Chicago – September 27th, 2016

NAREIM EXECUTIVE OFFICER MEETING

NAREIM National Association of Real Estate Investment Managers

NAREIM Executive Officer Meeting – September 27th, 2016

WHAT KIND OF LEADER THRIVES IN TIMES OF CHANGE?

"Rough waters are truer tests of leadership. In calm water every ship has a good captain."
– a Swedish proverb

"There is nothing easy or comfortable about leadership, but it's always interesting."

Peter DiCorpo,
COO of Waypoint Residential

Late in the cycle is when many ask if they are ready to weather the next downturn – and if the decisions they make today will help or hinder the future profitability of an investment, of a firm, or even of an industry. Are we making the right investments? Are the right people in the right places and are we resilient?

NAREIM leaders from across North America gathered to discuss leadership questions at the 2016 Executive officer meeting in September, and challenged themselves to become good captains even in rough waters. At the end of the day, that's what every NAREIM meeting is about; not just the latest deal or the state of the capital markets, but questions of leadership, and how best to lead investment management platforms through good times and bad.

Peter DiCorpo, NAREIM's new chairman as well as COO of Waypoint Residential reflected a bit on the importance of these kinds of discussions when he said, "I always learn something when I come to these meetings. The value can be ephemeral, but essentially, it boils down to this: how to make better decisions, how to work better with people and be more transparent, how to be more accurate and more effective, how to understand what happened in the past, what is happening right now and what will happen in the future."

"At NAREIM, we ask a lot of questions about how the business is changing and what we need to do to meet those changes. It is understood that good leadership means questioning and perhaps even changing strategies, platforms and ourselves in order to thrive in a changing landscape."

"There is nothing easy or comfortable about leadership, but it's always interesting."

"We focus on so many things as we go about our careers, but rarely does anyone consider the impact of personalities and leadership style on the business."

Dominic Cottone,
Managing Director
at Ferguson Partners

"It became clear that employees [at Wells Fargo] were encouraged by the entire culture, leadership and compensation structure to work against the stated goals of customer service."

Camille Lee,
Vice President of Ferguson Partners

Are We More Biased Than We Think?

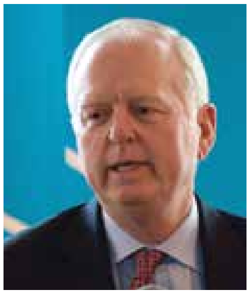
Dominic Cottone, a Managing Director at Ferguson Partners pointed out that as leaders, "We focus on so many things as we go about our careers, but rarely does anyone consider the impact of personalities and leadership style on the business." Quite often a leader's personality can influence the long term value of a portfolio even more than the underlying assets. However, being able to honestly identify personality characteristics and sub-conscious drivers of behavior is very difficult task. It takes an immense amount of self-awareness that most do not possess.

How can you assemble a team of varied talents and drives without understanding your own? "We all talk about needing to empower those on our team to make decisions. But if we really look at it, our own unconscious bias might be causing us to micro-manage people," Quite often, leaders unconsciously behave in a way that discourages that same empowerment – especially if a leader has been very successful and made good decisions in the past. In order to create an empowered team, a leader has to believe deeply that other people's decisions are valuable and perhaps even correct – even if they disagree.

This disconnect between what leaders say and what leaders do is unfortunately quite common, and can sometimes have dramatic consequences. Camille Lee of Ferguson Partners suggested, "Consider what happened this fall to Wells Fargo, when it became clear that employees were encouraged by the entire culture, leadership and compensation structure to work against the stated goals of customer service." That disconnect resulted in a systemic public relations disaster, loss of business and the resignation of the CEO. Another word for disconnect between what one says and what one does is "hypocrisy" – this unintentional hypocrisy can lead to loss of customers, high turnover of employees, and ultimately, disappointing business results.

"Are your words different from your actions?" It is the imperative of every leader that wishes to thrive in difficult times to make sure both line up, but it isn't always easy to do so. "Much of what drives our behavior is subconscious. Without understanding and aligning those drivers to stated goals, in moments of crisis our stated goals and values can go out the window," says Lee. The team from Ferguson Partners introduced us to "The Hogan System" for assessing executives. According to the system, which asks subjects a number of questions to ascertain what their underlying physiological drivers are, there are 8 forces that spurn us on: Power, Recognition, Hedonism, Altruism, Security, Tradition, Aesthetics, and Science.

Whether making an investment decision or developing new leadership teams, a first step for every leader should be to understand what is driving their behavior at a subconscious level – with awareness, a better, non-biased set of behaviors and decisions can be made.



“Think of risk management as problem solving rather than police work.”

