The Weekly Take

Seeing Is Believing: Why Retail Investors Are Looking to the Southeast

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Spencer Levy
Retail is selling these days. The asset type is in demand, gaining value, becoming a key destination for investors eyeing long-term returns. On this episode, we look at that trend in mixed-use retail with insights from a firm that's been active in this space for nearly six decades.

Eric Walter
The hardest part is solving the capital side of the equation.

Spencer Levy
That's Eric Walter, president of Greenberg Gibbons, a developer, investor, and manager specializing in mixed-use projects. Founded in 1968 in Baltimore – my hometown, where it's still headquartered today – Greenberg Gibbons started out as a builder of neighborhood shopping centers. Today, it's grown to manage more than six million square feet of property across nine states along the east coast.

Ryan Sciullo
But I would say in the last 12 months, there's been capital formation around all formats of retail that we have not seen in our careers.

Spencer Levy
And that's Ryan Sciullo, who leads CBRE's Mid-Atlantic National Retail Partners, the leading retail investment sales team in the country with transactions of more than $22 billion over the past five years. Ryan works out of CBRE’s Washington, D.C. office with clients like Greenberg Gibbins and others on a regional and nationwide scale. Coming up: we make this short commute from CBRE's Fleet Street office in Baltimore to visit a prominent retail owner, operator, and developer to get the lowdown on the sector across the southeast region and beyond. I'm Spencer Levy and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, and I'm delighted to be doing a home game with Eric Walter, the president of Greenberg Gibbons, to talk about all the great things they're doing here in Baltimore and beyond. Eric, thanks for coming out.

Eric Walter
Thank you for having me, Spencer. I’m looking forward to being here with you and Ryan.

Spencer Levy
And Ryan Sciullo, one of our retail leaders. Ryan, thanks for coming out today.

Ryan Sciullo
Thank you for having me. I'm excited.

Spencer Levy
I'm excited too. I'm particularly excited because not only am I a fanboy – I shop at all your centers because I live literally a mile from your Owings Mills property, three miles from Hunt Valley, good stuff – but more importantly than that, I've watched it evolve. I watched Hunt Valley before and after. I watched Owings Mill before and after. When I think of Greenberg Gibbons, I certainly think of your vision of being able to transform an older mall in the case of Hunt Valley, an older property in the case of Owing's Mills, and turn it into world-class retail.

Eric Walter
Hunt Valley is a fantastic story about retail, but also about mixed use. In 1981, that mall was built as the premier mall in Baltimore. And over the course of 20 years, it went from the premier mall to the first mall on deadmalls.com. First mall. And when we bought it in 2001, we paid $25 million for the property. It still had a Walmart anchor. It had Regal. It had some outparcels that were thriving, but the mall was not. And over the last 25 years, the property's worth well in excess of a half a billion dollars. It's gone through four iterations of development, and we're continuing to evolve it today. The first iteration was attracting Wegmans, the first in the state. The second was we took what was formerly the Walmart and had Avalon Bay build apartments over the top of retail. The third was we bought the Sears box, and we attracted fitness, multiple uses to that property in the parking lot. Phase four, we added senior housing and more apartments. So the property is 20 times more valuable than it was 20 years ago. In the first 20 years of its life, it went from premier to dead.

Spencer Levy
Remarkable. So Ryan, you're wearing a retail hat, but we're here with Greenberg Gibbons that does so many things mixed use. A lot of times when we talk about mixed use, some people have an, oh, we can't do mixed use because I'm gonna do the hotel, I'm going to do the office, I'm to do retail, but it seems to me we're seeing more and more projects like what Greenberg Gibbons is doing today that have all of these components. How do you see it?

Ryan Sciullo
I think it can be tricky and there's not a lot of developers and investors across the country that can do it successfully. Greenberg Gibbons is one of those that has done it successfully and has evolved through the times and been very successful in some of their mixed use developments that they're doing now. It can be tricky though for a number of reasons. One is the financing of those different components and how you put your capital stack together. The second is your equity piece. A lot of times, if you have different components in a mixed use project, you want to have different equity components in those pieces and, Eric, you guys are very thoughtful about the way you do that.

