Celebrating 40 Years of Real Estate with Dick Van Hal

00:00:09:14 --> 00:00:39:13
Speaker 1: Hello, I'm Doug Slater from MSCI real estate and I'm joined today by another Doug, Doug Poutasse - Head of Strategy and Research at BentallGreenOak. First off, Doug, thank you for joining us today. You've had a remarkable career as a strategist, and I look forward to hearing your perspective on how investing in real estate has changed over the years and how you and BentallGreenOak have contributed to this evolution. First off, when you started working within the real estate industry, what was your first role and what did investing in real estate look like at the time?

00:00:40:23 --> 00:01:30:16
Speaker 2: Thanks again, pleasure to be here with you, Doug. I'm going to give a two-part answer to that. My first role was when I first started in 1980 same years, MSCI started with this, this activity. I worked for an economic forecasting firm and I was doing the regional US forecasting. So forecasting at the state and Metro level. And within two years of that, I had my first couple of real estate clients. One was the firm that became Total Wheaton research in the US and the other was chemical bank. So in one sense, I started doing this right, right from the beginning of my professional career, later within, I moved to running a real estate forecasting product. And in 1991, I was recruited into ultra decent and Walsh to be their head of research. So that's when I really entered the actual real estate investment world was in 1991.

00:01:31:15 --> 00:02:16:06
Real estate investing in the 1980s was just really starting institutionally. The insurance companies had done it. There was almost no data. What I was doing for that decade was creating data. And in one sense, creating the background by 1991, it was still in a relatively primitive state. There really wasn't high yield real estate investing. It was still largely core only. And when I joined in 1991, really at the, at the trough of the, of the, that terrible real estate meltdown in the US is the birth of the opportunistic investing world. And AW had one of the first funds raised in 1998, they'll be partners. And so I dove straight into high risk investing in real estate.

00:02:17:24 --> 00:02:23:03
Speaker 1: That's great. And in your opinion, what has been the most profound change to investing in real estate since you began?

00:02:24:06 --> 00:03:19:09
Speaker 2: Well, I think, I think this word, you probably don't want to hear it. Data is one big change. When I, as I was saying in the 1980s, and even in the early nineties at AW, we were creating our data. We were having to go find the data. We were having to extract it from brokerage reports, which weren't very good. And now there's just a wealth of data. I have a data scientist who works for me now, and he's crunching massive data sets some of the MSCI data. Some of it's your competitors data, it's all over the place. There's more data than anybody can digest, except for these young data scientists who can digest enormous amounts of data. The second one, I think we'll come to it later, is that in 1990, everybody, except maybe the Dutch were investing only in their home market and it's a global world now. And if you're not, if you're not aware of that global world, you're not a good investor today. You may choose not to invest in all those places, but you have to be aware of it. Back then you didn't know that you should even be thinking about

00:03:20:12 --> 00:03:29:12
Speaker 1: Given that change in data and increased availability of data. How has that changed your approach to investing in real estate over the years?

00:03:31:01 --> 00:04:31:16
Speaker 2: One - I've gone from being the person who's the data scientist in the old school to being the old guy who doesn't know how to use the newest technologies. It's been very humbling. I was head of, I was Head of Information, ran all of the IT groups and everything else at AW in the late, late nineties. Now I have trouble figuring out how to use Zoom. But the biggest one is that it just having data doesn't help you. You have to turn it into useful information in thesis, in the, in the 1980s and nineties, having the data was enough of an advantage yourself because so many people didn't have the data. Now, the data is universal. Everyone has it. And I think that the biggest thing that's changed is that we've moved towards thesis investing, which is using all that data to develop investible thesis, and then following those thesis, instead of just, what was the pattern in the eighties and nineties was buying what was for sale. So it's really become a thesis driven strategies.

00:04:32:23 --> 00:04:55:01
Speaker 1: That's great. That's really, really fantastic insight. You mentioned, you know, your experience in working with leading LPs really around the world. How has it changed in terms of LPs and their approach to investing outside of domestic markets, in their focus on geographic diversification?

00:04:55:22 --> 00:06:16:10
Speaker 2: Right. I mean, when I, when I came in, actually AW was a leader in this, Peter Aldrich, the CA of AW I'm working with the Frank Russell company had created what was called the research group, which was about 20 of the top CIOs of American institutional Investors, mostly pension funds and 20 manager related people, but Peter and George Russell were the, the heads of it. And they were taking these Heads of Real Estate or CIOs overseas for the first time they took him to Russia. They took him to Vietnam. You know, they took him to Mexico. That was only 30-28 years ago. Now everyone considers that their opportunity set and the US, I think, was the last set of investors to go there because the US is a rich opportunity set. There's a lot of different types of markets and property types you can invest in, in the US. By 1992 or 93, the Dutch were already major global investors because the Netherlands is a very limited opportunity set. The Swiss were very global investors, very early. The Brits, the Brits were global investors sooner, but a little bit behind the Dutch because they had a richer property set, richer opportunity set. And interestingly in the last 20 years the Canadians have become some of the lead in global investors, because again, they have a limited opportunity sense.