Kevin Smith,
Head of Americas for PGIM

“When you really get down to it, good risk management is about advice and good advice is about judgment.”

Will Dermody,
VP and Global Head of Operational Risk Management at PGIM

How well are we managing risk?

Kevin Smith, Head of Americas for PGIM, challenged everyone to “think of risk management as problem solving rather than police work.” We should be looking for ways to resolve current issues rather than hunting for the chink in the armor that will give way under pressure.

There are various types of risk: Political, financial, operational etc. however, “All risk is basically uncertainty,” according to Will Dermody, VP and Global Head of Operational Risk Management at PGIM, “There is no scientific formula for assessing it. So hiring someone who possesses good judgment is a good start to effectively managing risk.”

The American Bond market is a great indicator of risk as it is the closest thing we have to a risk free investment over ten years. Right now that market is returning some very low numbers. Even bleaker, many overseas bond markets are returning negative numbers. “There are billions of dollars attached to a negative interest rate at the moment and that should give you pause. It should trigger a reaction in each and every one of you to ask: ‘how stable are my portfolios?’”

Quoting the economist Hiram Minsky, Dermody said, “The more stable things are, the more unstable they are going to get.” In times of stability people save less and take on more risk. Which leads to instability. That’s why the tipping point between a stable market and an instable market is often called a “Minski Moment,” by economists.

Dermody defines operational risk with an acronym: PIPS or People, Information, Processes, and Systems. “**People:** Who is ready now? Who will be ready in 2 years? Are your performance reviews really driving performance? Or are they just data points. Is your team overly dependent on one or two key members? Is your **information** in a secure but readily accessible central location? Or is it in jars on desks. Are your **processes**, policies and procedures being refreshed often enough to not go stale? How updated are your **systems**? Would you, for instance, be ready for a license audit from Microsoft?” Asking yourself these key questions and then fixing the problems sets you up for a stronger stance when the ground becomes unstable.

"Affordability is beginning to be a huge issue in multi-family sectors."

Sean Coghlan,
Director of Investor Research for JLL

"A jet engine is serviced at regular intervals," Dermody explained. "It is taken apart piece by piece, serviced, and reassembled whether it needs it or not. Unfortunately, most of the time in real estate we wait for the engine to fail before we start fixing it."

Imagine if Delta Airlines did the same thing.

Much of the discussion following Dermody's risk presentation centered on how investment managers can perform the equivalent of regular jet engine servicing. With more instability in markets expected, the imperative to examine and fix our engines is only growing.

What kind of market volatility should we expect?

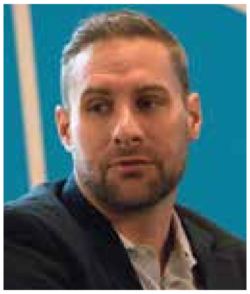
"We are seeing a major shift in investor sentiment in the markets," says Sean Coghlan, Director of Investor Research for JLL," A couple years ago it was 'cautiously bullish,' then it was 'cautious' now it's just 'uncertain.'" In the current uncertain environment, Coghlan challenged everyone to look at the markets a little differently, and explore data beyond space absorption, deal volume, capital markets, or rental rates.

For example, technology is a big driver of demand in high growth areas. "You have to look at venture capital because that is the main indicator of what is going on in the tech industry." Where the VC money goes, so goes the Tech industry. At the moment "We see a slowdown in the amount of money being invested. There also seems to be a move towards secondary markets for tech companies chasing affordable workforce housing." Despite the excitement of new technology breakthroughs, there seems to be a growing focus on revenue, expenses, and the very tangible constraints of and competition for the right number of highly skilled employees.

"Affordability is beginning to be a huge issue in multi-family sectors." Prices have been rising well beyond wages in recent years and, in expensive areas like New York and San Francisco, higher priced units are going un-rented. "The median rent is roughly the same but the concessions have gone up so the net effective rent is now lower than it was 12 months ago." Office is in the same boat. "The trophy properties in NY are suffering from very little demand. Similar properties in SF are doing well at the moment due mostly to the unicorns there." West coast multi-family is an issue as well. "Over the most recent two year period, single family growth is around 10%-12%. Rental growth is around 7%-8% and wage growth is only around 4%-5%. And that is in one of the higher wage growth areas."

"Sovereign funds, private equity and hedge funds are becoming truly significant source of capital."

Jeff Giller,
Partner and Head of Real Estate at Stepstone



"The beauty of real estate is it's not esoteric. The end user can feel and touch it every day."