Eric Walter
You're absolutely right. The hardest part is solving the capital side of the equation. There's four major real estate product types, retail, multifamily, office, and industrial. There still is yet to be a mixed use category that is investable with the broadest of institutions. I think they're all very interested in recognizing the value of being in a mixed-use environment, but not necessarily wanting to own all the components at the same time. Multi-family with great retail placemaking generates 5 to 10 percent rent premiums from a standalone

multifamily project on the street. Same goes for office. Industrial is not quite yet a good case study to be added with retail. But we've been fortunate that over 20-plus years developing to have secured capital partners that are willing to support us as we put these pieces together, and it doesn't come fast. There's a project in Frederick, Maryland that we're developing now. We just announced we closed a few weeks ago, and we first looked at it 15 years ago. We were the runner-up, the group that bought it, held it, they were not able to execute. Six years ago, pre-COVID, we were about to put it under contract, COVID hit, paused, put it under contract four years ago and closed. So it takes four years to master plan, entitle, design, and the amount of partners that are willing to be patient to put that story together is very few.

Spencer Levy
And I want our listeners to hear this because typically when they do a land deal, like farmland type deal, it could take them five, six years to get things entitled. You're talking about a deal that probably had existing projects on it, but to get it re-entitled to get it to do the things you want to do, it takes four years. It's one thing to have vision, it's another thing to have patience, vision and capital partners to see it the same way. Is that a fair way to put it?

Eric Walter
Absolutely, and that's what we try to tell our partners, that we need your patient, long-term focused capital with our creative, curated, thoughtful execution. We're not gonna do everything. You can't be great at everything. But there's components that we feel like we're best in class at. So when we find these mixed use projects, it starts with where's the best place to put the retail, and we try and get the best possible anchors. And once we figure that out, then it's curating what other uses compliment that retail center. And what other uses are community benefits. So the projects that we're building now, one has public parks, one has office, hotel, both of them have for-sale residential, both of have apartments, and it's all because the retail is leading in the right location with the best possible tenants.

Spencer Levy
And I think that's because, in part, retail has evolved, as everything has evolved since COVID. People really want to go to retail. I think the whole story of the Internet eating its lunch is long gone.

Eric Walter
I can give you an interesting story. In 2019, we were meeting with one of our investors. We do an annual business plan, and the head of the system came in and asked me and our chairman why we weren't wearing black, because retail was dead and we should be headed to a funeral. That was the mindset of retail. But retail wasn't dead. Today, just in the last 10 years, Ross, TJ Maxx, which are the new age, lower price department stores, their market caps are up fivefold. Retail's been thriving, and that business, along with Trader Joe's, thriving 50% up in store counts, they have little to no presence online. E-commerce surely is improving. It's 20% roughly, of sales. But consumers want experiences. And that's what we look to offer when we placemake and buy.

Spencer Levy
In fact, there are some large retailers, like Primark being one of them, doesn't sell at all online because they want that foot traffic. And in fact, we've seen several changing the format entirely, kinda like you changed the format of the entire Hunt Valley project.

Eric Walter
I can speak to Bed Bath and Beyond case studies. We similarly targeted buying properties with Bed Bath as a tenant, just like other tenants that were at risk. Ryan and his team sold us one of those projects, and was involved in others with us. And what we underwrote was: You can't guarantee whether or not a business will succeed over the long term but what you can look at is, if you got the space back, is it an opportunity or is it downside? And with our bed bath boxes, in particular, we released one to Ross, one to Planet Fitness, one to a grocery store out of the west coast, a grocery outlet, one to Burlington. So it wasn't the same tenant. That's four examples, and in all cases, they were $7 rents, and we more than doubled the rents.

Spencer Levy
So Ryan, how does the capital markets look at the value of the retail in the stand-alone versus the one in the mixed-use environment?

Ryan Sciullo
It varies depending on the active capital at any given time, but I would say in the last 12 months, there's been capital formation around all formats of retail that we have not seen in our careers. There is capital formed around grocery anchored, shopping centers, obviously in neighborhoods, community shopping centers. That's still the darling retail format in our space, and that's still gonna attract the most aggressive capital, but in the last four or five years, we've seen more capital form around the unanchored strip center space or the essential services retail. And that's really become an institutionalized asset class within retail as well. So we're seeing a lot more assets being sold at very aggressive cap rates and pricing in that sector. Power centers are still a strong format. We're still seeing a lotta capital formed around those and aggressive around those. And as it relates to mixed use, it just depends on the project and location, but we are selling. Retail projects within mixed-use communities to institutional buyers today, and some that are selling–you know, one component's going to a multi-family developer owner, one's going to a hotel owner, and one's to a retail owner. And they're all coexisting in a condominium structure, if you will.

