INFINITY COMMERCIAL REAL ESTATE PRESIDENTS MESSAGE 2020
LOOKING FORWARD, LOOKING BACK

I am not an economist, just an old, dirty-shoed street broker that follows lots of industry and financial news. For the last few years, I've sent out a message to my industry friends every January, hoping I might have some helpful or amusing observations. Last year, I got so many positive responses, I decided to risk it again! **Read on at your own peril…**

<u>LOOKING BACK</u> **The torrid pace of the last three years continued**, with leasing, development and investment activity at incredible levels. Our industry did very well, particularly in areas without State Income Tax, no longer deductible on Federal Tax returns. A staggering amount of capital fled the NE for the SE and SW. Capital costs remained very low, e-commerce continued to grow precipitously, trade and geopolitical worries had a limited impact.

Bricks and Mortar retail did NOT collapse, as predicted by the "talking heads." Instead, it's morphing into something different: Entertainment, services and lifestyle absorbed retail vacancy. The local clothing store became a Yoga Studio, the shoe store, a Peruvian restaurant or walk-in medical clinic, Vacant "Big Box" department stores have been reconfigured and repurposed as food halls, entertainment venues or for logistics or back office use. If you are familiar with South Florida, Aventura Mall is a great example. Many Malls have announced plans to tear down vacant Sears and K-Mart buildings and replace them with mixed-use residential!

Industrial continued as "The New Retail," with online shopping growth of 20% fueling the need for logistics space, whether new, repurposed big box retail, or 2nd generation industrial to serve last-mile delivery needs. It's not all about Amazon, which is only about 20% of online volume. Smaller players are fueling most of the demand, and they need to be close to their customer bases, so older in-city warehouses benefitted too.

Multi-Family development and rental rates remained firm. We have an aging population and they certainly remember the disaster of the last decade, many choosing to rent instead of own as they age. Their kids remember the crash too, and as they create their own families, they find they simply can't afford a single-family home. Factory-built housing is finally making inroads. Not mobile homes, factory built. Companies like Champion Homes and Skyline are **building prefabricated modules with electric and plumbing pre-installed in factory settings**. They ship them to site where they are rapidly erected onto poured slabs, saving time and money. Even multi-family developers are starting to do this, and Marriott's next-generation hotels are being constructed with prefab modules (rooms) inserted into steel skeletons!

Even office rents finally rose: So little was built for so long that absorption finally caught up and as rents increased. It became profitable to reconfigure and develop. The "open office" and co-working concepts are NOT driving most of the growth. Look at WeWork's failed IPO. What people want is a bit of privacy and additional amenities. So, developers built smaller individual offices, combined with larger common areas, and higher percentages of in-suite, in-building or nearby amenities.

<u>LOOKING FORWARD</u> **Expect some softening this year, but no collapse unless there is a "Black Swan" event** (something that comes as a surprise and has a major effect)**.** We are right at the top, and the pendulum will inevitably swing. Be prepared for a correction, especially with international protectionism and geopolitical instability rising. This is not academic; it will affect stock and bond markets sure, but it will affect real estate just as much! **No-one knows what will end the party, or when it will come**. I retired my crystal ball back when Johnny Carson gave up playing Karnak the Magnificent.

Warren Buffet said. "Be fearful when others are greedy and to be greedy only when others are fearful." He also said, "A rising tide lifts all boats". And let's not overlook, "The best chance to deploy capital is when things are going down." We all need to heed those words. Warren's holding company, **Berkshire Hathaway, is sitting on <u>*$125 BILLION*</u>** in cash right now. Think about that: **The smartest investor on the**

planet is NOT deploying cash, he's waiting for an opportunity. I am advising clients to keep their piggy banks full and be ready to deploy capital when the markets correct.

Prices for existing and often obsolete product is now at, or above, the cost of new construction in several markets. Our economy has been good, the tax burden on corporate profits was reduced in 2018, capital costs are lower than ever, and **the stock market's rise was almost 30% for the S&P 500 in 2019**! BUT the "sugar high" for developers and corporate America is ending. The intent behind lowering corporate tax rates was to spur investment. Instead, public companies took on massive debt at low-interest rates and used the money to buy back stock, which raised their share prices. Low capital costs spurred new construction. However, if you look at profit margins on invested capital, you see stagnation and CAP rate contraction.

