

## **REAL ESTATE DECISION MAKING – CAREERS AND CONCEPTS**

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So we wanted to touch on some of the concepts that you guys are learning in this course because they are very important to what we do day in and day out. It's very important to understand these fundamentals because they're laying the groundwork for everything that we do daily.

Commercial real estate [? and journals. ?] It's a multifaceted industry. There's a wide range of product types and career choices.

They come with different compensation structures. So if you're considering a career in commercial real estate, you've really got to be considering risk versus reward. So as Lou mentioned, you could be a broker for this company and you could work on one deal for six months and you could make nothing. And that's just the reality of it.

But you hope that you get more wins than you do losses and it all evens out at the end of the year. But some people aren't comfortable with that. And that's OK too.

So as far as you all individually, you've just got to know your strengths and weaknesses. You're on the phone a lot. You're talking to people a lot. So if you're someone who likes to just sit at a computer and keep to yourself, it's a tough industry for you because it's all about relationships.

Also consider geography and travel. There's a lot of people in our office who are Southwest A-Listers. And it sounds cool, but you don't get there without taking a lot of flights. So they're constantly traveling.

They're leaving their kids on a Tuesday, they're coming back on Friday. They're leaving on Sundays and they're working late nights because when you travel you, basically, just work the whole time. It's normally not fun. It's not you get to go to a cool city and party. It's never like that.

So a lot of the concepts that you guys are learning, they're a lot of the concepts that we use day in, day out on lease analysis, investment analysis, and whatnot. So for example, on leases. When we have a company that's looking for space and they look at five different locations, almost always the decision is going to come down to, well, what's the cost? How much is it going to cost me per year?

They look at their P&L. How much is my GAAP rent going to be because that's what ultimately impacts your company's value. They look at how much cash am I going to be paying up front as a result of moving into this space compared to another space. And ultimately, for me, I think, it mostly comes down to net present value, which takes into account the timing of all the different cash flows and you bring it all back to day one. And that lets you truly know what the more expensive of all your options is.

Now on the investment side, there's three different reproaches to value. You've got the income approach, which we'll look a lot of times at discounted cash flow. That's what I was mentioning on the building that I sold earlier this year.

You want to look at all the cash flows, the probability of when you're going to get them, and however many years out is it going to take for you to get those cash flows. A lot of investors are going to underwrite deals to a certain IRR. Now the IRR is going to change based on the risk of the investment.

So if you're buying a single tenant building-- for example, maybe a bank branch-- you might be happy with a 7% IRR because you know the bank is going to be there and you know your money is not at great risk. But if someone's selling you an empty building and you now have to take the risk as the investor of finding the tenant, keeping the tenant, hoping the tenant has good credit, and selling the building at some day for a profit, and also look incurring all the negative cash flows that you're going to get when you buy this building and you have to pay to operate it, but you don't get anything in return because you have no income, that's going to have higher IRR.

And an investor might underwrite to a 12 or a 13. You're going to look at all this stuff before and after tax. And you might run a sensitivity analysis.

So you might say yourself, if I buy this building and it takes me 12 months to find tenants to lease it up, what's it worth? If it takes me three years to find someone, what's it worth? And a lot of times what you want to do is you want to frame out what your high and your low values are to give you an idea of best case, worst case. And those are real things that we use every day when making real estate decisions.

The other approach would be sales comparison. So you want to be able to show similar product types that have sold for a number similar to what you're proposing that your investment is going to sell for one day. So you want to know if you've got 100,000 square foot class A building in Westshore and you think you can sell it for \$200, a lot of other buildings have sold it for \$200. Because if they've all sold for \$100, something's not adding up there with the assumption that you're making.

And the final approach, which I think is a much, much bigger one in today's day and age is replacement costs. So there's a lot of money out there chasing a lot of different deals. And what's starting to happen is these deals are starting to get bid down. So you might be underwriting it, you might want to get a 7% yield going in, but you might have to accept 6 and 1/2 because that's where everyone else drove the deal down to.

So a way for you to justify this yield that you're now getting is that you're buying a building for less than what it cost to replace so your hope is that long term as more space comes on the market, it's going to come on at a replacement cost. So in the example we showed with the downtown tenant market was 2650, but the next building that was going to come online, theoretically, would actually

be leasing for 3550. So you hope that 2 or 3 of those buildings come online and it drives the market rents up. So you can justify because you're paying less in replacement costs that you might see some higher returns later on in the future in the form of rent growth, which increases your net operating income.

