

The Weekly Take

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Start Me Up: Kicking off 2022 With a Deep Dive into Net Lease Properties

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Spencer Levy

I'm Spencer Levy, and this is The Weekly Take – our season opener for 2022. We hope you had a very happy holiday. As we begin the new year, there's a sense of renewal across our business. Signs of a strong economy overall and even hard hit sectors look to be on the rebound. Sure, there are lingering uncertainties, too. A variety of changes in our lives and workplaces, many of which are still evolving. On this episode, we have two voices of experience to offer perspective on those changes across the world of commercial real estate.

Glenn Rufrano

What we don't know is whether we're undergoing cyclical or secular trends. That's what we're trying to really understand.

Spencer Levy

That's Glen Rufrano, a veteran of the real estate business for more than four decades. Until November. Glen was the CEO of Vereit, one of the largest portfolios of single dented commercial properties in the U.S.. Glenn left the firm after Vereit closed a previously announced merger into the S&P 500 company Realty Income. And last month he was named to serve as the chairman of the ICSC, the retail trade association, for 2022.

Will Pike

The best building in the best submarkets are frankly garnering a better lease rate than we've frankly ever seen in my career ever, period.

Spencer Levy

And that's Will Pike a CBRE vice chair and managing director of the Net Lease Property Group and Corporate Capital Markets Practice in Atlanta. Will covers all facets of net lease properties

and more. He advises on both the owner and occupier sides and has been part of more than 3000 deals over the course of his career. We'll talk about the work our guests do across sectors, drawing from their deep expertise and the net lease business in particular. Mostly, we'll take a broad, 360 degree look at the state of commercial real estate. Is now the time to think short term? or to make long term decisions? We'll ask our guests for their thoughts and to share their biggest ideas for the year ahead. Coming up, we start the real estate conversation for 2022. That's right now on season three of The weekly Take. Welcome to the first episode of The Weekly Take for 2022, and we couldn't have two better guests. Glenn, thank you so much for joining us today.

Glenn Rufrano

Well, thank you for having me, Spencer, and happy New Year to you.

Spencer Levy

Thank you, Glenn. And, Will, thank you so much for joining us.

Will Pike

Spencer, thank you for having me back and happy New Year.

Spencer Levy

Happy New Year, everybody. Let's talk now a little bit about the business. And just a side note when we first booked Glenn for the show, he was the CEO of Vereit and that he very successfully sold Vereit, or merged Vereit into Realty Income. And so, first of all, congratulations on that deal, Glenn. But also, I think it speaks to your reputation. In fact, it was an article on you called "Mr. Fix It". So tell us first about the merger that whenever we were able to say and did it go into that same definition of Mr. Fix-It and your career path?

Glenn Rufrano

Well, Lee, we're happy with the merger. Realty Income, in our view, has been and will continue to be the premier business and single tenant ownership. And it's a stock deal. So that has to be what we're doing is we're basically taking our shareholders and putting them in the hands of a company that is a premier company, much higher multiple, better cost of capital, higher growth prospects, a nice premium to where we were trading. So our shareholders get a premium. They get excellent management, an excellent CEO in Sumit Roy and real good prospects for the future.

Spencer Levy

This is a terrific segue to what I want to talk about for the bulk of today's episode, which is the evolution of what is considered to be institutional grade real estate and how it's structured. I think that the COVID crisis really focused our attention on what is real estate and what isn't real estate. And when I say real estate, the definition of real estate used to be much closer to what I often called a box of bonds. You have this building. They got long term leases. It is a bond-like instrument, and we used to price it against those bonds, particularly with respect to those

tenants that have a credit rating. But now, given the massive changes we've seen in the office sector, the structure of leases are changing. The length of leases are changing. Are buildings going to be more flex than they are direct. How does this impact our business? Big question. But, Will, what do you think about that thus far?