Spencer Levy
One of the beauties of retail investing today, just using retail as a standalone or could be part of mixed use, and it's been the beauty of it for the last, I would say, three and a half, four years since inflation got high, is that you were still able to get positive leverage on that investment where you couldn't do it in multi-family, you couldn't do it in industrial. Is that still the case?

Ryan Sciullo
Absolutely. We never saw negative leverage in our space. I think we continue to see positive leverage, even with interest rates and the volatility we've seen in the last several months. I think one of the things that's attracted institutional capital back into the retail sector is the durability of cash flow and the fact that we are seeing real growth in the cash flow now that there's limited supply. Greenberg Gibbons is one of very few that's actually actively doing retail developments of scale. There's very few because of basis and properties, the time that you have to go through to get the entitlements and the patient capital, and then the costs. So the fact that there's limited supply and there's retailers that are growing and expanding and backfilling any vacancies that exist, we are starting to see real rent growth with retail shopping centers.

Spencer Levy

Well, you're seeing rent growth, but what you're also seeing is cap rate compression. Also, let's face it, some of the pullback in capital from office has made retail finally one of the, if not the, of the major four asset classes for major investors because office, I still think is bottom, but it's coming back and it's going back in a big way. And we've seen a little bit of softness in industrial multifamily at the moment with some of the changes in demographics, some changes in overbuilding in industrial. So retail is in its golden era today. Do you agree with that, Eric?

Eric Walter
Absolutely, it's been, I can tell you for our company, it's the most fun it's been in 20 years. And I think to make an investing strategy succeed, if you're buying value add, the thesis has to be that you're doing something to the project that allows it to become a core property. When we set out and started a private equity fund in 21, the thesis was retail's not dead. Consumers are gonna bounce back and want to be in this experiential environment. You do need to have accessible shopping centers. You need to have great visibility. It's all the same fundamentals. But e-commerce isn't going to kill retail. It's going to create more opportunity over time. And to your point, Ryan, it's three times more expensive to build a shopping center today than it is to buy. What has happened is because nothing's being built and the industry's 95% lease, investors are looking for growth, always, especially with rising interest rate environments. Multi-family industrial was getting bought in the fours and the five caps, but people were betting on 5% rent growth and then it got overbuilt. Retail hasn't had the additional supply added. So in ‘22, when you're coming out of an environment where retail's dead, quote unquote, we challenged our leasing folks to say, we have durable cash flows, just like you said, Spencer. We have long-term leases with Wegmans or Whole Foods – and Ryan worked with us on a Whole Foods deal – but the value of a 20-year leased Amazon credit, cap rate is not as low as an apartment industrial because an investor can bet on the possibility of future growth. So the guarantee is less valuable because it's a fixed rate increase, it’s a bond. And so what we said is leasing team, let's start driving annual rent growth. Let's see what we can accomplish. So we challenged them to get two and a half percent rent growth in every lease in ‘22. And they pushed back. I said, you got to push, you gotta push. And I know all the public reach we're doing it as well. And the impact is substantial. The average lease that was signed in the 2010 to ‘20 timeframe was a 10-year lease with a 10% increase every five years. So if you think about year one to year five, same rent, year six to 10, 10% bump. The difference between year one and year 10 was less than 1% CAGR. Inflation over that timeframe, way above that, and is way above it today. Getting 2.5% rent increases every year generates on a million dollars of rent in year one, a million dollars more value over a 10 year period than the 10% rent increases. We got a third of our leases signed in ‘22 with two and a half percent rent increases. Since ‘22 over 50% of every lease that we've signed has had at least two and a half% rent increases

Spencer Levy
For the benefit of our listeners, CAGR stands for Compounded Annual Growth Rate. And for the benefits of our physics fans, Albert Einstein famously said, the most powerful force in the universe is compound interest. And that is precisely what you're doing by shifting the structure of your leases.

Eric Walter
Absolutely.

Spencer Levy

So Ryan, you mentioned a moment ago that unanchored is now having its day in the sun. And when you're looking at these unanchored centers and you're selling them, are you saying there's the potential for a grocer or you don't need it?