So value is as much an art as it is a science. No one can tell you exactly how to do it. You can just talk about the different ways to do it. And you just try and justify what you think something's worth. This is you, I think.

Yeah, I'll take it. To just add onto what Rick was saying when developers are known as the ultimate optimists. And so they'll build expecting to get higher rents, and what's typically happened when they've built speculatively when the market really wasn't ready for it is they ended up having to accept lower rents because tenants, especially in areas like Tampa, are very price sensitive. So most tenants, at least in the past, haven't been willing to pay up and pay a big premium for moving across the street or moving down the road. So it's an interesting perspective.

Here are some examples of the types of companies that are all real estate related. Obviously, there's development, brokerage, property management. The mortgage lending is a big part of our business. Appraisals, research, pension fund advisory. There's trillions of dollars of pension funds, pension fund money, in real estate. And it's a huge, huge business.

REITs, real estate investment trusts, continue to grow and expand. Private equity. The Texas Specific Group that's buying us for hundreds and hundreds of millions is a private equity firm. So there's a lot of interest in private equity money in the real estate field as well.

There's folks that choose to be on the corporation side. So they work internal. And their client are their divisions within their company. So there will be a corporate real estate group with inside IBM or inside, again, Procter and Gamble or any of these type of companies. And their job is to then interact with people like us to coordinate and facilitate all their real estate needs.

Investment sales Rick touched on. And asset management ties somewhat to the pension fund advisory. And we'll get a little bit more into that.

I won't go through all product types, but again, I happen to fall into office and industrial because when I was graduating from college it was right near the end of a recession. And I took the first job that was available to me and they happened to be office and industrial developers. I liked it and I stayed with it.

But there's some very interesting product types to be involved in. For you folks, I think, in Florida, for instance, multifamily, senior housing, student housing, and health care. They're very interesting career paths because there's, as you know, the population is getting older. Florida is an attractive place to live. So if I were in your shoes today, I'd really start thinking about that health care field.

Senior housing is just going to be booming. And just more and more retirees coming in. Student housing is changing. Here on this campus off of Fletcher, there's all new student housing going in.

There's private student housing across the street that maybe some of you rent from. So that's a huge business and constantly changing too. So I just wanted to touch on that because I think those are some areas of growth for the next 20, 30 years.

And as we talked about, we've got slides on each one of these with a few different examples. But basically, your compensation in commercial real estate is all about risk and reward. So it's going to go right down the line from lower risk stuff where it's going to be mostly salary all the way down to the highest risk where you're not only not drawing a salary, but you're putting your own money and your future money at risk. So it could go wrong quickly for you.

You want me to take it? So on the low risk side-- and by the way, it's just a personal preference on where you fall on this spectrum and you really have to take what I call a mental cold shower and just understand where you fit in-- but managing a building like, say, Bayport Hyatt or the office building next to Bayport Hyatt is a great job. It's very stable. Even when the ownership changes, if you're a good property manager you could stay there for 20 or 30 years because that asset isn't going anywhere.

The folks like that are paid a salary and a bonus. And again, a lot of property managers with our company they have been with me, literally, for 30 years. And they've been on the same asset managing the buildings and it's a great career path and again, it's very stable.

Financial analysts. This is-- what's happened over time is that every company like ours has a financial analyst department. So Rick really started it with another fellow, David Harris. Then we had an intern from USF, Chris Sands, intern for Rick. And we liked him so much now Rick's been with us for 2 or 3 years?

Chris has been with us for three years.

Three years. And again, it's also a great career path for moving up into the brokerage if that's of interest or into the development side because you have to understand the numbers if you're going to move on to different aspects of development or ownership. And we found that that's the best training ground and the best foundation to have. So most of our most successful brokers have come up through the financial analyst side.

Again, I won't get it all the upside and downside. I think I mentioned that. You're, typically, in this kind of environment, you're part of a team. There's very little travel, which, again, when you're in a market like Tampa, you have to take into consideration how flexible you are to travel.

I was very flexible for the first 20 years that I was here and I became very less flexible for the last 10 and that was because of the age of my children. I wanted to be here. I wanted to be with them as they were going through school. I wanted to be able to coach and do those sort of things.

But for the first 20 years, I hit it hard. So I realized that Tampa was not a large enough market from my standpoint to satisfy my appetite for the financial goals that I had. So I would go to New York and I would call on companies there to represent or to DC or Chicago or Dallas.