Will Pike

I would say that office occupiers in general are making shorter term lease decisions at the moment. However, you can look to certain markets and especially class A, let's say, class AA buildings. And that is really not the trend. It's longer term structures. We're not far enough into this cycle post or it's still in COVID to make a clear determination of that. But I will tell you that Spencer, as you very well know, we see this every day. The best building in the best submarkets are frankly garnering a better lease rate than we've frankly ever seen in my career ever, period. Whether you're in New York City, Dallas, Atlanta, Seattle, again, micro markets of a market, but I think it's too early to determine the actual lease structure and just assume that all occupiers are going to use shorter term leases. Keep in mind, when some of the FASB rules changed, I would say general consensus groups are going to own more real estate and they're going to do shorter leases that did not come to fruition at all is quite the opposite, actually. I think we're a little early to make that determination. I think occupiers making long term capital decisions will continue to make long term capital decisions because one thing with the rise of cost, frankly, buildouts of office space is not getting any cheaper. It's getting more expensive. So are you really going to make a short term office decision? That's quite costly? I don't think so. I don't see much of a difference where we were from 2019 and before, but that's my opinion.

Spencer Levy

So just for the benefit of our listeners FASB changed the accounting rules a couple of years ago. That made it less attractive to have a long term lease because it would be put on your balance sheet like a debt instrument. And many people thought that because of that, people would go shorter term. But to Will's point, that really hasn't showed up in the marketplace. So, Glenn, that same question to you. Do you think we've seen a fundamental shift?

Glenn Rufrano

I'm a few years older than Will, but I'm going to agree with him that no one's smart enough to know what's going to happen. This pandemic has caused changes and accelerated changes that are very hard to understand. And I've had these conversations with our shareholders a lot in various areas, whether it's casual dining versus quick service versus movie theaters versus suburban office. And my general thought is, what we don't know is whether we're undergoing cyclical or secular trends. That's what we're trying to really understand. You know, in my life, most trends have been cyclical. You mean, we all think something has changed and it's dramatic and then five years later, we're doing the same thing again. And so I have found a lot of cyclical changes and some secular changes, many caused by technology. And where we are now is we're trying to figure that out. I would not use the standard today of a tenant taking 10 years down to five and say, that's there forever. I'm listening and watching and trying to understand and saying, I don't know and making the best deal possible, but recognizing over time, I'm not

going to make long term decisions on a short term period of time and how the market has demonstrated itself during that short term.

Spencer Levy

Well, I'm glad to hear that from you, Glenn, because in addition to being a part time research guy, I read the headlines in the papers. And the headlines in the papers are saying something different. What I see happening right now isn't really a fundamental change in real estate. What I see is a fundamental change in labor in that the way labor looks at the world in terms of labor versus management power. And some of that is manifesting itself in what's being said about the future of work, about what's being said about the future of office. But once the pandemic is over, who knows how much of that labor versus management thing is going to shift back? So, Will, do you have any comment on that?

Will Pike

I'm in agreement. And also from the ESG standpoint of it, the way companies are making decisions based on office space, how they operate their logistics centers, how they're building out their retail platform – yes, Spencer, I'm in complete agreement with you. It's a deeper dive into labor. It's not short term decisions. I mean, what we do know from our own data is that occupiers are not giving up substantial space globally or in the United States.

Spencer Levy

You brought up another issue there well, which is ESG, which is a big issue, and it also deals with labor versus management. Do you treat people in the office better than you treat people at home? But it also brings up Cap Ex and just how expensive it is to move somebody into a space? And are they really going to go short term if you got to spend all that money? And now we are in, at least in the short term, an inflationary environment. Maybe that bodes for longer term leases. So Glenn, you've been in this business a long time. How big a deal is the TI package, the expense of moving into an office space, and do you think that's going to permanently keep tenants in a longer term lease environment rather than short term?