Casey Frazier,
CIO of Versus Capital Advisors, LLC

Another assumption that may require a closer look is the definition of high value space. "Authenticity is now challenging luxury," claims Coghlan. "If you look at retail growth areas in Chicago it's not Gold Coast or Michigan Avenue, it's West Loop." In the office sector the story is much the same, "the definition of a luxury office is changing." There are more holistic offerings drawing tenants now rather than the classic luxury design elements or sweeping views. Air BnB is a good example of this phenomenon. "People are preferring the authentic experience of staying in a house rather than the luxury experience of a hotel." Is "core" changing?

What happens to the old school "core" assets when the users of office, multi-family and retail space turn to something else?

Should We Be Looking At New Capital Channels?

With the changes in defined benefit and defined contribution pension plans, other capital is becoming more important. According to Jeff Giller, of Stepstone, "Sovereign funds, private equity and hedge funds are becoming truly significant source of capital." As LPs are demanding fewer fees, the old structure of capital raising cannot survive in the present and future landscape of real estate products. "We are actually looking into a public vehicle in Mexico, Brazil and through high net worth channels in China. Private capital markets around the world are getting larger."

"The perception used to be you could only sell mutual funds through the high net worth channel," said Rohit Vohra, VP of Product Development for Oppenheimer Funds. "Anything more sophisticated or complex was simply too ungainly to market to this large market constituency." But once Oppenheimer looked more closely at their clients they realized that "only 10% had a net worth of more than $1 Million – and that group had two-thirds of the assets." The much smaller group of very high net worth isn't as "mass market" as many assume, and much better situated to invest in ill-liquid assets like real estate than originally thought. "Ironically, the first fund we launched for this group was an unlimited life fund." Just like an institutional investor, yield and risk management is more important to the very high net worth investor than liquidity.

Commercial real estate continues to have a tangible yield advantage, but it also has something rather ephemeral that makes a difference for investors. Casey Frazier of Versus Capital Advisors, LLC. Pointed out, "The beauty of real estate is it's not esoteric. The end user can feel and touch it every day." This is a blessing and a curse because, "while people feel comfortable investing in real estate because they are so familiar with it, they also think they know more about it than they do."

"I think there is a lot of frustration around a fee structure that had an 8% hurdle when the 10 year was at 5%, but still has an 8% hurdle with the 10 year is at 1%."

David Cooper,
CIO of Kurz Perdue Technology Center

"During a stressful event, neurotransmitters suppress activity in the areas of the brain associated with concentration, short-term memory, and rational thought."

Jeanne Steen,
Executive Stress Consultant

According to Rohit, "yield trumps everything. If you can offer an attractive return, you will have no problem raising capital from new sources, especially because real estate is currently perceived to be a safe investment."

According to David Cooper, CIO of Kurz Perdue Technology Center, "Changes in hedge funds, and institutions' changing perceptions of hedge funds' relative advantages or disadvantages may create new allocations back to real estate." The structural high expense load of typical hedge funds make it difficult to hit an appropriate yield, and investors are paying attention. "I think there is a lot of frustration around a fee structure that had an 8% hurdle when the 10 year was at 5%, but still has an 8% hurdle with the 10 year is at 1%." Everyone is trying to lower the hurdle in an effort to increase the available yield, but many existing funds have not and it's becoming annoyingly apparent to investors. Cooper believes that "Private equity and real estate are going to be the main return generators" in the coming years. The hedge funds are likely to wane.

Is Stress Causing Us To Make Bad Decisions?

Professors at Harvard Medical School have pointed out that, "During a stressful event, neurotransmitters suppress activity in the areas of the brain associated with concentration, short-term memory, and rational thought. These transmitters also interfere with the ability to deal with difficult or intellectual tasks. Additionally, the brain releases a neuropeptide that inhibits sleep and promotes wakefulness." If an uncertain and changing market environment is causing leaders acute stress, this could be a problem for investment management.

According to Jeanne Steen, a former Associate Publisher at Hachette Filipaachi Media (ELLE), now executive stress consultant, "at just the moment we need to be clear headed, we are compromised." Instead of accepting this impairment to our judgement and leadership in response to crisis, it's actually possible to reset our brain chemistry and optimize our decision making capability even when our work is most challenging.

Before sharing a few of her stress management techniques, Steen explained that many impulsive actions we all do in stressful times, like rubbing one's temples or stroking one's jawline, are actually our bodies trying to reset. "These impulsive stress motions actually manipulate pressure points that have been known to Chinese acupuncturists for centuries. When these pressure points are activated, the mind is able to quickly clear the instinctive stress responses" She then conducted a demonstration with the entire group where everyone gently tapped a small group of pressure points for two minutes.