And so a lot of our client list, like a company like Bristol Myers, they're based in New Jersey. Aetna Insurance, based in Hartford. Liberty Mutual Insurance based in Boston. Diageo based in London. So these are clients that I went out and found and said, I want to represent you. And there just wasn't enough of a base in Tampa 30 years ago, again, for my personal standpoint. The good news for you guys is that Tampa is a much bigger city than it was 30 years ago, and there's a lot more opportunities to do well without having to go anywhere.

So the next one we talked about was medium risk, which is, basically, as you get a little bit more senior in some of those lower risk roles, you start to get commission. You'll share in deals as they come in. You also have a higher bonus potential.

So same kind of deal there, but more of your total compensation is going to be at risk. So you may or may not get it. And the next one is high risk.

Just backing up real quick on this. The corporate tenant rep. What's interesting in corporations is that, again, 30 years ago if you worked for IBM, you had the opportunity to stay there 30 years. It doesn't seem to be as stable as it used to be.

So if you're a corporate real estate person within a company that's not a real estate company, you're viewed as non-core. So anyone who's non-core is to some extent at risk. So that's why we have that one listed there. The issue with the mortgage broker is that if you were a mortgage broker in 2008 you did no business in 2008 or 2009 because no one was selling anything, no one was refinancing anything, the world just stopped.

All right. On the high risk, which I probably fall into this one and the next one good or bad. But leasing broker. I gave you a feel for that commission structure for that broker if that deal would've gone through. You could do really well.

But you get no salary. You're 100% commission. So coming out of school, it's a very hard thing to transition into. So again, what a lot of folks have done, like Rick and other folks in our offices, is they start on the financial analyst side. And if they like the business and they want to go to a more risk situation, salary goes down and the commission structure goes up.

As you get more senior, you want to have the highest commission structure you can because you've now built a stable of business to where you're not worried that I'm not going to be able to pay my

rent for the next month. It's hard to start off that way, but these are examples of high-risk situations, anything that's a commission-based situation. And it doesn't have to be real estate. If you go for most large companies that are sales that are commission-based, you're going to be in the same situation. You either have to produce or they're going to move you on.

Again, the upside is you could do extremely well. There's a lot of-- I shouldn't say a lot. I'd say in Tampa, for instance, there's probably 20 to 25 seven-figure brokers that are straight commission brokers with just in the Tampa market. So it's a very exciting side, but it's also a very high-stress side.

So the highest risk. We've got two developers in our office and they always say they don't like signing personal guarantees. And when you ask them why it's because at one point or another in their career they almost lost everything. That's why it's the highest risk because not only are you not really making a salary, but, basically, what you earn is tied to fees and commissions, which are also in on the deals that you're doing.

So anyone here could decide they want to build something tomorrow, put up some of their own money, but if it goes bad, the bank's going to take your equity and they're probably going to come looking for you for whatever the bank lost if it didn't go well. So you get all the upside, but you get the downside too. And a lot of times, you could be tied in on deals getting promote structures. So you might earn a certain amount up to a 15% return, but then if it goes above 15% and you put in 10% of the equity, you might now get 20% of everything above 15% and it works out to where you can double or triple your money when you put your own money at risk as a developer.

So last thing. Everyone individually, it's important to just define what your goals are. So personal goals. What's the work-life balance that you want? There's a lot of careers where you really got to get after it in your 20s and 30s. Do you want to have kids? Do you want to do other leisure activities? What's important to you?

What are your professional goals? Are you someone you want to have a lot of people under you? Do you want to move up with a company? Or do you-- basically, financial, do you want to just make a lot of money? And are you willing to take a lot of risk in order to, hopefully, do well for yourself?

I mentioned before, if you like working with people, so if you work for a company, like Cassidy Turley, the brokers are selling themselves. So someone hires Lou or I because they like us and they trust us and think we'll do a good job. That's the most important part of it.

Do you like the analytical side of the business? So if you want to be a financial analyst, an investment analyst, a research analyst, they are great ways to learn the business. You really build a good background and then you, hopefully, move on up within the company.

What's your tolerance for risk? We've talked about that one plenty. Travel schedule. If you're a national tenant rep working for a national company, like Lou did, travels all over the country. You're always on the road.

When Lou did a deal in New York, he was, basically, on the road for two years. Barely saw his kids. So that's the reality of it. Those are the demands of the job.

And then as Lou mentioned, geography. So Tampa is a relatively small market. There's a cap of what you can make. Go to New York, you can make three times as much in New York or DC or Boston. There's a lot more people doing it there. So it's a lot more cutthroat competition.

Also costs a little more though to live there, right?

Apparently, yeah. And to sum it up--

Are you doing it or am I?

