Lop-Sided Opportunities in Real-Estate and Economic Development

Disruption and an Inflection Point in Real-Estate

The real estate markets have been impacted by factors such as rising inflation, hybrid work, shifting urbanization patterns, shifting shopping patterns, shifting eating out patterns, and growing ecommerce.

Asset values and the face of economic communities everywhere is changing, perhaps in a fundamentally lasting manner, making some real-estate assets obsolete or permanently impacted.

Are mixed-use assets more valuable now? What is the future of city dwelling? How can Philly get some of that sunbelt-style love? And ultimately, where should investors put capital?

A panel of the foremost investors, developers and policy makers in Philadelphia discussed this disruption and shared opportunities arising from this disruption, on July 13, 2022:

PANELISTS

MODERATOR

Edward Glickman

Executive Chairman
AIP Asset Management

Ed advises on investment and asset management strategies at this global financial services company company with $4.1B of assets under management. Previously he was President and Trustee of the Pennsylvania Real Estate Investment Trust, served as CFO of The Rubin Organization, and CFO of Presidential Realty Corporation. He began his career in investment banking at Lehman Brothers and Smith Barney.

Richard Vague

Secretary of Banking and Securities
Commonwealth of Pennsylvania

Prior to his 2020 appointment, Richard was managing partner of Gabriel Investments and chair of The Governor's Woods Foundation, a nonprofit philanthropic organization. Previously, he was co-founder, chairman and CEO of Energy Plus, an electricity and natural gas company. His career spans banking, energy, credit, and the arts. He is the author of four books, the latest being The Case For A Debt Jubilee, which offers policy recommendations for new forms of consumer debt relief.

Bill Glazer

CEO
Keystone Property Group

Bill founded Keystone in 1991 and has grown it i nto a fully integrated development and investment company. He has invested in and developed over 12 million square feet of real estate in billions of dollars of transactions. He is the recipient of the Pennsylvania Award for Community Excellence, the Chamber of Commerce Award for Excellence, the Philadelphia Business Journal's 40 Under 40 and CEO of the Year Awards, and the Ernst and Young Entrepreneur of the Year Award.

Himesh Bhise

Board Member
TiE Philadelphia

Himesh is a leading software and internet services executive. He was most recently the CEO of Synacor, a publicly-traded enterprise software, where he led a turnaround and successful exit. Prior, he led divisions at Comcast, Charter and AOL, growing broadband, advertising, OTT video, and messaging businesses. He is on the IT Advisory Board of Temple University and on the Board of TiE Philadelphia.

Reports of the Death of Office Real Estate Have Been Greatly Exaggerated

The pandemic changed the way people work. In March 2020, with little notice, the entire country was told to go home. Two and a half years into a shared social experiment, we are still highly functional and have kept ourselves highly productive. But we are social beings, and remote work is at odds with our need to be collaborative in person. Perhaps our collective experience over the last two years has made us face an uncomfortable truth - regarding disaffection between workers and employers over work-life balance, the real need for commuting into an office, and embracing new options created by technology with their associated externalities.

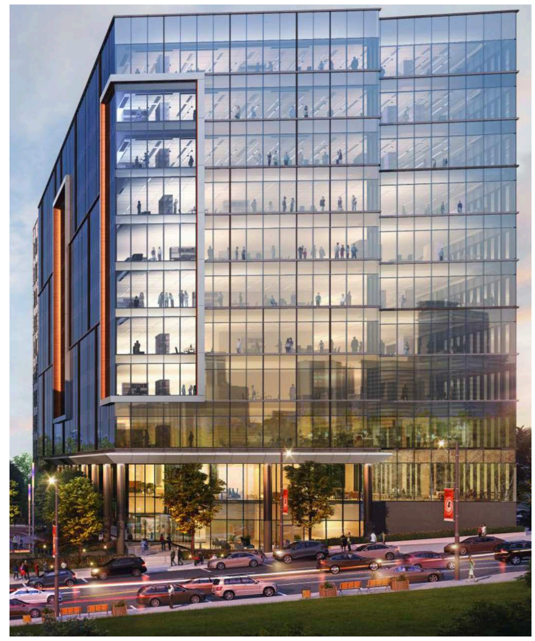
While the rumors of office real estate obsolescence may be exaggerated – e.g. post 9/11 there was never going to be another office building that rose in Lower Manhattan – the shape and essence of a traditional office may have changed forever. Office space is transitioning from a “residence-at-work” concept to a space for collaboration and interaction - less individual and proprietary space for work that can now be done at home, to more hospitality and interactive space to achieve work objectives that need to be done together. This will result in:

- Investment in rethinking, reutilizing and rearchitecting office space.