Glenn Rufrano

There are a couple of thoughts I have on that in terms of length of lease and I'll come to TIs in a minute, Spencer. But I'll go back to a conversation I had with our board at Vereit about a year or so ago after we had been remote for a while and I'm sitting in a board meeting and then the board says, Glenn, how are you doing? You know, are you efficient running your business remote? And my answer was, it's the wrong question. You shouldn't ask that question. The question you should ask is, are we getting the work done? Yeah, we're getting the work done. Are we efficient? Absolutely not. Absolutely not. Not in our business. Maybe some businesses are. And we're not efficient because we're a business of communication. Communication with our tenants. Communication with the marketplace. Communication with each other. And it can't be the same level of communication if we do it remotely. So ultimately, ultimately, if we want to compete in the market long term, we have to communicate efficiently. And that means we're going to have to be in the office for some period of time. Maybe there's some flexibility. We'll

have to figure that out. But the fact that you think we can be efficient, remote? I don't think so. We're going to make mistakes now. And the only hope that I have is that we catch all those mistakes and there's no big ones, but they're going to happen more now the way we're running than before. I think that's true for the future. And that's true and part of why people will want office space. To me, that's a big part of what will happen with leases. And now in terms of what tenants will want. The first thing I will tell you if a tenant wants a 10 year lease and there's a lot of TIs, the first thing they're going to say is, You pay for it, right? Will, that's what you guys, you know, if you're on the side of the tenant, you're the tenant rep a lot. And you've been in tenant rep a lot on the other side of us in our suburban office buildings. And you beat the hell out of us, right? That's your job that you do for someone, you're representing your tenant. So that's the first thing that happens. But then over time, it equalizes rent. There's a fairness to it. And I do believe that when rents start to move, tenants will once again say, I want longer versus shorter because they don't want to get caught with a higher rent. So this is just supply-demand pricing. And I think once there's equilibrium, we'll see that the tenant market isn't that distorted relative to term.

Will Pike

In addition to that is also, keep in mind, getting people back in the office. I've been at CBRE for 18 years. However, as you know, Spencer, we're on boarding young college students, new people all the time. Hundreds and hundreds of people, and they do need to be connected. I think generally speaking, human beings operate better when they have human connection and you're more efficient. The idea generation is superior. And we are better together. There's only so much that you can learn via Zoom, especially as a young professional out of college. So I think this trend is – I'm not as worried about it by any stretch. And also the people we're trying to get back into the office want to be in some of these markets that are frankly the occupier's a little, I would say, more or less agnostic to the rental rate. So that's why we are also seeing, frankly, rental rates not creeping down in the US. Now in some cases they are. But generally speaking, where people want to be and the buildings they want to be in, we're not seeing that.

Spencer Levy

I want to go back to something bringing two comments together, which is the capex and the ESG thing. And the ESG thing is not just a thing, it is the thing. I just got back from Europe and it was issue number one, two and three for every major European investor I met with. There's a good part to it, which is ESG is a good thing, cleaner environment, more social consciousness, all that. But then there is the math. And the math, I think can be a little scary right now because some of the changes that people are suggesting that need to happen to buildings are extraordinarily expensive and may make some buildings functionally obsolete unless you make them – I guess the question is this: Glenn, and I'm sure this came up in your many of your meetings, how important is ESG to our business moving forward number one? And do you fear it from the high cost or do you embrace it from the standpoint of, you know, it's about time and maybe it's not quite as expensive as people think?