Investors and lenders are nervous about the future, tightening their underwriting standards. International banks reported great numbers for 2019 but also released over 80,000 employees. Low rates are still available but will be harder to get. Banks are still writing commercial mortgages and construction loans for industrial and multi-family, but not so much in other segments. Single-family housing sales are slumping, as low mortgage rates have led to high prices. Corporate facility starts are falling A company looking to build a car/appliance/electronics manufacturing facility must plan YEARS in advance. Some of the smartest people in the world run these companies, and they don't know if demand will be strong enough to support new capacity in 3 or 4 years when a new facility comes online….

Population growth fuels demand for goods, services, and rooftops: We are aging, and our kids are forming families much later. For years, our population growth has come from immigration. We need to KEEP immigrants here, studying computer science, math and engineering and give them a path to citizenship (as we did for my parents). We need to allow folks that are willing to do jobs we native-born citizens won't the opportunity to work here and contribute to growth. AND **WE NEED TO PROVIDE JOB AND TECHNICAL TRAINING FOR OUR DISPLACED WORKERS**. Have you noticed our homeless crisis? These folks worked in mining, drove forklifts, stocked goods in warehouses and they have no marketable skills in our changing, technologically advanced economy. It's very easy to blame an immigrant for taking your job. It's much harder to admit they will do jobs you won't or have the skills you don't. Not being political here, just echoing what the smartest economists in the world are saying

The latest generations want to work where they play and play where they live, so the redevelopment of **suburban malls represents what could be the most significant redevelopment opportunity of all!** Over 60% of most American cities is devoted to parking and roads. As parking needs decrease, mall lots are being redeveloped for apartments, with residents having immediate access to restaurants, shops, recreation and workspace. Eddie Lambert, the hedge fund "genius" presiding over the death of Sears, split the retailer from its real estate assets. The owning entity, Seritage Growth Properties, is pushing Sears OUT of its stores, so it can repurpose them and raise rents, or redevelop them entirely: Check out their website and research their stock. They are NYSE listed as SRG. As I write this, many regional malls have announced they are knocking down their old Sears, Macy's, etc. and putting up apartments, office and service-based retail. Check out what Simon Properties is up to…Developers are assembling multi-acre parcels and creating work-live-shop-eat and play environments in cities and suburbs around the US.

There are worrying trends in commercial real estate brokerage: Consolidation continues. Prologis is now the largest industrial landlord in the world… How do entrepreneurial investors and landlords compete with them? When will Prologis start bringing Brokerage "in house"? **Costar/LoopNet is a virtual monopoly**, so the broker's local market knowledge is being commoditized. **The only entity out there with the money and expertise to create AN <u>INDEPENDENT EXCHANGE CONTROLLED BY BROKERS</u> is NAR: LOBBY THEM TO DO IT THIS YEAR!** The international brokerage firms continue to erode the value of their market leaders by insisting on a team approach, turning independent contractors into employees. Technology is both a threat and an opportunity. AI and web-based information gathering services are having a real impact. There are now online services that don't require any Brokerage participation: OffMarket.com, Auction.com, Brevitas, Ten-X, BizBuySell, etc. IPSX, a British company, set up an exchange for individual investors to buy shares in public companies that own individual commercial buildings. There's no room for Brokers on their exchange. Check out the Zillow and Trulia websites: Sobering. Another thing to look at, Delaware Securitized Trusts (DST's). These are already having a significant effect on the 1031 exchange market. A DST is considered a financial instrument by the IRS. Effectively, an investor buys shares of an entity that owns properties, allowing the investor to own a share of assets of a size and quality they could not usually afford. The properties are professionally managed. However, since a DST is a financial instrument, a real estate broker CANNOT be involved for a commission or finder's fee unless they have the correct SEC licenses.