- Higher economics per square foot, that tenants will pay because they will
  need less space for the same number of employees.

- A flight to quality, with the best buildings in the best locations thriving. The
  middle-market office building will have to reposition into multifamily or multi-use, and those that don’t transition along with the bottom of the market will have to be turned back into carbon, unless it is architecturally or historically significant.

This theme of moving from siloed, single-use office space to multi-use, interactive space can also apply to retail. A greater proportion of shopping budget is shifting from physical stores to e-commerce, but just as there remains a case to go to the office, there remains a case for physically going shopping. Making that retail space economically viable, harkens back to the days of mixed-use development from 75 years ago.



A mixed-use proof-of-concept:

Sora West - a project led by Keystone Property Group in Conshohocken, was originally intended to be siloed office development but was transformed into a mixed-use development with hotel, retail, and a corporate headquarters opportunity.

Amerisource Bergen, the largest company based in the state of Pennsylvania, chose this space to be their corporate headquarters. Multi-use and densification were the factors that drove Sora’s advantage over scores of other sites the company evaluated – walk to the train for public transportation, several restaurants nearby, hotel on site, amenities including a fitness center and training facility, a restored historic firehouse, and concept for a public plaza.

Philly and Life Sciences

Population growth in the United States has been concentrated in the sunbelt states. They have represented 75% of population growth over the past ten years, and with recent boldface corporate moves like Tesla moving to Austin, that growth does not seem to be abating.

What drives growth in a city like Philadelphia? Historical growth drivers are colloquially referred to as Eds, Meds and Feds (Universities, Pharmaceutical companies, and Government institutions). Arguably, Eds + Meds + Feds in combination has engendered the explosion of life sciences and biotech in the region, that sometimes feels like the early days of the Internet, and perhaps now represents the largest economic development opportunity for the city.

Philly already has the research institutions, human capital, and entrepreneurial successes that place it amongst a handful of life sciences hot spots, like Boston and San Francisco. These advantages need tending and nurturing to turn our city into a global biotech powerhouse:

- Human capital: One of the highest concentrations of medical doctors in the country. Five medical schools turning out an incredible number of MD/PhD level scientists. Education for biotech also needs to create researchers, lab technicians, and entry-level employees.

- Sharing success: Gene therapy breakthroughs have taken place in Philadelphia. For example, the MRNA technology behind the COVID vaccine was created at the University of Pennsylvania and has generated over $1B in licensing fees.

- Economic capital: While there is access to national and global capital, more local sources are needed. The University of Pennsylvania has set aside $50M to invest in biotech spin-off companies located in Philadelphia – this has had the added advantage of pulling in $1.3B in co-investment from outside the city.

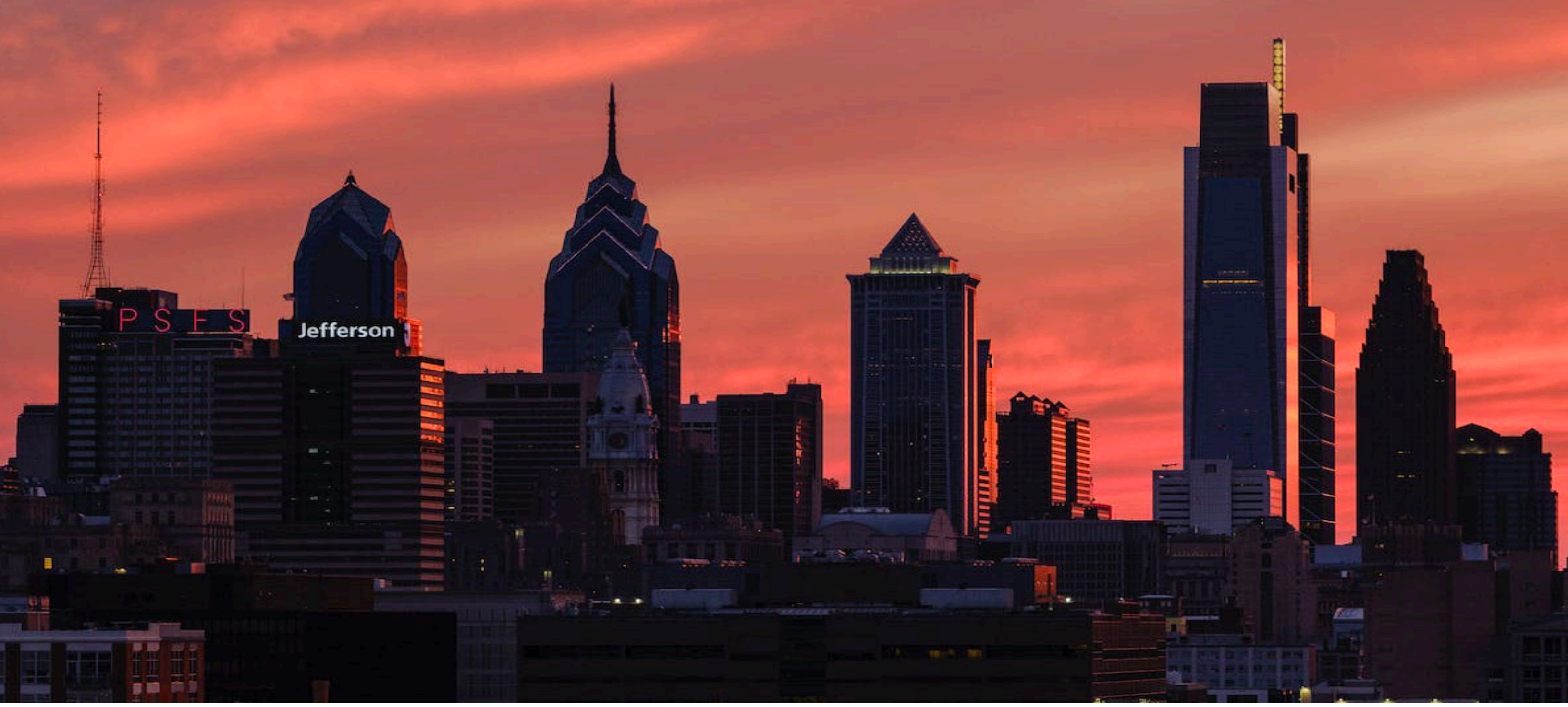
- Specialized real-estate: Navy Yard and University Science Center are successfully catering to life-sciences. Physical plant for life science companies is a specialized build, requiring specific engineering, and takes 3 to 5 years to build.