Glenn Rufrano

Well, Spencer, you're right, it is very important. If I had a meeting with shareholders three years ago, maybe ESG came up somewhere at the end. Maybe. Then two years ago, it did come up at the end. In the last year, it came up in the beginning. And it's come up in the beginning because it's being driven by shareholders and what will force us – and I'll come to your point, which is the money part – but what will force us to move in a direction. Making sure we work through our ESG issues will be the shareholders. The rating agencies. The rating agencies are going to start rating companies based upon their ESG elements. Now I don't think that'll happen this year, but it's going to happen sometime over the next two to three years. Even those stubborn old farts won't have a choice but to think about ESG, and they should. But the three of them for a CEO are all very important. The E we're catching up on as a country and an industry, and trying to understand the math. You're right. You can spend a lot of money without much return. And you know, if you don't have a company, you don't care about ESG. So you have to make sure that you blend what's necessary in the E with your business. And it may have to be over time. But if you explain that to the marketplace, as long as your marketplace understands what you're doing, your timing and how you're doing it, you'll get the graces of the market period to allow you to do that. So it's really messaging having a good plan and making sure that you're abiding as a good corporate citizen to what you should be doing, but also making sure you're representing the enterprise and its long term viability.

Spencer Levy

Let's bring it right down to the individual asset level for a moment, Will. How often is this issue coming up now for your bidders, number one and number two, are you seeing what some people have called a quote-unquote brown discount for those buildings that don't comply?

Will Pike

From the asset level standpoint, yes, you are discounted, frankly, for older buildings that are not complying. Now take the other side of that. If your logistics center is compliant, if your certifications are at the highest level – and where I've really seen this, which is interesting, the institutional demand for this product and how I can really drive a process. I'll give you a great example. We recently were in the marketplace with an office building. We marketed it as frankly the smartest building in the world. The institutional, I would say, additional demand for that building due to the fact that it was beyond compliant and probably light years ahead of where any other building will be really drove the pricing and the desire for the largest institutions and pension funds globally to want to own that asset. It was located in downtown Charlotte, and it really drove pricing for the fact that it hit all of those metrics. So if you're building a new asset of scale, it has to be in compliance. But the higher quality you go – air filtration, all of these things that are very important to your employees and obviously your end buyer on the real estate – the higher you are on that scale, it actually does drive demand and it drives that cap rate much lower. As Glenn said two or three years ago, if you're out trading an office building, industrial building, retail building, did it come up often? No. Now I would say in that process, it drove the pricing quite a bit. So yeah, it's a real thing from an investment standpoint, especially with the largest institutions and pension funds.

Glenn Rufrano

I would agree with everything Will said. A lot of it is math. If it's already there you could pay more. If it's not there, you're going to pay less because you're going to put it in. Some of that. It's just very logical. The issue that I have found in true single tenant triple net land is just as example. We have a Walgreens, we have a 20 year lease and Walgreens is paying all expenses, taxes and everything else. What can we do to influence that building if it is not truly green? Not a lot. Not a lot. I mean, that's just the reality of our business. And so in our industry, what we do do is we will research what Walgreens does as an industry in their buildings. And what we will find is they actually will have a very E component to how they do their business. So what we do is we go through every one of our tenants that are public that we could read about. We understand how they're providing for the E. And then we let our shareholders know what our tenants are doing. So there are ways for us to try to get underneath what's going on. But there's a reality for us in some instances where it's very difficult for us to influence the E.

Spencer Levy

Well, let me go to an area that I talk about on all these shows. I get asked this question almost every time when I do a presentation to institutional investors: What's your single best idea in real estate right now? And that changes over time, depending upon market conditions. And so I'll just tell you my evolution in the last year. In the last year, if you talked to me back in June of last year and I said my number one idea in real estate is buy CBD office in New York, San Francisco, Los Angeles and back up the truck if you can get it at a discount. That never actually materialized because those trades didn't occur because people weren't trading. I then said, Well now you got to get into senior housing because that market is dislocated. You're going to get at a serious discount. But even that trade didn't happen much. And then the labor prices spiked because of many of the incentives not to work that are in place today. But now – and I'm not saying this, Glenn, because you are the chairman of the ICSC, but I'm going to give you another thing coming your way. I truly believe that the number one most mispriced asset in the marketplace today is open air, non grocery anchored retail. If you look at power centers and things like them, you can get excellent power centers with great sales, great demographics over a seven cap. Good luck getting an industrial or multifamily asset today above a four cap. I mean, most of them are in the three caps. Glenn, as the chairman of the ICAC, do you agree with my thesis?