This tapping technique demonstrated by Steen was clinically proven in a trial with military veterans suffering from Post Traumatic Stress to immediately drop the amount of the stress hormone cortisol in their systems and has since become part of the arsenal of tools for veterans to manage their traumatic stress. The response to the demonstration during our meeting was varied. Some felt rather silly tapping their heads, but many declared that they actually felt more relaxed. One investment manager stood up and said he has been using this tapping technique for the last two years – and has found it to dramatically improve his decision making, and overall stress.

According to Steen, executives she works with will often excuse themselves for two minutes during stressful situations, perform the tapping technique in private, and then come back to a meeting unimpaired by the flood of cortisol and panic…and better able to consider all options, be creative, and find appropriate actions to pursue.

Executives make stressful decisions multiple times a day. Managing that stress should be a central part of the job description. There are many different ways to do it, both helpful and destructive, and everyone needs to find their own strategies. Steen argues that, "whatever method works, use it. Because constant stress will physically inhibit you from operating at your best."

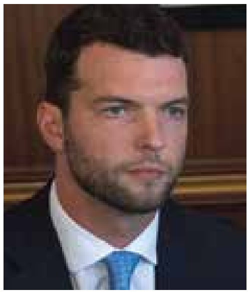
The landscape is uncertain. There are many potential threats and few obvious opportunities. The rules are changing, as are the players. Leaders can not assume anything. The best won't.

"Rough waters are truer tests of leadership. In calm water every ship has a good captain."

NAREIM Fellow Article

PRESERVING HUMAN CAPITAL THROUGHOUT THE NEXT DOWNTURN

By **Luca Barber,** *University of North Carolina*



Luca Barber
University of North Carolina

Luca Barber is a class of 2017 MBA student concentrating in Real Estate and Corporate Finance. Luca spent his summer in Atlanta with MetLife Real Estate Investors, an institutional investment platform, working as a summer associate in the first mortgage and equity real estate divisions. Prior to attending Kenan-Flagler Business School, Luca spent 5 years working in the real estate industry in Washington, DC and the New York Tri-State area. Most recently, he served as an Associate with JLL's Mid-Atlantic Multifamily Investment Sales team where he underwrote and analyzed over $3 billion in various multifamily dispositions including stabilized assets, pre-sales, development sites, conversions, and non-performing loans. Prior to this role, Luca worked for Roseland Property Company performing multifamily operations in the Tri-State area. Luca Graduated from the University of Virginia with a Bachelor of Arts in Spanish.

As the global real estate market enters its eighth year of recovery, the risk of a near term correction may be hovering around the rim. Will your firm act from a position of strength or react from a position of weakness?

While real estate markets continue to attract strong inflows of capital, we must remember that 2016 opened with significant downgrades for growth in major and emerging economies and has been marked by a consistent wave of financial market volatility. With real estate pricing at record levels and global transaction volume having consistently increased year-over-year since 2009, the question of where we stand in the current cycle has begun to permeate throughout the industry. Fundamentals have undeniably remained strong across multiple major markets, but whether we enter the cycle's final inning in 2017 or three to five years from now, it will be imperative that we learn from our mistakes and explore new ways to preserve our most important resource, our people.

The United States economy lost 8.7 million jobs between December 2007 and early 2010, and according to the Bureau of Labor Statistics, in February and March of 2009 alone, approximately 600,000 Americans lost their jobs. By April of 2009, major real estate service firms, CBRE (NYSE: CBG) and JLL (NYSE: JLL), underwent significant layoffs with 1,100 and 800 layoffs, respectively, and smaller real estate firms across the country experienced even more severe reductions in personnel. These layoffs may not have been avoidable in 2008-2009, but preparation as it pertains to retaining key talent, fostering employee flexibility, and increasing loyalty within a firm's Millennial cohort will be key to weathering the industry's next cyclical correction and the turnover of human capital that comes with it.

In a May 2009 global survey conducted by Forbes Insights, 65% of senior level executives responded as being highly or very highly concerned that top talent employees would leave their firm as the economy turned and new opportunities became available. These concerns proved legitimate, and while headlines harped on massive layoffs at the onset of the recession, the struggle to retain critical human capital was grossly overlooked. As we near the next downturn, proactive firms will begin rethinking talent retention and looking inward to analyze non-core processes that may be inhibiting bottom line efficiency.

Retaining key talent becomes especially difficult in times when employee salaries and incentive programs are reduced. While salaries and bonuses may rebound with the economy, the psychological damage to the employee can often outlast the reversion to their customary income levels. Those employees, especially top performers, are often lured to new firms. For this reason, companies that implement long term employee incentive programs that reward tenure as well as performance, will see lower turnover as a result of economic externalities. Furthermore, the question of when the next downturn will occur has become extremely prevalent throughout the real estate industry thus causing employee unrest. Communicate with your employees now in order to prepare them for what may bring flat or negative wages in the near term.