00:06:17:17 --> 00:06:34:09
Speaker 1: Got it. That's really helpful. And as you focus on the US LPs in particular, do you see the trend toward accelerated and increased global investments in real estate? Do you see that increasing over the next five or ten years say, with the us pension funds in particular?

00:06:35:13 --> 00:07:33:18
Speaker 2: I think absolutely. I mean, there's, there's so many different opportunities in different places. And it's taken a while. I think the US institutions have moved a little slower, and I think part of it is, they have real limitations on the cost that they can put into staff. And I think that's a real, real problem. They need to compensate staff better. They need to have more staff to do this, to do this well. But the opportunities that you can, you can find in Asia, the opportunities you can find in Europe, you can't replicate them in the US they need to do more of it. And, you know, when they first did it, they dipped their toe, which was appropriate, but putting one or 2% of your assets, your real estate assets in Europe, doesn't do much for diversifying your risks. You really need to be doing, you know, say 40% in the US and 30% in Europe and 30% in Asia sort of replicating the market basket. And of

course, MSCI is our data source for making up those numbers.

00:07:35:13 --> 00:07:44:07
Speaker 1: That's great. And can you think of a time in your career where having the right data available made a positive difference or would have made a difference if it had been available at an earlier time?

00:07:45:00 --> 00:08:39:24
Speaker 2: Yeah. Well, I'm going to tell a little anecdote, which was in 1990, I was running the FW Dodge group of McGraw-Hill, running their real estate forecasting products, but also running their databases. And one of our clients on the real estate forecasting side was the Control of the Currency. And they asked me to come down and give an economic talk. And so I went down there in January, and there were like 40 very smart people in the auditorium. And I was a very amateur presenter at that point, still am, but very amateur presenter at that point. And I gave my whole talk and this older gentleman, probably younger than I am today, but at time he was an older gentleman with no hair sitting in the corner said, 'well, can you give me one concrete example of how there's excess construction going on?' And I said, okay, in Cleveland, Ohio, right now, we are tracking 3 million square foot plus towers being built by three banks.

00:08:42:03 --> 00:09:34:19
Cleveland has an 18% vacancy rate. This, you know, this is completely unneeded construction. Bill Seidman was that gentlemen who later became the head of the RTC. Two weeks later, one of those buildings got canceled and one of those buildings got downsized. Without that specific data I couldn't have said anything to him. You know, I'd already talked about the excess construction and everything else, and you probably won't use this, when you edit this down. But I did actually say to him at that point, when he asked, 'why is this going on?' I said, 'Developers develop - that's what they do for a living, lenders lend - that's what they do for a living until regulators regulate; this will continue.' And I could only do that because I had the data to back me up. In terms of where I don't have the data. I'm a counsellor of real estate.

00:09:34:20 --> 00:10:20:12
I was interviewing somebody two weeks ago for membership, and he used Uber data, Google location data, all kinds of the modern bulk data to develop a thesis about how rent movement was going to change for transit adjacent properties versus similar properties in the same towns. But they weren't immediately transit adjacent in 2015, 2016, and built a thesis that turned out to be very accurate. That transit adjacent properties with the emergence of Uber would have lower rent growth. That's the creating your own data from things. I wish I'd thought about that one before he did. It's amazing what you can do nowadays.

00:10:22:01 --> 00:10:35:15
Speaker 1: That's really great, fantastic insight. What would you say the biggest challenges facing real estate in the future are? And how do you feel data, what role may data play in combating those challenges?

00:10:36:07 --> 00:11:51:13
Speaker 2: Yeah, I'm going to go highly anecdotal on you because it's so hard to say, but our built environment is 90% probably of our current built environment has been built in the last 60 years. It was built around the entire car culture. And in the United States, it's hard to see this, but whenever I'd go to Europe and go into an old city last May, a year ago, May I was on a bike trip and we started in Gerona, just outside of Barcelona. And we're walking around that incredible downtown of that, of that beautiful little city. And I'm just struck by how inefficient that city is for the car culture and how beautiful the, the built environment is. And I have a feeling that 30 years from now, we're going to look at the cities we built over the last 60 years and think that they are just as old as Gerona looks to us today, because

why do we have 12 lane highways cutting right through our cities? Why do we allow these enormous scars? Why do we have all this space devoted to parking and everything else within 10? You know, it's, it may be within 10 years, it's all going to be obsolete. It's an enormous challenge for real estate.

00:11:51:13 --> 00:12:11:22
That's truly incredible. And thank you really throughout today's conversation, Doug. You provided us with some fantastic insight. Thank you again for joining us and look forward to speaking soon and thank you to everyone who's listened into today's MSCI Real Estate, candid conversation with Doug Poutasse. It's been my pleasure. Thank you.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit **www.msci.com**.