If you are a Broker trying to differentiate yourself from the teams at the big names, and you wish to develop your skillset and reputation as a professional, I urge you to join a professional organization. **SIOR has the best commercial property network in the world** and the highest level of professional capability. As a result, we at Infinity are very involved with SIOR. If you are a buyer, seller, or tenant, seek out an SIOR as your service provider. Go to SIOR.com to learn about the meaning of the designation.

FLORIDA FOCUS In South Florida, we have finally truly run out of raw land. Pretty much every last piece of significant size was sold over the previous few years. We have tons of spec (primarily industrial) development in the pipeline: About **8 million feet** of industrial is coming out of the ground in Miami-Dade and Broward: Too much, too fast. Vacancy will increase, rents will drop. This is also the year climate change becomes a real factor. Blackrock, **the biggest asset manager in the universe ($7 trillion),** just announced they are changing their investment strategy to assess environmental and climate risk. Barrier islands and coastal areas are feeling the effect right now. Miami Beach changed their building code and invested almost a billion dollars to install pumps and raise roads. The Keys are doing a cost/sustainability study as flooding is now year-round in some areas.

Since over half the state has a limestone subsurface (can you say porous?), since we are surrounded by ocean, and since ocean levels are rising**, flooding will begin occurring not just at King Tides, not just near the coasts, but INLAND**, as it flows through the limestone. As we continue to pump fresh water from beneath us, we are getting saltwater intrusion to our underground aquifer. Tampa receives 20% of its potable water from a desalination plant! In South Florida, Developers are snapping up properties in Wynwood, Little Haiti, Allapattah… Gritty, inner-city areas that are ABOVE THE FLOODPLAIN. Can you imagine what flood insurance costs are going to do to property values, as insurers raise premiums or leave the market? What's going to happen to property taxes as governments have to fund pumps, elevated roads, etc.? **PAY ATTENTION TO ELEVATION!!!**

The space coast is exploding: Employment, property values, development, EVERYTHING. Our new privatized space initiative has attracted Blue Origin, SpaceX, ULA and every other player in the aerospace arena. The party shows no signs of ending or even slowing down.

As our population grows and our geographic footprint broadens, **the movement of goods becomes increasingly difficult,** and transportation becomes a more important factor for industrial development. The DOT has designated US 27 as the North-South freight corridor for the state. Miami International Airport, the busiest international passenger airport in the US, is also the busiest perishable freight airport. Expansion is no longer an option. The FAA designated **Airglades International Airport** at the SW end of Lake Okeechobee, fronting US 27 as MIA's cargo reliever airport. There will be massive growth in the area, but it will take many years. It will be exciting to watch as a new logistics hub positioned to service South Florida, the Caribbean, South and Central America takes form. The I-4 corridor between Tampa and Orlando continues to attract logistics companies. **Over 5 million square feet** have come out of the ground in the last three years, and the development is ongoing. Federal regulations as to driver-hours pretty much limit a big rig to a 200-mile daily delivery radius. Draw a bullseye between Tampa and Orlando with that radius to see which markets can be reached in a day and it's obvious WHY these industrial facilities are being built in that area. PS: Who do you think the largest employer is in Orlando? Disney? Universal? Surprise, its' Lockheed Martin!

Virgin Trains (formerly known as Brightline) may lose money for years, but it is changing our landscape and will eventually **become a massive driver for economic development**. Think of the Metropolitan New York area without its trains and subways. It would not exist without transportation in and out of the City. In 25 years (if we solve our flooding problems), we are going to have one huge metropolitan area from Miami to Orlando to Tampa Bay.

So, how does an independent broker face these challenges, find opportunities and what advice can we give our clients this year? It seems that we are somewhere between 6 and 18 months from a correction. This is an election year, and anything can happen in November. Not to mention the possibility of a Black Swan Event, like a war, hurricane, another trade fight, or terrorist attack. To tenants and owner users, are your business requirements taking precedence over market timing? If you see demand for your products and services continuing, then you have to do what you have to do to support the business, even if that means buying or leasing at the top. Otherwise, follow Warren Buffet's advice…