In addition to strategic incentive programs and preventative communication, senior level participation in bonus or pay cuts is often necessary to retain key personnel. In 2009, the CEO's of both JLL and CBRE, Colin Dyer and Brett White, forewent bonuses exceeding $1.5 million and took considerable pay cuts in the face of declining net income at their respective firms. Similar actions have been taken by other senior executives in the industry, but the top down sharing of economic burdens on the firm remains an exception rather than the norm.

Fostering employee flexibility and participation in various roles within the firm will also aid in key employee retention during the next downturn. Due to steady fee income and increased assets under management, investment managers often find themselves with enough income to cover operating expenses, yet in the event that specific divisions (e.g. acquisitions) fall on times of inactivity, the firm's ability to keep employees engaged and compensated will increase efficiency and help to retain top performers. Many firms operate with effectively segregated asset management and acquisitions teams making the integration of these two divisions difficult and undesirable. Creating a more fluid environment between the transactional and execution focused employees will allow for the restructuring of positions in the event of a downturn while minimizing the learning curve required of employees that are retained through position shifts.

The retention of top performers is also integral for maintaining client relationships. In commercial real estate, individual relationships often serve as the bond between an investment management platform and its limited partners. While large commingled discretionary funds may have the ability to run on track record and brand, most platforms will rely on individuals to create trust with limited partners, especially in the realm of large separate accounts. Every client has different priorities, but at the end of the day, continuity of personnel and familiarity with portfolio managers is often a universal requirement.

And how about those Millennials? According to a 2016 survey conducted by global consulting firm Deloitte, one in four Millennials said, if given the opportunity, they would leave their respective firm today for a new position. When the sample was asked whether they would leave their firm if presented with the opportunity to do so by 2020, the number of affirmative responses increased to nearly two-thirds.

In general, Millennials express little loyalty to their employers, so why should employers show loyalty to them? As of 2015, the Millennial cohort garnered the largest share of the US labor market and the age group has consistently begun to occupy a growing number of senior positions. Millennials are no longer the bottom of the totem pole. They have become an important piece of the industry's succession plan.

Retaining Millennial employees often requires significant organizational innovation as it relates to non-salary type benefits, yet the simple tactic of introducing mentors has shown to vastly improve employee loyalty. In Deloitte's 2016 Millennial survey, 68% of respondents intending to stay with their respective firm for more than five years reported having a mentor within the company. Mentorship can also aid in retaining associate level employees as they progress through middle-management positions. Investment management platforms often suffer from talent attrition due to a perceived lack of upward mobility. As the average age of the United States workforce continues to increase, companies will have to navigate the age gap between senior producers and up and coming Millennials carefully to ensure that rising stars do not feel a sense of stagnancy. As an executive, you might not understand the ways of a Millennial, but you must acknowledge them.

Since 2010, the global real estate market has experienced an impressive expansion phase that has resulted in new sources of capital, record level sales volume and pricing, and underlying fundamentals that could potentially keep the current upswing alive for an undetermined period of time. While there may be room left to run in the current cycle, the question still remains, will firms look to evolve or will human capital suffer from the same organizational mistakes we made last time?

NAREIM Fellow Article

REAL ESTATE CROWDFUNDING – HOW BIG IS THE GAME?

By Tushar Bundhella, *Baker School of Real Estate, Cornell University*

Tushar Bundhela
Cornell University, Ithaca, NY
Fall 2016 NAREIM Fellow

Tushar Bundhela is a second year graduate student in Cornell University's Baker Program in Real Estate with a focus in real estate finance and investments. He has an MBA in strategy from Cardiff Business School, UK, and also has over 5 years of asset management experience with large institutional commercial developers. He worked in acquisitions for a Manhattan based private equity firm for the summer 2016. At Cornell, he is the vice-president of Cornell's graduate real estate club, president of the Baker Student Organization, writing fellow for multilingual students, and a teaching assistant for Prof. Crocker Liu's real estate finance and accounting course. Upon graduation, he intends to pursue a career in real estate investments.

Ever since the JOBS Act regulation took effect in 2013, real estate has been a proving ground for the investment crowdfunding industry. Real Estate, an active area of private investing, now has an online avenue for both accredited and non-accredit investors to access the existing private placement real estate markets. A few questions crave answers: Is crowdfunding in real estate here to stay or will it remain on the sidelines as a gap filler? Will this new model for financing businesses and real estate projects disrupt the traditional ways of raising capital or not?