Glenn Rufrano

Well, if I didn't have some way of agreeing with you, I may not be chairman tomorrow. But there's logic. Let me go through the logic of why I would generally agree. We're talking about net lease. If there was a Best Buy and it was a single tenant Best Buy sitting on a corner and it had a 10 year lease or so, it would be in the fives. Right? Maybe someone would even go lower.

Will Pike

Yeah

Glenn Rufrano

Will may know that, right?

Will Pike

That's correct, yes.

Glenn Rufrano

So if I took individual single tenant properties and put them on the market today they'd be much better than the seven you just talked about. If I now take a grouping of those tenants and I put them in a shopping center, an open air shopping center, no, I'm not going to have all the best in there and I get that. But if I have a number of those and I could spread it by one hundred and fifty basis points to your point, that sounds like a pretty good deal because we've got this broad brush in retail painting, everything, which is your point, Spencer. And maybe it shouldn't be broad brush everything. So I don't disagree with you and I, but I think you can expand it a little more beyond just open air in good demographics.

Spencer Levy

Well, I'll give both the rational argument against it, then I will give the irrational argument for it. Okay? The reason why many institutions won't go after open air non-grocery anchored retail of size is they don't believe there's going to be an exit liquidity. They think that because the market's down on it today. When I got to sell this \$100 million plus center five seven years from now, what's the market going to look like? So that's not an irrational fear. But what is an irrational fear to me is and I wrote a piece about this is about the emotion of investing. Most of our clients are investing money on behalf of endowments, pension funds and others that are not real estate experts. They are investing on behalf of people that read the papers, and many of them are afraid of getting the nasty-gram from one of their investors, saying, What were you thinking buying this power center when retail is dead? And so to me, that's not bad news. That's actually good news. Because what I see very little of today is an inefficient market. The real estate market is wonderful. But it may be too efficient in certain areas. It may be too efficient in industrial. It may be too inefficient in multifamily. But it is inefficient right now in retail and that creates opportunity. What do you think, Will?

Will Pike

Well, it's efficient and also extremely well capitalized, with more capital flows going to commercial real estate sector. So yes, your core assets in industrial, multifamily, obviously, as well, and your highest quality office buildings, yes. There is an over abundance of capital chasing those from pension funds with extremely low cost of capital. So yeah, your return is not great in this environment. And that's definitely the same for net lease. For products across office, industrial, retail, your yield is not great. Not even remotely close to where you were talking about on your thesis here. So you're correct, it is a bit of a scarier proposition. However, as Glenn said, if you split up all those boxes, they would trade at a major premium – 150 to 200 basis points. So I like it.

Spencer Levy

Then there we go.

Glenn Rufrano

I also say that that person who says I'm going to worry about the person who sends me that email saying, Why are you doing this? They should quit their job. They should quit because they're not being paid to be influenced by someone who doesn't understand the market. Their job is to understand the market and to invest accordingly. And what I'd also say to them is maybe if you have a question mark on if you buy at a seven, can you sell at a seven or more in 10 years? That's very valid. I agree with that. But I'd also say, if you buy a multifamily, a three and a half. What the hell are you going to sell it for in 10 years?

Will Pike

Rent growth. rent growth, rent growth, rent growth, Glenn.

Glenn Rufrano

Yeah. And once we build too many of them, what's that mean in 10 years? So I think it's scarier, you know, it's as scary to buy three and a half at seven. If you believe that the three and a half is absolutely a better probability of winning than the seven. That would be my point.

Will Pike

Yeah, another interesting thing to think about is within our firm, we have what we would call our sort of our niche product types, alternative asset investing. It's data centers, your self-storage, medical office, net lease. We're like a band of brothers at the company. And when you look across that yield spectrum, it's extremely aggressive as well. So it's not like you can go to self-storage or net lease or medical or data center or anything else. With these specialty product types, they're all trading below five Cap as well. So to find yield in this marketplace, you do have to take a certain amount of risk. And frankly, Spencer, the way you laid it out and the way that Glenn backed it up, maybe it's not as much risk as one would expect.

