

34th Annual Cornell Real Estate Conference Recap

Authors: Matthew Green, Jennifer Spritzer, Ershad Chagani, Sean Mashian

Introduction

Every October, the Cornell Real Estate Conference draws together the real estate community of Cornell and other significant industry individuals to meet and discuss current issues in real estate. In 2016, the theme of the conference was Disruption in Real Estate. The central discussion was simple: as with many industries, the pace of change in real estate is accelerating. New technologies have affected every sector of real estate including property management, data analytics and investment sourcing.

The 2016 Cornell Real Estate Conference was held at the Westin Times Square on October 13-14. Thursday evening's welcome and dinner provided two important milestones for the Conference. Cornell Real Estate Women (CREW), the newly-formed graduate student group hosted their first-ever reception before the evening's events. Founder Caitlin Elliott (Baker/CRP '17), when reflecting on the evening, stated, "The success of the reception reflected the success that followed for CREW, with a whirlwind of professional speaker series and career development events. It's our hope that the CREW Reception becomes an annual event during the Cornell Real Estate Conference." Mary Anne Gilmartin, CEO of Forest City Ratner, received the 2016 Cornell Real Estate Industry Leader of the Year award. This marked the first time a woman has received the award. It was presented that evening by Robert Lathan (Baker '17) and Matthew Green (Baker/MBA '17).

1. INVESTMENT TRENDS PANEL

Like every Cornell Real Estate Conference, the two-day event featured discussion panels that explored the subject of Disruption in Real Estate from several angles. Friday began with the unveiling of the 2016 Hodes Weill Institutional Real Estate Allocations Monitor. Baker Program Director Dustin Jones and Douglas M. Weill (SHA '88), opened the discussion panel by presenting the trends discovered via the survey and the implications for real estate investment markets around the world. The panel was comprised of senior investment professionals from leading global

institutions:

- Cody A. Danks Burke (MBA '06): Senior Investment Officer for Cornell University Investment Office
- Bill Tresham: President of Ivanhoe Cambridge
- Adam Gallistel: Managing Director of GIC, ADIA
- Gary Phillips: Senior Director and Head of Acquisitions and Equity Investments at Allianz Real Estate of America

Not surprisingly, the discussion reflected many of the findings in the report. The panelists' sentiments were positive, despite the consensus that the real estate market may be in the later stages of an uptrend. With that established, the question is whether the next downturn in prices will be as severe as 2007-10 or milder like 2000-02.

Sameer Godiwala (Baker/MBA'17) commented that "I worked in hotel investments over the summer, an asset class which tends to have the most volatile risk/return profile. To see the broader picture in the presentation and the real-world reflections and opinions of the panelists reminded me that volatility can actually drive returns, especially if a manager's strategy can generate alpha beyond the market return. It is great to see the stature of real estate continue to increase as an asset class."



Allen Hill, the “Think Big/Think Bold: Disruptive Design in the Innovation Economy” panel featured Peter Cavanaugh (Eng ’86), the Ecosystem Transformation Leader for GE, and John Vazquez, Senior VP of Global Real Estate for Verizon. Moderator Tom Vecchione (Arch ’86), Design Director and Principal in Gensler’s New York office, facilitated a discussion of the attributes that can create more productive and innovative work environments. Tom emphasized three key underlying design elements that enable innovation within the workplace: adaptability, connection, and lifestyle.

2. INTERSECTION OF CHANGE AND THE BUILT ENVIRONMENT

The next panel, “Intersection of Change and the Built Environment” discussed how virtually every asset class is being reconceived and reconfigured to accommodate changes in technology and lifestyle. This panel was moderated by Bruce Batkin (AAP ’76), Co-Founder and Chief Executive of Terra Capital Partners, who was able to use his vast experience in real estate acquisition, finance, development, management, and investment banking to encourage a lively discussion amongst the panelists, who themselves span a wide variety of backgrounds and asset classes.

The discussion made it clear that the process and approach to designing a building has dramatically changed from past practices, with occupant satisfaction being the center around which design decisions are made. One of the topics discussed by the panel was the use of passive buildings to enhance occupant experience. Melissa Marsh, Senior Managing Director of Occupant Experience of Savills Studley, highlighted how this concept is no longer being exclusively used for homes, but office buildings as well, and how this design process is integrated with architectural design in order to produce a building that dramatically reduces its ecological footprint. This is one of the areas of research for potential solutions in the US for Marsh, who is the founder of PLASTARC, a consulting firm that studies tenant requirements and engages in research and product development to help clients make the most of their workspaces and buildings by enabling environments that enhance knowledge, accelerate business, and enrich employees.