Though still in its infancy, real estate crowdfunding is rapidly reshaping the way individuals find and invest in properties. For investors who like the idea of pooling small sums to purchase large properties, crowdfunding is an excellent way to get into the game. This shift has brought benefits not only for investors but also for real estate companies and for the larger real estate market. An individual with as little as $5,000 can own part of a residential or commercial property using a crowdfunding platform. An affordable investment amount is not the only attraction for investors though. A good platform will also offer a range of properties that have been vetted and checked. This ensures the potential investor gains a very clear understanding of the merits and risks of the transaction. While high-technology and community ventures have dominated the headlines when it comes to crowdfunding, more challenging areas of investment, such as real estate, are also finding success.

The crowdfunding concept is not exactly new. REITs, formed decades ago, allow investors to combine resources to access a large and diversified portfolio of properties. Today, technology fast-tracks this process with engaging and highly supportive websites to help investors evaluate the merits of each offering. More people are being drawn into this increasingly crowded space, with platforms like Realty Mogul, Fundrise, and Property Moose leading a sector which has globally raised over $2.5 billion in real estate during the last year and expect to raise over $3 billion in the current year.[1]

Investors need a place to live in both good times and bad times

In the aftermath of global financial meltdown, people's faith in traditional institutions became unsteady, so the rise of crowdfunding has become increasingly attractive. Consequently, investors have become more conscious with how they spend their money, and crowdfunding provides opportunities suitable even during recession periods. Crowdfunding opportunities in the real estate industry offer the perfect match between an asset class that every investment portfolio should have and the convenience of online investing. Till recently, only high net worth individuals and institutions had access to these investment opportunities. Now, small investors can also reap the benefits that buying real estate has to offer.

[1] Massolution Real Estate Crowdfunding Industry Report 2015

The opportunity for diversification expands

With direct ownership, options are more limited when you don't have the ability to purchase multiple properties. Real Estate Crowdfunding eliminates that obstacle. Instead of being locked in to a single property type, investors have more flexibility where they put their money.

They also have a choice between investing in equity in return for a share in a particular property, or debt investments, which are tied to the property's mortgage.

Evolving Investor Profiles

A well-run platform offers a host of benefits to various investor profiles:

Millennials: the demographic which consists of those born between 1982 and 1999, are the new force in the property market. While many in this generation are keen to acquire real estate and benefit from the capital appreciation that it can generate, high prices have kept them away. The low investment threshold offered by real estate crowdfunding platforms is the ideal solution. Additionally, millennials preference of digital transactions over physical ones, perfectly fits the technology offered by crowdfunding sites.

International Investors: A greater number of international investors have emerged in 2016, and crowdfunding platforms are proving to be ideal vehicle for this emergence. They allow an investor in China to buy property in Europe without any extra effort. Well-informed investors know it is prudent practice to diversify their portfolio among asset classes and geographies. They know that real estate offers a stable investment opportunity along with the scope for capital appreciation. Additionally, they recognize the prospect of monthly returns in the form of rentals. Previously, it was not possible for many investors to diversify into the property market, especially in other countries, because of the high investment involved and the logistical constraints. Real estate crowdfunding platforms have removed these impediments, so it is safe to assume there will be a surge in the number of international investors in real estate.

Crowdfunding- here to stay

There are currently over 120 active real estate crowdfunding platforms in the market and several more will debut in the near future.[2] As the market grows, we will see mergers and consolidation which is typical of a maturing market.

Today, real estate crowdfunding encompasses a large umbrella of deal types such as equity offerings; debt and 'peer-to-peer lending' opportunities; underwritten offerings; direct-to-investor private placements; capital raises for real estate portfolios and funds; and more. Each deal type appeals to a certain kind of real estate investor. Some appeal to more than one.

According to Samantha Hurst from Crowdfund Insider "As the market expands and platforms increasingly specialize in niche focus areas, their segmentation will breed the need for aggregation, since experienced real estate investors and rookies alike will need centralized entry points into the larger market. Aggregation, and enhanced data, will also add legitimacy and scale to the real estate crowdfunding industry – helping spur increased adoption of our promising (and rapidly growing) young sector."[3]

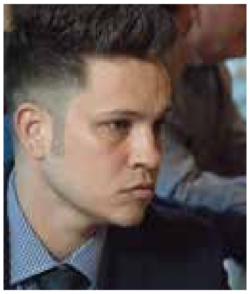
[2] http://crowdexpert.com/crowdfunding-industry-statistics/

[3] Early Shares Reveals 2016 Predictions for Real Estate Crowdfunding, Crowdfundinsider, January 6, 2016