Ryan Sciullo
You don't need it, right? So these investors are buying into the fact that you might have a shadow anchor there, you might a shadow grocer or a shadow destination retailer.

Spencer Levy
And for the benefit of our listeners, what a shadow means is there may be a grocer on or pertinent to your site which you don't own.

Ryan Sciullo
Right, so they want to be visible to the road, Visibility is key for those investors, but they want have the right tenant mix, a curated tenant mix for essential services, retail restaurants, fast casual restaurants, medical users, service users, those types of tenants that is creating a daily visit form customers. And so, the other thing that they look at is the ability to backfill those retailers in the event that they would go out. It's less costly than backfilling a junior box space. It takes less time to do the backfilling of a junior box space or an anchor space. And then the costs associated with it are less. The other thing to Eric's point is in terms of getting rent growth, those tenants are more inclined to do annual rent bumps with their leases versus an anchor tenant that really is going to give you pushback on an annual rent bump basis.

Spencer Levy
When we were talking about the evolution of these centers, and your Hunt Valley Center is a leading candidate for that, in addition to bringing in the grocer, you also changed the mix of the number of restaurants there versus people that were selling goods, non-restaurant users. The knock on restaurants was always, they're very expensive, very difficult to put in, but now because we're trying to create foot traffic as our – well, we've always tried to create foot jobs, but now, perhaps even more so – restaurants are more important than ever. At least that's my point of view. What's yours?

Eric Walter
I would agree, and I would tell you, we look at curating a mix of uses that would give customers a reason to come to the center as often as possible. And it is hard to compete with the convenience of ordering online. It's very hard. So restaurants can't order–I mean, you can order online, you can have the food delivered, but the experience in the restaurant is a completely different experience than eating the same food at your house. You can't order a steak and have the same flavor, same taste, same experience. Similar to that, fitness, services, entertainment, the theater as you mentioned at Hunt Valley. If we can get the mix right and consumers are coming all the time. If that's the case across shopping should improve and the success of our retailers should improve.

Spencer Levy
Data. Ryan, you've been in this business a long time. How have you changed underwriting these centers? Whether it's the one, three, five mile circles, foot traffic, other sources. Tell us about data, how you underwrite, how do you sell these deals?

Ryan Sciullo
Well first from a demographic standpoint, we aren't using the 1, 3, 5-mile radii anymore and she's not really relevant. We are looking at mass mobile data. We're using location

analytics which we have access to at CBRE and that's tracking the consumer to see really who is shopping at the shopping center from where. We can see where they go before they go to the shopping center, where they go after the shopping center. And then another big factor at these big developments that Eric was talking about, Hunt Valley for example, we're looking at dwell time. So how long is the consumer going and staying at that shopping center and experiencing a restaurant or a retailer or a movie, whatever the case may be. Those are all very important factors that we're using now because we have access to the data.

Eric Walter
Retailers benefit from having a lot more data about their customer. So what we try to do is get as much information as possible that when you meet with the retailer you are armed with information that can educate them on the market and why this location versus where they may otherwise think based on what their data is doing.

Spencer Levy
What about the traditional health ratio, the ratio of total sales in the space as a percentage of the rent they pay? The complexity in the retail sector is so much of things are phygital, half digital, half physical. And sometimes what do you do if you return a good there versus not? What does that do to retail sales? So health ratios, and the mixed environment of online versus sales in a store – how do you look at that when you're trying to look at the productivity of that store?

Eric Walter
I think it's harder with the tenants that are omni-channel, just like a bank. A bank on a pad may be using it for marketing or community engagement, and it may not purely be about the deposits or all the business generated in that bank branch. The same would go for an omni-channel. Clearly, retailers opening in markets directly improves their online sales in that market. How do you know what's the right amount of rent? So I still think, generally speaking, we're competing against other centers for that tenant if they know they want to be in the market and just what's the supply-demand and what's the amount of rent you can press? That's what we've experienced with restaurants though, to your point earlier, they're not doing as much online sales. So I think health ratios are a better tool to measure the success of the restaurants.

Spencer Levy
So this is the comment that's going to get me thrown out of the august offices of Greenberg Gibbons. But every time I have a terrific retailer on the show, I always say, well, given the fact that so many of the sales from the stores that are sitting in your centers are coming online, to the extent you charge percentage rent – which is a dirty word in our business – to the extent you charge your percentage rent shouldn't you get a piece of online sales yourself?