Spencer Levy

We had as a guest on this show about six months ago, Sam Zell. And there are many things that he was a visionary on. But one of the things where he was a real visionary was on manufactured housing, where he was one of the first movers in an institutional grade to move into that space, which is now equity lifestyles. And you wonder, are there, is there another manufactured housing out there based upon what you're saying? Will that all these specialty assets sites are now priced at or near perfection, one might say. I'll give you one area where I think there might be. And that is the emerging markets within established markets. And the one in your very backyard is Midtown in Atlanta. Midtown Atlanta 10 years ago. Will, what would you have bought an office building in midtown Atlanta for 10 years ago? Eight cap, maybe? Everybody was in Buckhead. Everybody was in downtown. But Midtown is now the hottest part of town. And now you take a look at Los Angeles. Everybody would have bought in Bunker Hill. They would have bought in Century City. Now they're looking at the Arts District. They're looking at Santa Monica. Take a look at Miami. Look at Wynwood. Take a look at Chicago. Look at the Fulton Market. Are

there other markets that people can say, You know what? This is that next opportunity. What do you think, Glenn?

Glenn Rufrano

I think the answer is going to be yes to that because we're over my history, markets have always moved. But your point is the more important point, which I don't have an answer for now. What are they? So I get your point, and Sam has been very good at doing some of what he's done. But your question on geographies, it will change. Look at the west side of Manhattan. Markets will change because everything is dynamic, right? People are dynamic. Industries are dynamic. Capitalism is a harsh system. But if you catch it right, you make money. If you catch it wrong, you don't. And it's always moving. So the answer is yes to that. Do I have specific geographies that I can tell you? I don't.

Spencer Levy

Well, one of our guests on this show a few months ago, was Ted Klink, the CEO of **Highwoods** Properties. And one of the things that I always quote Ted about is what how they've changed their definition of where they like to buy. They don't buy in Central Business Districts anymore CBDs. They buy in "BBDs" – Better Business Districts. And that would be some of these submarkets outside of the CBD. Now, has this showed up in pricing yet? I'm not sure. Will, do you have a perspective on that?

Will Pike

It's definitely shown up in pricing. You know, Spencer, it's easy. You mentioned – just pick one the market – you mentioned Midtown Atlanta. It was easy Georgia Tech has been positioned there for. I'm not sure when the school was founded a very long time. That was easy to identify. I would say what's changed is, take Midtown Atlanta, you have now live science clusters. The same with Boston, portions in New York City, obviously the suburban sides and San Diego, which are all following these. So it is quite easy, frankly, to follow the best institutions in this country knowing that you can get top talent and where younger people like to live. And now you have this emergence of life sciences in tech, which is also driving these various, I would say, micro-markets within a market. So you have to look at that. I mean, for example, take Ted, they have always been very active, obviously in the Raleigh market. That's been one of our emerging markets in this country over the last three to five years. And when you think of the triangle, you're thinking of great education, great medical, et cetera. But I would say, I mean, again, I'm not a Raleigh expert, but it feels like it's been driven in a very big way by the life science space. So, look, things are always evolving in where the demand is. And that'll never change.