NAREIM Fellow Article

REAL ESTATE'S NEXT BIG TRANSITION

Justin Rice, *MIT Center For Real Estate*



Justin Rice
MIT Center for Real Estate

Justin Rice is a Samuel Tak Lee Real Estate Entrepreneurship Graduate Fellow at the MIT Center for Real Estate working toward a Master of Science in Real Estate Development. He earned his B.B.A. in Finance and Real Estate in 2005. He initially built a foundation in multifamily property and asset management, streamlining maintenance and construction departmental processes, overseeing major capital improvement projects and liaising with the Department of Housing and Urban Development. As an acquisition associate, he identified, evaluated and created financial models for multifamily assets, eventually negotiating multi-million dollar off-market acquisition contracts. Additional responsibilities included arranging capital improvement and construction projects, many times utilizing government-sponsored lead abatement and utility submetering programs to minimize investor costs. Most recently, Justin has endeavored to understand project funding working in business development and due diligence roles for alternative investment companies with a particular focus in Structured Credit, REITs, 1031 Exchange programs and Real Estate Limited Partnerships.

In ten years who will develop, manage and create the built environment for the cities of the future? Millennials.

Millennials are the future leaders of the built environment. At 92 million strong, they are the largest cohort in US history.[1] This generation, born between 1980 and 2000 and just now at the ripening age of 36, is now seasoned enough to take on leadership positions. They are college-educated with the highest proportion of advanced degrees. They are international and coming of age during the first wave of globalization. They are digital natives – having the Internet and computers as regular fixtures in their youth. They are entrepreneurial, growing up in an economic system that promoted engagement in risk and return. Lastly, they are educated in a culture that teaches them to contribute to something larger than themselves crossing the borders of class, ethnicity, religion, gender and sexual orientation.

Is this societal and cultural approach naïve, utopian and perhaps even entitled? Maybe. However, this combined yearning and breadth of information also brings the potential to build new products, processes and organizations that can contribute to the world – to innovate. As in previous generations, there is no "one size fits all" narrative as career and life experience varies. Many Millenials weathered the Great Recession alongside Gen X and the Boomers while some are just now exiting undergraduate programs. Millennials want to stand on the shoulders of giants and contribute, but there seems to be something misunderstood in the development of new talent.

Millennials and previous generations are anecdotally known to experience tensions during organizational transitions. Robust companies are calling for succession strategies for their executive suite, but there is limited cultivation and supply of Millennial talent that can meet these needs. The mandate is to collectively overcome these hurdles to enable stronger institutions going forward. Thus, how do we create a leadership transition that builds upon these strengths yet acknowledges and celebrates the greatest advancements to date?

This notable lack of experience is emphasized in an industry built on relationships. Nobody knows the complexities of the built environment like the current practitioners. They hold timeless industry knowledge gained through hard lessons over the last five decades – most of which can't be taught in a text book. Sharing these timeless lessons will help the next generation of leaders recognize problematic economic indicators and mitigate future industry risks. Yet, the changes that Millennials will bring will not necessarily look like the passing of the torch. Technological progress through digitization is moving the real estate industry forward, making a once analogue and relationship-based business a data-oriented space that enlists empirical tools to deconstruct its complexity.

[1] As found in "Millenials Coming of Age" (Our Thinking, Goldman Sachs): http://www.goldmansachs.com/our-thinking/pages/millennials/, accessed on November 1, 2016. Notably, there are 61 million Generation Xers and 77 million Baby Boomers for context.

Millennials often have an insatiable appetite for new knowledge, technologically enabled by a simple keystroke to explore vast amounts of information. This has promoted out of the box problem solving abilities, creativity aimed at improving corporate processes, efficiency, effectiveness, quality of service and profits, and the desire and ability to take on multiple projects at once. For this generation, the most attractive professional roles recognize and harness their interest through cross-training and work on complex projects. As employees discover new passions and skills, a culture that fosters and encourages that talent is well-positioned to attract and retain intensely loyal younger employees. They form the strongest bonds with employers whom they believe are also interested and invested in their growth and, in turn, contribute to the growth of the company. Conversely, there is very little hesitation on the part of a younger worker to move on to another organization once a feeling of permanent stagnation has set in.[2] Successful firms in most industries have taken notice and introduced "rotational" programs for recent graduates, such as CBRE's 12 – 18 month "Wheel Program." Real estate firms may be late to the party, but it is never too late to implement these programs.

Technology-based work cultures are trying to put their digital efficiency gains to good use by aiming to provide a work-life balance that attracts top talent. Twenty-seven percent of employees plan to leave their firm within two years when there seems to be no emphasis on balance. Compare this with 17% of employees working for work-life balance leaders.[3] Some statistics show that only 5% of Harvard graduates are taking positions with investment banks as compared to 13% a decade ago[4] and those flocking to the tech industry is up by 20% from 7% a decade ago. These trends encourage developing firm cultures that boost individuals' efficiency and creativity both professionally and personally.