Eric Walter
I appreciate that you frequent all our shopping centers so that hopefully we are getting some percentage rent. But it is interesting that it feels like there's opportunities for retailers and landlords to develop more of a partnership mentality than a we're on one side of the table and you're on the other. Because if we're putting in all this investment to make these shopping centers thrive, and maybe a tenant is taking a risk coming before their customer is clearly in that market, there should be an arrangement that you're taking the risk, if we're making this investment, let's share on the upside. There are certainly some retailers that are more willing to do that than others, but I think about it all the time. It's the same thing

as an exclusive. Why does Rite Aid and Walgreens go across the street from each other? Clearly being next to each other helps both those stores thrive. But so often, tenants come to a property, even 700,000 square feet, and they all want to be the only burger chain in the whole shopping center. It's really hard to create an experience when you have these limitations. But also, if you're an operator and you're putting your entire livelihood on the line to open this burger chain, do you really want another one to open? So it's a challenge. And we try to balance being the right landlord where retailers can thrive while also doing the right thing by our investors in creating value over the long term.

Spencer Levy
Well I can say I have an unusual job at CBRE that I cover both sides of the house, I cover both investors and retailers, and occupiers of all types. I'm speaking for them for just a moment. They want a strategic relationship with you, they don't want a tactical relationship with you and I think what you're saying, Eric, goes right to that.

Eric Walter
Yeah, and being a developer, which is what our DNA is, creates a lot of trust with tenants. If you can secure land, develop a new building for them, and deliver it on time where it fits within their scheduled opening, you develop a ton of trust. It's harder, but it still can be done as an acquisitions firm. And what we're trying to do is leverage our development capabilities to become an acquisitions firm throughout the east coast and take the relationships we've built in the mid-Atlantic and expand them throughout the markets that we're looking to grow.

Spencer Levy
So Ryan, when I first met you, you were living in Pittsburgh, and I'm proud to say that my cousin Spencer Horowitz is the starting first baseman for the soon-to-be playoff-bound Pittsburgh Pirates. I had to get that in here somehow.

Ryan Sciullo
Careful. Careful. Don’t jinx them.

Spencer Levy
I'm not jinxing them there. They're right right there on the cusp there. But, moving markets. You moved from Pittsburgh to Washington, DC. And how long you been here now Ryan?

Ryan Sciullo
12 years.

Spencer Levy
12 years now, and much like Greenberg Gibbons is now expanding their footprint to look beyond the mid-Atlantic into some of these larger areas certainly in the southeastern United States. So Ryan, we'll start with you. Tell us about the mid-Atlantic. What are some of the observations you've had in the 12 years you've been here coming from the midwest?

Ryan Sciullo
Well, there's been a lot of population growth. Washington, DC attracts people from all across the country, all across the world that like to go there for jobs. Some of them stay there for some period of time and leave, but ultimately it is a very transient market and transient city, which is great. It's a very institutional market from a capital standpoint. So most of the deals that we're working on and selling are with institutional capital. Probably

about 70% of what we do is institutional. But one of the trends we have seen – and this is similar to what Greenberg Gibbons has done over the last five years or so – is there has been a migration of development and capital from the Washington DC Metro into the southeast. So we have started to see some of those groups look into the Carolinas, look into Georgia, for example, and work on developments. Greenberg Gibbons is a great example of looking at some of the opportunities in those southeast markets, and in fact, they have a great development ongoing in Richmond right now, and also just recently acquired a deal in Raleigh, North Carolina.

Spencer Levy
Eric, talk to us about which markets you're going to and why outside of the mid-Atlantic.

Eric Walter
What attracts capital to the mid-Atlantic, and what made Greenberg Gibbons successful is a stable, diverse economy, and a place that you could have reliability as you get through the investment cycle. So we're looking at markets in the southeast that offer similar. But what the southeast also offers is population growth and economic growth. So we've invested in, in the last few years, we've invested in Florida, in Orlando. We've invested in Tennessee, in Nashville, we've been invested in Atlanta.

Spencer Levy
And these are all retail assets.