This is you.

OK. So as far as skill sets, I can't emphasize enough the importance of understanding Excel and not just on the periphery, but really know how to put together the macros and do more sophisticated modeling. That's what's allowed Rick to really shine over the last 7 or 8 years. He is fantastic at it.

We use it every day. And it supports every transaction we do in that office. Last year, we did 458 transactions, and it was Rick and it was Chris Sands and another guy, David Harris, all financial analyst background, all part of the deal. And when you get good at it, what happens is the brokers come to guys, like Rick and say, I'm going to give you a piece of my deal because I want you on my project.

So now he's in a commission structure without taking any risks because he proved his worth as being very good at his job. So that is just an invaluable tool to have. PowerPoints. We're constantly giving presentations.

And just so you guys know, the fonts messed up. I'm better at PowerPoint than this. I'm just going to put that out there. Get it on tape.

Online research and knowing where to find information. Again, I don't know where he gets stuff, but I'll say something like, I heard so and so's going to buy this deal in Seattle and I'm doing a project there. Next thing you know, I'll have an email with the whole background of the article. It would've taken me three weeks to find it.

And then the verbal and written communication skills. When you're on the service provider side as opposed to the ownership side, you're really selling yourself. So as crazy as it sounds, how you

dress, how you speak, how confident you are when you're pitching business, that's all part of how decisions are being made. It's very simple, but it's very true.

Know your interests and learn as much as you can about the real estate that you're interested in. So if you decide, for instance, that health care is here to stay. I did some research. It's the fastest growing area.

If you're going in for an interview, make sure you know who the big health care players are. Make sure you know who's developing in this area. Know what Tampa General is doing. Know what BayCare Hospital is doing.

Know what USF is doing. I don't know if you guys have seen, but they tell you that the board of trustees just approved a potential school down on one of the Vinik properties. If you're going to go and talk to Mr. Vinik because he's going to be hiring over the next 10 years, you want to know that before you walk in there.

Just some resources. Wall Street Journal, National Real Estate Investor, Globe Street, CoStar. There's a lot of different peer articles. You could read all day long with this stuff.

Expand your network as wide as possible. Increase your ability to make contact with employees of a firm. Internships. What we were talking about on the way in here and one thing that we're going to try to spend a little bit more time with USF on, a lot of our clients are now setting up direct pipelines to universities. So again, Bristol Myers, one of the reasons they chose Tampa-- and this was a natural search we did for them. It was coincidence that they ended up in the market we live in. I actually recommended Raleigh because they're very big in pharmaceuticals and there's a Research Triangle in Raleigh. But the low cost opportunities here in Tampa is what made their final decision.

But what also helped with their decision was USF, University of Tampa, University of Florida, and University of Central Florida. They are going to their faculty and saying, here is the type of person we are looking for. Do you have courses that support this type of person? If not, we can give you a curriculum because we're going to be hiring 600 people.

And so what happens is they'll take 50 interns for a summer and out of those 50, maybe they'll offer 20 job opportunities to them. So gives the company and the employee or intern a chance to test drive each other. And that is the new approach that these large corporations are doing.

So if you folks have an opportunity to do an internship, I wouldn't worry so much about the pay. If it's enough to get you by, but you think it's where you want to be, it's a great opportunity for the company to get to know you and for you to get to know the company. It's, again, Chris Sands is a classic example.

He was still going to school here. Rick brought him in. We got to watch how Chris works. Chris got to see if he liked our environment. And then when he graduated, we offered him a full-time job.



I'm sure there are other qualified people, but we knew Chris and we liked him and he liked us so that is happening more and more. And this whole pipeline is getting set up by all these corporations.

He was actually the most persistent. So that pays off.

And again, just understand and recognize the trends in local and national news. Again, the areas that I think are great as it relates to real estate is health care, technology, anywhere where there's high employment growth it's going to tie to real estate in one factor or another. We're also very fortunate to live in Florida. Since I lived here, other than two years the state has averaged over 300,000 people of net increase population into the state.

I went to a wedding in Buffalo, New York and I was like, wow. Nice people, great place, but no one's moving to Buffalo, New York. So you're going to have a lot of opportunities here, and there's going to be a lot more real estate getting built.

The other thing we have going for us is it's a pain right now, but I-275, Veterans, when those roadways are done and that infrastructure is in place, it's going to promote more growth. And then as I mentioned, when you have a guy like Mr. Vinik along with Mr. Gates that are the largest landowners here and that want to transform a city, it's a great opportunity.