But where can Millennials already contribute? Many Millennials naturally have a perspective that is quite global in nature. Technology has placed the world at their fingertips and global commerce grows more rapidly every year. Millennials believe they can be integral in affecting positive changes in an international environment. This translates to the desire and need to be integral to their company's success and continued growth. Firms could benefit from bringing employees "into the fold" and providing insight into executive decision-making. When harnessed properly, their skill sets and strengths are suited especially well to the real estate industry. Here solutions and improvements could come from the fresh perspectives of those who grind out the support work on a daily basis. Additionally, output is boosted when employees feel that their firm values and trusts them enough to open those lines of communication.

Regulations are tightening, capital sources are shifting, consumer demands for built space are dynamic, and technology guarantees that these evolutions escalate. While appealing to Millennials might seem complex, it may simply involve adjustments to corporate culture and style. However, innovation, creative solutions and fresh ideas are needed to overcome the new challenges that the real estate industry is facing. Importantly, we have trained a generation that wants to meet those challenges and for many reading this opinion piece there is recognition that there are more similarities between us than differences. In this way, there is clearly common ground to build on and the current and future leaders of the built environment can work together to make that a reality.

[2] "What Millennials Want from a New Job" (Harvard Business Review): https://hbr.org/2016/05/what-millennials-want-from-a-new-job

[3] "Everybody Wins With a Healthy Work-Life Balance", Mark Royal, Hay Group (CNBC): http://www.cnbc.com/id/100720414

[4] "Here's Why Harvard Business School MBAs Are Choosing Google Over Goldman Sachs" Seb Murray, MBA Careers (Business Because): http://www.businessbecause.com/news/mba-careers/4164/harvard-mbas-chose-google-over-goldman

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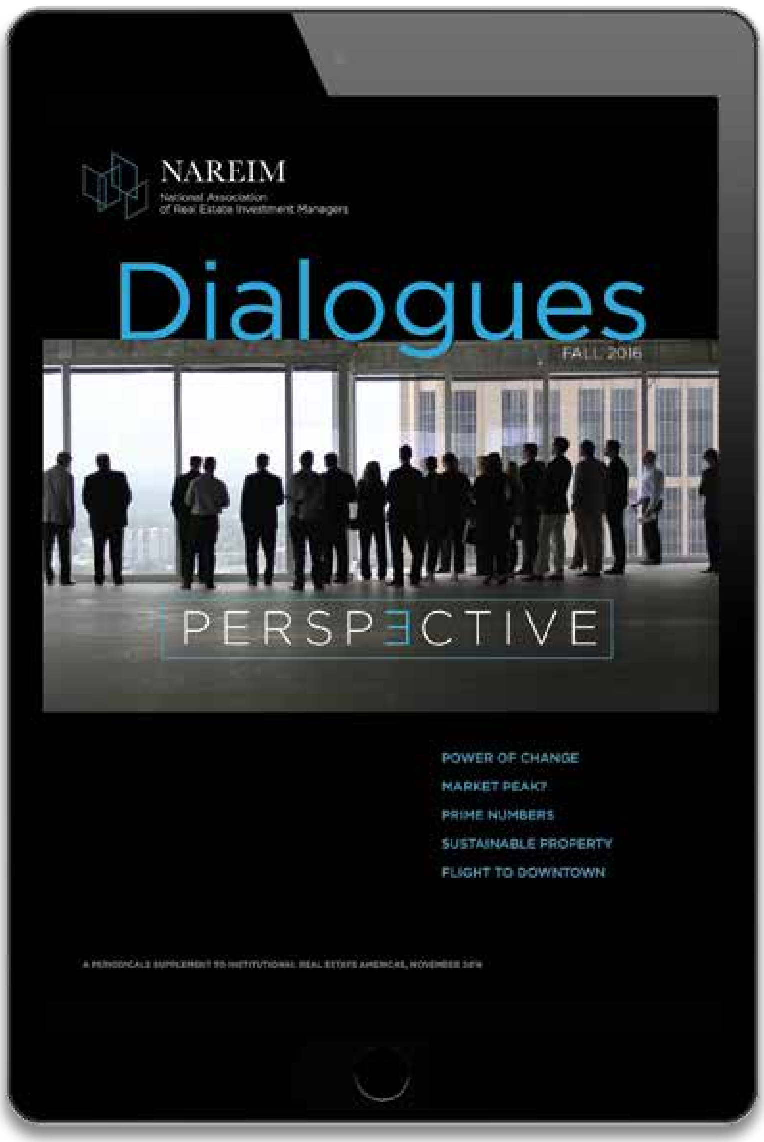

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NAREIM
National Association
of Real Estate Investment Managers

410 North Michigan Avenue
Chicago, Illinois 60611

312.884.5182
www.nareim.org