- Public Policy: Must make it easier for people and companies to relocate here. Simplify regulatory licensing. Raise awareness that these life- sciences projects create jobs. Create opportunity among diverse communities to participate in entrepreneurship and these new employment opportunities. Support public-private partnership.

Repurposing real estate for specialized Life Science needs:

Philadelphia has developed an expertise in Cell and Gene Therapy companies, such that it is sometimes referred to as "Cellicon Valley". Cell and Gene therapy companies often require Biosafety Level 2 (BSL-2) laboratories that meet Current Good Manufacturing Practice (CGMP) regulations enforced by the FDA. These labs require high floor loads, high vibration tolerances and high ceilings. These specifications are hard to find - and new buildings can take 3 to 5 years to build and cost $800 to $1000 per square foot.

The one million square foot, Curtis Publishing building was built for printing presses – its floors had a load tolerance of 200 pounds, CGMP labs need 100 pounds; it had 15-foot ceilings, CGMP labs need 14-feet; and successfully printing with ink required high vibration tolerances sufficient for CGMP. An iconic print building located near Independence Hall, now refurbished for re-engineering DNA.



Investable Growth Opportunities

Real-estate development appears to be at an inflection point. And at inflection points much wealth can be created and lost. Some of the investment opportunities surfaced by the discussion include:

- Mixed-use development that is near public transit and reflects the desires and lifestyles of today's consumer and working professional.
- Specialized technology-oriented real-estate specifically created for distinct segments such as data centers, telecom build-out, and biotech.
- Life sciences in Philadelphia requires specialized real estate. It is high value, with high barriers to entry, clients tend to be long-tenure, and developers already seeing success in the area.
- Affordable housing because it must be figured out and needs to replace many failed public housing efforts, so that cities can sustain growth.

The "Takeaway"