3. THINK BIG/THINK BOLD: DISRUPTIVE DESIGN IN THE INNOVATION ECONOMY

After lunch and a Keynote Address from Four Seasons’ J.

- **Adaptability:** The ability to be nimble and adaptable has become critically important across organizational functions in today’s “innovate or die” environment. Organizations are increasingly utilizing innovative frameworks such as rapid prototyping and failing fast, and the spaces in which teams work should be able to shift in order to accommodate recurring changes in how the business functions. This level of adaptability also reduces the need for space, as multi-purpose areas can be altered to meet the organization’s needs.
- **Connection:** Innovation is driven by the remixing of ideas. Sharing spaces between different business functions and working groups allows for both the cross-pollination necessary to spawn innovation, and the collaboration and knowledge sharing that will help teams execute on it. Creating shared spaces facilitates a higher level of face-to-face interaction both between and within teams, a key element for idea generation. Organizations are seeking to force face-to-face interaction across the spectrum of colleagues, leaders, and clients.
- **Lifestyle:** Driven largely by employee wants and needs, organizations are pursuing opportunities to balance live, work, and play. This trend is shifting





traditional use-based districts into dynamic mixed-use centers. Integrating these three elements into mixed-use spaces in both urban and suburban areas allows for organizations to increase engagement with their workforce, while simultaneously attracting and retaining top talent. This mix promotes informal interaction that can heighten employee engagement and satisfaction.

As a step forward from functional groups bringing perspectives together to remix ideas, Vecchione added that he sees a future of companies coming together from disparate corners of the corporate world to form new synergies by undertaking what he calls “mixed marriages.” These intersections in business will largely shape the operational design of mixed-use space. Collaboration between firms will result in the interesting challenge of designing combined space to serve a mix of organizational cultures, service models, and corporate needs in order to create a cohesive place that houses a corporate ecosystem.

4. KEYNOTES: MICHAEL GROSS (WEWORK) AND J. ALLEN SMITH (FOUR SEASONS HOTELS AND RESORTS)

In addition to the panels, the Conference featured Keynote Addresses by Michael Gross (BA'97), Vice Chairman



of WeWork, and J. Allen Smith (A&S '80), CEO of Four Seasons Hotels and Resorts.

Friday morning's address started out with an announcement from WeWork Vice Chairman Michael Gross. Having completed negotiations that brought WeWork's total venture funding to \$1.7 billion and total value to \$16.9 billion, Gross hinted that his firm is embarking on a major strategic shift—owning its own buildings, in contrast to its current asset-lite model of leasing space in buildings. WeWork's current strategy is to lease space, build it out, then rent it to short-term office tenants. This allows them to spend less on up-front capital investment and avoid acquisition costs, mortgage interest payments, and other costs associated with purchasing assets. Gross stated, “The moment WeWork comes into a building, you're creating value.” WeWork is working on a vehicle that will acquire buildings in partnership with outside investors. “[There are] multiple companies where we're looking at sale-leasebacks,” he said. “They're looking to sell us buildings. We would come, refit it out and give it back to them.” Gross also made clear that the new vehicle would not necessarily mean a departure from the asset-lite model. If WeWork ends up buying properties through a dedicated investment fund with outside capital—similar to fund managers like Blackstone Group—it would not actually spend its own capital. He acknowledged that this strategy could, however, put WeWork in direct competition with some of the office landlords with which it





partners. These include Rudin Management and Boston Properties at the Brooklyn Navy Yard, where the developers are currently planning a 556,000-square foot building to be anchored by WeWork.

The lunchtime keynote from J. Allen Smith offered his world view on the intersection of technology and luxury hospitality. Smith stressed the importance of technology in the interplay between consumers and the conversion of room sales. He emphasized the efforts of Four Seasons to continually improve the guest experience and reach customers effectively by incorporating improvements on mobile and other applications. Smith then emphasized the success of the private residences or condominium projects attached to the Four Seasons properties, laying out several scenarios as to when and how he perceives them to be profitable. The revenue model for the partnerships with residential developers on mixed-use projects typically involves an upfront management fee as well as a payout on the time of sale.

Smith wrapped up his talk by emphasizing that Airbnb is not significantly affecting the luxury hospitality sector. He indicated that the audiences for luxury hotels and affordable stay hotels are mutually exclusive. There is little to no

correlation or revenue overlap between the two business models. He closed by reinforcing that the culture of the Four Seasons organization resonates through all levels of the hierarchy. People have been in the organization for a long time and tend to become culture carriers—as they move around the world, people they associate with also get imbued with the same values. This is, in his opinion, the secret to Four Season's low employee turnover rate, one of the lowest of any business sector.