Eric Walter
All retail assets. And we have a mixed-use project in Richmond. So Richmond, interestingly, I do agree with you, Ryan, that over the last five-plus years, Virginia has done a great job as a pro-business, constantly recognized as a great place to do business and work and has attracted Richmond I think as one of the top 10, 15 growing mid-size cities and is attracting a lot of early graduates, graduates of school. And so it's clear that institutional capital is viewing in Richmond. As a Southeast high-growth investable market, which 15 years ago would have traded, what do you think, Ryan, as a cap rate compared to D.C.?

Ryan Sciullo
Probably a 100 basis points off.

Eric Walter
And now what would you think?

Ryan Sciullo
Pretty comparable.

Spencer Levy
And I would note this is our second showing love for Richmond as we just had on the show the owner of the Richmond Flying Squirrels who just built a brand new ballpark down there.

Eric Walter
Well, you would appreciate–I know you were there to throw out the first pitch. My niece sang the Star Spangled Banner with her school at that stadium a few weeks ago.

Spencer Levy

There you go. It's a great place to visit. So Ryan, we're looking now at the Southeast and the Southeast in certain asset classes, notably multifamily, maybe a little bit industrial, has exhibited a little of overbuilding, but not retail. Is that what's part of the reason why retail or institutional developers in capital are looking at the southeast? Great demographics, limited new supply.

Ryan Sciullo
I think it's definitely limited to new supply. I think a lot of it has to do with population growth. And a lot the capital is chasing where the demographic is growing, and a lotta the Southeast markets have job creation, have population growth, and so we have seen a lot of multi housing building as well. I think the one thing in that sector that we're starting to hear about is some of the rent increases that were underwritten are taming and slowing down a bit. So I think that's where retail is definitely seeing some benefits, of some of that capital coming into our sector instead of multifamily right now.

Spencer Levy
Let's talk about your capital for just a moment. I note with pride, I took a photograph of your Ravens jersey – 50 years in business from Principal, Principal Financial. Talk about your evolution as you've been here from a 50-year-old company probably doing one-off deals with friends and family money, to having a fund. Tell us how and why.

Eric Walter
In 1999, we started our first joint venture with an institutional platform. We had experience developing, but we had never managed for institutional capital. You know how these joint ventures work. They're 50 pages long. They gave our team an index card, and they said, you have enough experience and credibility that whatever you can fit on that index card that's what you're permitted to negotiate. Until you prove yourselves with us, that's when you get to negotiate. And over the course of. 13 years, we developed over a billion dollars of projects with this particular partner. Various funds, various separate accounts. So for the last 14 years, we've grown that partnership now threefold. That's the partner that's doing all these great mixed use projects with us right now. We're now on our second fund, bought a project just up the street from a project-

Spencer Levy
How big is your fund?

Eric Walter
The first fund we raised $80 million. And we bought $230 million of shopping centers, eight properties. The second fund, we're targeting 120 to 160, and we've raised about half of that to date. So we're diversifying product types, markets, and continuing to build on our fantastic partner relationships.

Spencer Levy
What's the categories of investors in your fund? Are they endowments, pension funds, insurance companies, all of the above?

Eric Walter
Because it's so small, unfortunately it's not attractive or it's not investable for the large pension plan. So it's been all high net worth investors. And it's a completely different exercise than talking with an institutional investor. Having four breakfasts or lunches with someone who's going to invest $250,000 is completely different than talking to one investor who's gonna write a $50 million check.

Ryan Sciullo
I think it's been the most diverse pool of capital we've seen in retail in decades. Eric and I talk about this often, but he's kind of like, what do we buy? What do we buy right now? There's so much capital. And there's really limited supply. I think that's the challenge is there has not been a ton of retail supply on the market but so much more capital and demand out there. But I think we're seeing activity from all of those food groups and all of those types of capital investors right now in the retail space.

Spencer Levy
So Eric, you mentioned that Greenberg Gibbons' capital base has evolved over time. How does having different capital sources influence your investment decisions by market or asset type as they have different time horizons and different expectations?

Eric Walter
We've always been an institutional capital partner, investment partner, for 25 years. The reason we started partnering with high net worth investors was because it was at a time when institutions were not investing in retail. What high net-worth investors do is they don't have a real estate allocation. Then they don't have within real estate a retail allocation. And they don't have a geographic allocation for real estate. So when you're pitching a high net worth investor, they may say, I want to go all on SpaceX, or I want to invest in this private equity fund, or this hedge fund. So one of the challenges is you have to have a product that allows them to get similar returns to other alternatives that may have higher octane opportunities. So retail is durable and institutions are looking at it now as potential downside protection if they're gonna go develop a data center because they can get the yield from retail, high net worth investors are expecting a combination of yield. The tax protections that institutions aren't focused on and the upside opportunities that they may get in other opportunities.