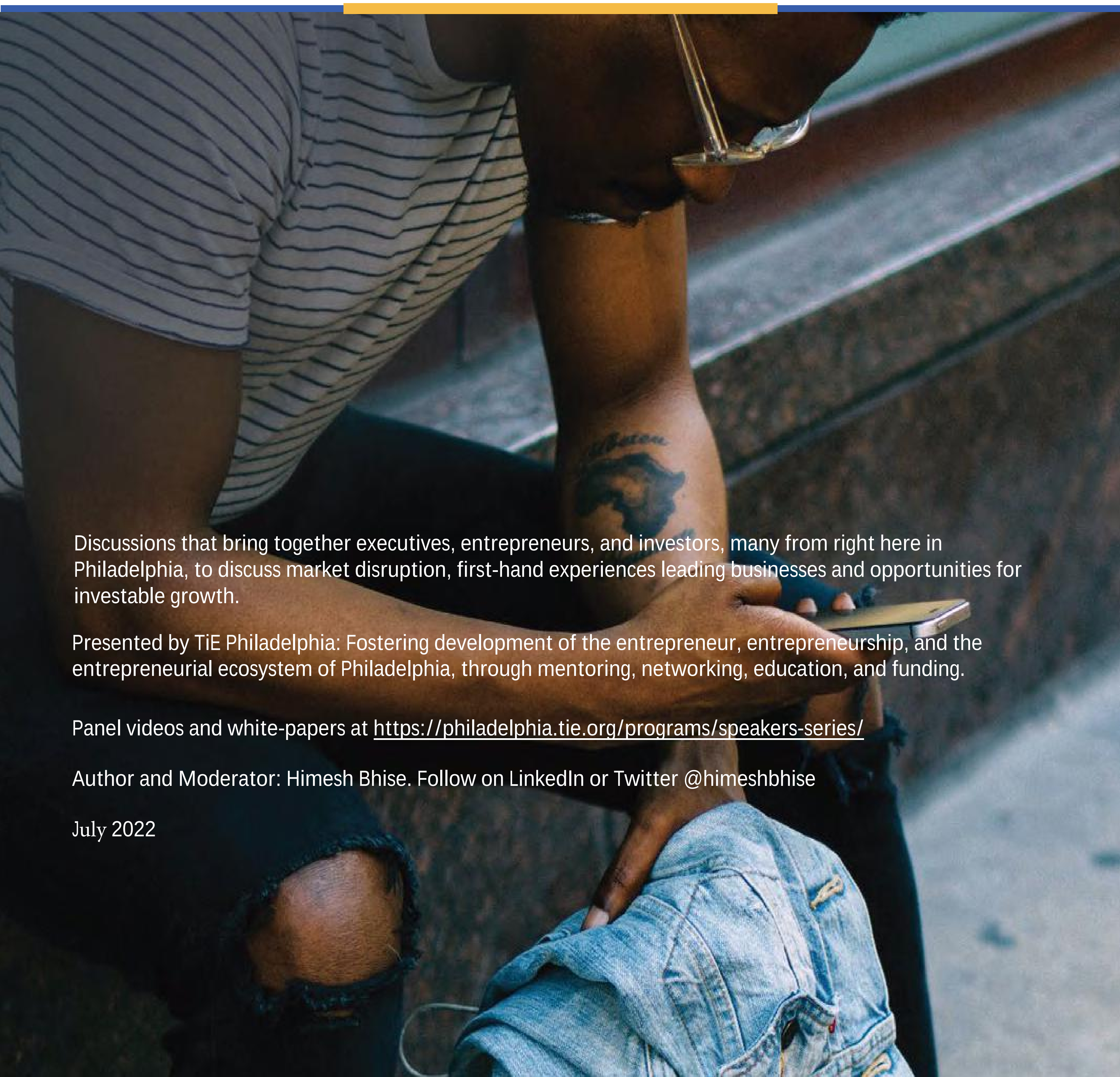
Our collective experience over the last two years of the pandemic has made us face an uncomfortable truth - regarding disaffection between workers and employers over work-life balance, the real need for commuting into an office, and embracing new options created by technology with their associated externalities.

Office space is transitioning from a "residence-at-work" concept to a space for collaboration and interaction - less individual and proprietary space for work that can now be done at home, to more hospitality and interactive space to achieve work objectives that need to be done together. This will result in investment to rearchitect office space, higher economics per square foot that tenants will pay because they will need less space for the same number of employees, and a flight to quality with the best buildings in the best locations thriving.

Philadelphia has already carved out a place for itself amongst a handful of life sciences hot spots. The explosion of life sciences and biotech sometimes feels like the early days of the Internet, and perhaps now represents the most important real-estate development opportunity in the region, requiring specializing real- estate with specific engineering requirements.

Investable opportunities appear to be Mixed-use development that is near public transit; Specialized technology-oriented real-estate specifically created for distinct segments such as data centers, telecom build-out, and biotech; a focus on Life sciences real-estate needs in the Philadelphia region, and Affordable housing that must be figured out for cities to sustainably grow.

From Market Disruption to Investable Growth



Discussions that bring together executives, entrepreneurs, and investors, many from right here in Philadelphia, to discuss market disruption, first-hand experiences leading businesses and opportunities for investable growth.

Presented by TiE Philadelphia: Fostering development of the entrepreneur, entrepreneurship, and the entrepreneurial ecosystem of Philadelphia, through mentoring, networking, education, and funding.

Panel videos and white-papers at https://philadelphia.tie.org/programs/speakers-series/

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