To our investment and development clients, now is not the time to come out of the ground or buy overpriced properties, unless you have tenant commitments upfront. **Yeah, here I am talking my clients out of doing deals….** Don't build to obsolete standards and remember regional malls have TONS of excess land for redevelopment. Look around the bend to what is just ahead. Consider the impact of climate, lifestyle changes and new technology in your projects: Automated, connected, electric and shared vehicles, the IoT and IoE, TDM, 3D printing, 5g wireless and VR, just to name a few. Technology and innovation evolve and increase by orders of magnitude, while the real estate that houses them has been held back by financial and institutional immobility. As an example, we recently advised a client not to build a tilt slab parking garage. What do you do with a structure like that when parking needs are falling in the future? Instead, tell your clients to build structured parking with flat floors, a façade that can be repurposed, and an external ramp. Emphasize connectivity for ALL asset classes. 5g wireless has faster speeds but less range. Wireless depends on backbone, so **building a new project that does not have access to fiber-optic cable is foolish.**

AS TO INFINITY COMMERCIAL REAL ESTATE

John Dohm, CCIM, SIOR, is continuing his public work: as the real estate consultant to the Ft. Lauderdale-Hollywood International Airport Master Plan, the Florida Department of Transportation (FDOT), the Freight Transportation Advisory Committee for Ft. Lauderdale and Miami Dade Counties, Florida Transportation Plan Strategic Intermodal System Automated-Connected-Electric-Shared Vehicles Subcommittee, etc. He also works with the Beacon Council and the perishables and cargo committees of Miami-Dade and Broward Counties. **John was just named 2019 Realtor of the Year by the Miami Realtor's Association (the largest in the world) and is a member of their Board of Governors.** Somehow, in between all of these commitments, he finds time for multiple national and international tenant/buyer representations, often with Fortune 500 companies. There's only one John Dohm.

Sherri Beregovoy is one of the most prolific agents in Miami Dade County and is continuing her work with **Airglades International Airport** on the development of the first publicly funded, privately owned cargo airport in the Continental United States, and the industrial infrastructure surrounding it SW of Lake Okeechobee. She represents Corporate Park of Doral, a "market maker" multi-building office park, and Crossroads Commerce Center, an industrial/flex park in Doral. In addition to her work with Airglades and her Doral listings, Sherri has hundreds of acres of development land available mid-state and is continuing her work in tenant/buyer representation. She continues her contributions of time and expertise to the Florida Customs Brokers and Forwarders Association, and the Hendry and Glades County Leadership Council.

Andrew Beregovoy is the youngest member of Infinity. He prefers the tenant/buyer representation side of the business and closed multiple transactions last year. Andrew also works with Sherri at Corporate Park of Doral and Crossroads Commerce Center. He continues to build his book of business!

Jane Konigsberg, my wife, continues her business and financial analysis activities. Mergers and Acquisitions for Rexall Sundown and Ernst and Young, Director of Norwegian Cruise Lines, systems integrations and M & A independent consulting for **Fortune 500 companies**... These are just SOME of her past accomplishments. This year, she vetted many acquisition opportunities for our clients, providing metrics and analysis that proved invaluable to the decision-makers. Jane is a lot smarter than the rest of us… I still can't figure out what she sees in me!

Maria Cuevas is our administrative and research associate (and my left leg and right arm). Before joining us, Maria worked for a decade on defaults and mortgage modifications at a well-known law firm. She holds the team together and is proficient at every commercial database and research tool imaginable. She's a valued member of our group and our clients love her! Last year, she obtained her real estate license to better serve our clients and support the Brokers and is always available to notarize documents, too.

Ted Konigsberg, SIOR, President Infinity Commercial, had another great year: Multiple sales and lease transactions across Industrial, office, development land, and retail. I was elected **Vice President of the SIOR Florida Chapter**. I also continued my position on the board of trustees of the SIOR Foundation and was named **International Chair of SIOR Foundation Grants & Scholarship.** I've been doing this for decades and am happy to give back to the industry I love through SIOR. So, going forward, I see myself becoming less of a transactional Broker and more of a player-coach, helping my team solve problems and close deals. To that point, I'm looking to add some talent. We've interviewed a few Brokers but have not yet found someone that "fits". So**, if you know anyone that wants to become part of a great team, please let me know!**

WISHING EVERYONE A PROSPEROUS AND HEALTHY 2020!

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