Spencer Levy
What comes first, the asset or the market? How do you look at it?

Eric Walter
Market first and then the asset within the market. The properties that we've bought in Raleigh, recently, Orlando and Richmond, in two of the three cases, we had tenants telling us that they want to be in the submarket. When we developed Foundry Row, we knew Wegmans was looking in that corridor and we knew they would not go to specific locations, they would go to that location. So we try to leverage our relationships to the best possible ways to help the tenants solve their problems. And so it's market first, because you've got to have a market that is institutionally worthy of investment. And then you have to find the locations within those markets where the tenants are gonna thrive.

Spencer Levy
Let's talk about the future now. We've had a good run in the last couple of years for retail, less supply, more capital coming in, changing consumer behavior. But we are also seeing what some people call, and I hate to use fancy terms here, but they call it a K-shaped economy. We're seeing a divergence between people that are doing well and people who aren't doing as well. And the consumer is more important in retail than any other place. So now it's crystal ball time, and as I mentioned, we've been having a very good run in retail overall for the last several years, for all the reasons we talked about. What do the next five years look like? Ryan, why don't we start with you?

Ryan Sciullo
Dare I say, I feel like it's going to continue in this direction as long as something macro level doesn't occur that changes that direction where retail is going. We do not see mass retail development of size and scale happening anytime in the near future. I think that's the supply and demand side of things we talked about. So we don't see that occurring. And I think we're going to see capital that realizes and recognizes the durability of the retail cash flow at these shopping centers. And also the growth potential that exists because you do have a number of mark-to-market opportunities in these legacy shopping centers that have been around for a number years. Investors are buying into that and they're executing on it. So we are seeing that in real time and if you look at the public REITs in our space as a barometer of that, a lot of them are achieving plus 3% CAGR right now in their entire portfolios. And so I think we're gonna continue to see that at least in the near term.

Spencer Levy
Eric, I'll give you the final word. What's gonna happen, big picture, and what are the positive or negative risk factors that might impact that?

Eric Walter
I think the fundamentals of investing in retail will continue to strengthen. From my perspective, the challenge is most of the investors are looking at IRR, internal rate of return, as their metric in how to outperform other investors. And one of the challenges is the last time there was any meaningful development in retail was in the early 2000s, and most of those leases were 10- to 15-year leases with multiple options. So getting to those underlying rents in a five or 10-year hold is tough, and it doesn't appear anytime soon that interest rates are coming down. So from my perspective, I feel like the downside risk of retail investing right now is fairly high. I don't see a lot of challenges that'll really impact the durability of the cash flow, as you mentioned, Spencer. I view the toughest thing right now is trying to deliver these mid-teens returns that are elusive for everyone. And the only way to do that is to take a little bit of risk, maybe in market or the types of tenants that you're buying and expecting that your platform can position you to take advantage when the opportunities present themselves.

Spencer Levy
Well, on behalf of The Weekly Take, it's great to play a home game – and playing a home game with one of our hometown heroes, Greenberg Gibbons, Eric Walter, president of Greenberg Gibbons based here in Baltimore, but expanding from the mid-Atlantic down to the southeast. Eric, great job today.

Eric Walter
Thank you, Spencer. Thank you for having me.

Spencer Levy
And Ryan Sciullo, Executive Vice President, CBRE, based in DC, from the 'Burg, and let's go Pirates. Ryan, thanks for coming out.

Ryan Sciullo
Thank you both. I'm humbled to be here.

Spencer Levy
For more on the retail space, I suggest you check out some of our highlights from earlier this year, including our episode on the resurgence of malls with Macerich, and others. You can find them in the archives on our homepage, CBRE.com/TheWeeklyTake or wherever

you listen. Looking ahead will bring you more retail occupiers and more conversations from around the world – or at least the hemisphere – with real estate leaders in Canada and Brazil. But first we'll meet a New Yorker who's been filling newspaper column inches for over 50 years covering real estate and restaurants and more for the New York Post. Tune in to learn more about this inimitable, boldface home. Thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.