Glenn Rufrano

One more point on that. You know, I've been most involved with larger companies and some of them need to be fixed, but they were larger companies. And what we've often thought about is what really counts is the portfolio, not the asset. You have to underwrite, obviously, every asset. But if I were to just give an example of Vereit: Every time we bought an asset – maybe it was a

five or \$10 million or \$15 million, they could have been lumped up to 100 million – but we really cared about what they did to the portfolio. Every time we bought an asset, we looked at constructs around the portfolio. How much credit? We didn't want any more than five percent, any one credit 10 percent, any one SMSA which is what you're doing, about 30 to 40 percent investment grade. So we had all of these constructs around the portfolio, so it would be a safe, longer term portfolio with growth. Geography is just part of that. And so as I would think about your point, if you're a smaller company and you're a sharpshooter and you're trying to get into a geography and you hit it right, you make a lot of money, that's great. But if you're a long term in perpetuity company, what you want is diversification. You like to have some of those, without a doubt. But what's going to happen is you're going to have some good locations that are going to change so that such good locations. I mean, look at the residential guys who all wanted the coasts, you know, that turned out to be not so great for a period of time. Hopefully it will come back. So I would just say in a geography that you're looking for, you'll want to be a sharpshooter. And even if you're 10, 15, 30 billion, find some of those. But what's as important is that the construct of your portfolio protects against the market you lost, as well as the market you gain.

Spencer Levy

Well, I think for our listeners, I think what Glenn just said is that in many instances, the whole is worth more than the sum of its parts, when you take your whole period into consideration. And I think Glenn, I say this with great respect, you just summarized the best articles I've ever read from the **PREA monthly magazine** because that's all about portfolio theory. And that's something that a lot of our listeners don't think about when they're looking at individual losses. They get too micro. Sometimes the macro trumps the micro when you're looking at the whole rather than the parts.

Will Pike

I mean, Spencer, you know this. Miami pre-COVID, it was Brickell's rising. Sea level changes, one strain of COVID, the demand for South Florida changed overnight. Still going as strong as ever. So best laid plan.

Spencer Levy

There you go. We're going to ask our crystal ball question. Let's start with you, Glenn. Five years from now, looking back on where we are today, what are the major changes you expect to see in our industry? And what don't you expect to see going back to some of your earlier comments today that maybe we're not smart enough to know

Glenn Rufrano

What we're going to be looking for over the next 12 months are the secular changes that the pandemic has caused and there's going to be some the ones that we've talked about, I think are clear. There's going to be some change in how we occupy office buildings. Not that we won't occupy office buildings. But that there'll be some change. So in the office sector, clearly this is an easy one. You want the better buildings or be prepared to spend a lot of money to make a building better. So better office buildings are clearly the movement, because if you do get your

folks back in, they want to be safe. They want to make sure the environment's in good condition. So well-organized office will trump any office building that's not. And I would also expect an office building those which is not is going to be converted. And that would be my next trend: an awful lot of conversions, a lot of repositioning, a lot of redevelopment over the next five years. As these changes occur, these secular changes, I don't think we're going to be building new buildings to accommodate them, necessarily. We have enough stuff. And so redevelopment and repositioning of almost everything else, we have. Even industrial, you know, the 25 foot industrial building is gone, right? So office major change. But still there, to newness and redevelopment as the next big capital market in the U.S..

Will Pike

Look, I think from an office standpoint, we're going to continue to follow more of what we're seeing out of Asia with higher occupancy in our buildings, in our major cities. That will continue to drive the demand of office product from the marketplace. Our logistics, obviously, we're building a substantial amount of industrial product in this country. And frankly, I do not foresee that changing next year or the coming years. Maybe marginally, but not in a substantial way. Retail? We touched on the retail growth. Retailers feel really strong right now, especially in certain markets: Quick service restaurants. The drugstores are expanding in a lot of ways. So I also see that pipeline of retail continuing. And as far as the overall demand for commercial real estate. I do not see much change to that and all we were just talking about. The search for yield is not easy. You can't go to the alternative like net lease or self-storage or data center to find a ton of yield. And obviously in the core products. So from a risk-adjusted return standpoint, when you compare it to the broader market, whether you're looking at the bond market or fluctuation in the equities market, all of that being said, I still love our sector and I like the risk-adjusted return aspect of it. And I think institutions and private individuals and REITs will not change, and we will have another banner year next year. And frankly, I don't really see a lot of headwinds considering the amount of capital in the space. Obviously as fast as I said that something could occur. But I think we're in a really good spot across the board.

