ramseyer was Managing Director at Heitman Capital Management and Pension Realty Advisors which he co-founded in 1980.

Mr. Ramseyer has been prominent in industry associations, having served as chairman of both the Pension Real Estate Association and The Counselors of Real Estate organizations. Currently Mr. Ramseyer serves as the Chairman of NCREIF's Ambassador Group.

Mr. Ramseyer is a graduate of the University of Puget Sound and the Advanced Management Program at the Harvard Business School. Mr. Ramseyer also served as a Legislative Assistant to Senator Henry M. Jackson and served as an officer in the U.S. Navy.

such a stimulating environment. The intellectual value of the program and the qualifications of the presenters were truly impressive. An astonishing pace of change is clearly ahead for all of us. A startling example: an executive from one of the world's largest and most successful development organizations posited during the conference that one of the surest outcomes of developing a technologically advanced office building is that the building will be already behind the curve when it is finally completed and occupied.

Throughout the two-day session we were exposed to the concept of disruption and how its increasing rate of incidence is changing the way we travel, the way we work and the likely way we'll design urban centers in the next decade. The basis of this disruption, of course, is rooted in the Millennial generation

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and within the knowledge and innovation centers throughout the world, particularly here in the United States. How appropriate that we held this program on the exhilarating campus of Stanford University, ground zero of Silicon Valley and all of the innovation for which it is responsible.

One of the challenges for those participating in the conference was to select through the many informative and valuable agenda topics for takeaway value in terms of how better, and from a more informed basis, we can conduct our respective businesses and investment strategies going forward. There are a couple of ways of approaching the daunting task of ferreting out the true value resulting from attending and participating in such a thought provoking conference. First is to put the conference output in the context of what we already know about demographic changes that are baked into our actions, and the second is to identify the highlights of the program as presented by individual speakers.

Let's talk first about what is already baked into demographic trends influencing the types, uses and locations of properties being developed in the current market cycle. For years, employment locations were dictated by employers — if one wanted a career in the automotive business, Detroit was the place an employee would have to move; for banking it was New York City or San Francisco. Today it is the employee who is increasingly influencing employment location. Advances in innovation and ability to work remotely have upended the location equation for development. Traditional single use properties in amenity-starved suburban locations are giving way to mixed-use, principally urban, consumer preferences.

The live, work, play proximity concept is alive and well in our real estate world. This point was poignantly highlighted by Buzz McCoy, CRE, in our closing session when he shared the joy he experiences when walking through his nearby commercial village. Knowing and sharing stories and common experiences with the owners of local restaurants, local pharmacists and local barbers are important to the well being of a local community. Connecting with the people and families that constitute a community are essential to the well being of neighborhoods. The importance that employers place upon the need to satisfy employee wants was very much in evidence to attendees who accepted the generous invitations from

Google, Adobe and LinkedIn to visit their offices near Stanford. Office location, spatial layout, employee services and flexible hours are indeed impressive and surely result in extraordinary productivity. At the same time, these employers and others have recognized the constraints of transportation and housing costs by providing coach service which is much appreciated and used by employees. Focusing on sustainability and environmental sensitivities are paramount at these companies and other organizations in the broad fields of information technology and innovation.

Many of the most fascinating presentations focused on the field of travel and transportation, centering on the business models and innovations of Airbnb, Uber and autonomous car companies. All we needed were contributions of behavioral economists to complete the agenda as to how transportation alternatives are going to affect our lives going forward. Condominium developments without parking requirements, office buildings without tenant parking, not owning a car, enhancing and renting out your home garage, car manufacturers making a wide range of their cars available to consumers on call—they're all in the cards in the near term. Each one of these conditions has impact on property development design and execution.

All of the disruption and innovation presented will no doubt have impact on the human condition, especially those factors affecting quality of life and economic activity. Some of the participants offered that we must take a hard look at education policy with more focus on how to learn rather than what to learn ... perhaps the return of the importance of a liberal arts education. Indeed, education is of principal concern when young families choose their residential locations. Schools remain a deterrent to families locating in urban settings. The existence and magnitude of charter schools in our communities will likely remain a major public policy topic going forward.

Many of us in the real estate business focus on the Millennial segment of our population when deciding where to invest or develop. During the course of the conference there was much attention given to this topic. The debate turned on where this segment of our population prefers to live ... some indicating they believe this generation seeks to live in the suburbs

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with good schools and comfortable houses, properly clustered in a mixed use setting, while others contend they will follow the prior generation and seek to live in more urban settings.

Development and investment strategists are increasingly focusing on this apparent dichotomy. That said, some analysts downplay the importance of Millennials as there are indications they are more interested in experiences than things and thereby not particularly big consumers.

Another interesting observation of many of the speakers and those on the closing panel is the changing roles of government in areas which influence real estate decision making. There appears to be a trend to more local governmental influence and less at the federal level, a trend generally supported by industry participants. Growing governmental regulation is very much present in the two industries highlighted during the conference: hospitality (Airbnb) and transportation (Uber). Both organizations, and indeed their peers in the hospitality and transportation sectors, are increasingly relying upon the policies of state and local agencies.

Overall, the conference allowed attendees to better understand all of the elements of successful disruptive innovation. Never before has it been so important for all of us to surround ourselves with a wide range of intellectual input. Prudent real estate decisions are increasingly challenging at best, and potentially near impossible at worst. We all need to think about the potential disruptions in our businesses, engage in innovation and be ready to do it all over again.

I've long been an advocate of rotational investment strategy in real estate, rotating property types and locations over the long term for optimum portfolio performance. Professional investors are constantly balancing in favor/out of favor sectors that influence capital flows/cap rates while also trying to best identify strategies that will result in growing cash flows. Now there is a new dimension—trying best to anticipate likely innovations affecting real estate and take advantage of the resulting disruption. Our speakers did an excellent job of setting the table for us—now we must think through the implications of what we learned. That's real take away value. ■