Spencer Levy

Well, let me ask one more question. I feel like Columbo every time I do that. Because I think there is one potential headwind and it goes directly to what both of you just said. Tremendous amount of capital conversion of older buildings. The bear of inflation, which is now hitting us in every conversation I've had with my clients that are in the building space, whether they're building new or they are building in TIs, they're saying that construction costs are going through the roof right now. First of all, you should know that our house view is that inflation will be tamed down by the end of next year. Certainly for materials, though labor costs might be stickier. Glenn, you've been around this business a long time. Does inflation scare you?

Glenn Rufrano

It doesn't, necessarily. You know, there's this old saying, Spencer, that a little bit of inflation never hurt real estate. Never hurt. And it's only a question of whether it's a little or a lot and whether or not there's real growth that's causing the inflation right now. To me, it's obvious there

is growth causing the inflation and maybe some artificial growth because of the pandemic creating a lot of money. People now want to get out a lot – and by growth I'm going to say people spending. So there's people spending. There are needs and desires that need to be satisfied, And that equates to growth 70 percent of our GDP or just nothing more than consumer spending. And that's what's going on right now. So we have growth and we have inflation. As long as the relationship of the two continue, I'm not as worried. I would also hope and expect, though, since that growth in demand will be settled down at some point, that means inflation has to come down. Because if inflation stays high and the demand comes down, now we've got a problem. So I'm going to pray that what you just said is right. It is a bit transitory regardless of how that word is dealt with and that over time, and hopefully it's a year or so, inflation will come back down to moderate. And as long as GDP growth and inflation are pretty close, I tend to think we're okay in real estate.

Spencer Levy

One more question for you, Glenn, given that you've just transitioned out of – successfully transitioned out of Vereit and you're obviously esteemed reputation in our industry. What's next for you?

Glenn Rufrano

Well, it's a good question. The way I'd answer that is about about a year ago, I was on an earnings call and an analyst said, Gee, Glenn, it looks like things are getting a little better at vereit, you know, what are you going to do? You thinking about retiring? What's your view? And that's not a good question for an earnings call. There's a lot of people on you really can't give a good answer. So my answer was a bad answer. My answer was, Well, look, I'm a little Italian guy. I'm going to work until I die. It's a question of whether I die here. And I didn't die there. Okay.

Will Pike

I like that answer.

Glenn Rufrano

I made it. I made it through. And so but it's the same basis I'd like to work. I enjoy working. I love this industry. I mean, real estate has been really good to me. I love working through it. And if I can find something that that makes sense for all parties, I would like to think about that.

Spencer Levy

Thank you, Glenn. And on behalf of the weekly take, I can't thank enough our friend Glenn Rufran, new chairman of the ICSC. Glen, thank you so much for joining us.

Glenn Rufrano

Thank you, Spencer. It's been a lot of fun. Thank you, Will.

Spencer Levy

And I also want to thank one of our very good friends, Vice Chairman, Managing Director CBRE Will Pike.

Will Pike

Thanks for having me, Spencer

Spencer Levy

With that comprehensive survey, we're off and running on season three of The Weekly Take, and we thank you and our guests for joining us. Whether you are a returning listener or new to the show, if you enjoyed the program, we hope you'll share it with anyone you know that has an interest in commercial real estate. That's how we became a must-listen to the industry last year, and how we hope to keep growing in 2022. So please subscribe rate and review us wherever you listen. For more on the topic we discussed on our show, please visit [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). We're excited about the programming calendar year ahead. Upcoming episodes feature our real estate outlook for '22 and a deep dish – a deep dive, that is – into the Chicago market and more. We look forward to you joining us again. Thanks once more for listening to the first episode of season three of The Weekly Take. I'm Spencer Levy. Be smart. Be safe, be well.