The Weekly Take

Into the Great Wide Open: Why open-air centers are one of CRE's shining stars

6.20.2023

Spencer Levy
I always like to say that the ICSC RECon conference in Las Vegas gathers 25,000 or so of our closest friends in real estate, and the 2023 event was no exception. Back in full swing in mid-May, it was the center of what's arguably the hottest sector in the real estate universe. And we came to discuss what may be the brightest star of all. On this episode, a conversation about outdoor shopping experiences, aka, open air retail.

Adam Ifshin
The store is a multipurpose weapon. It is the Swiss Army knife of the brand.

Spencer Levy
That's Adam Ifshin, the founder and CEO of DLC Management Corp., an owner-operator of open air retail centers – mostly, but not exclusively, grocery anchored space – and a retail entrepreneur. Adam's an ICSC board member and, with his team, recently published a report on this reemerging asset type called *A Breath of Open Air.*

Brandon Isner
These are out in the places where people live, and so they drive by them every day and they become an essential part of these people's lives.

Spencer Levy
And that's Brandon Isner, America's Head of Retail Research for CBRE, and one of our top thought leaders in the sector. We'll tell you all you need to know about open air retail, from the basics to the nuances of why open air retail is on the rise. And if you stick around, we even got a surprise guest to offer some particular insights on the state of the capital markets in the space. Coming up, we're in Las Vegas at ICSC RECon 2023, hitting the jackpot with open air retail. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take, starting with Adam Ifshin. Adam, thanks for joining us.

Adam Ifshin
Thanks for having me, Spencer.

Spencer Levy
And Brandon Isner. Brandon, thanks for joining the show.

Brandon Isner
Spencer, it's always a pleasure.

Spencer Levy
And I mean it sincerely. Two of my closest friends in the business sitting right here. And we're going to talk retail, and specifically about a terrific report that Adam and his team were co authors writing, about open air versus urban retail. Tell us a little bit about the report that you're publishing.

Adam Ifshin
The report is called *A Breath of Open Air*, and it's bringing people in the industry current with how open air has proven to be not only the most resilient CRE product type coming out of COVID and coming out of everything about that, and supply chain, etc.. But more importantly, that it is now without question, the hottest, best risk-adjusted investment opportunity in all of the CRE universe. And we wanted to make sure that the world knew it.

Brandon Isner
He's 100% right. We've been tracking this as well. It's… one of the things that we found that was really interesting is that year over year, the total share of absorption for open air centers. So the way we track it, we do community, neighborhood and strip centers all in the same format. And those three formats made up 45% of total retail absorption in 2022. It was an all time high. So the momentum is real and people just keep catching on to that.

Spencer Levy
Do me a favor, as we hear these terms a lot. Community, neighborhood, power, grocery-anchored. Just walk through the basic categories so our listeners know what we're talking about.

Brandon Isner
Sure. So your neighborhood center, that's a smaller center, generally grocery-anchored. You know, 50,000, I believe it is, to about 120,000. And then you'll have the community centers, which is a little bit larger. Again, a lot of times grocery-anchored, but they might have another couple of junior anchors along with them. Then you just have the unanchored strips, which I know you're a big fan of. You'll drive by a hundred of them in the suburbs. They might have five or six stores, no big anchors, but they'll have all the essential daily retail that people need. And that's one of the reasons why they stay so relevant, because these are out in the places where people live. And so they drive by them every day and they become an essential part of these people's lives.

Spencer Levy
And then power, some of the other open air categories.

Brandon Isner
Sure. So you have your power centers. Those are larger centers. Big-box, category killer retailers. We've all seen them like Ross, Burlington, TJX, and they'll be 500, 600,000 square feet. Not exactly a mall because, again, it's open air. When people talk about malls, that's a closed system, not an open air system. And then you have your lifestyle centers, which kind of fall in between. It's sort of open air, but kind of mall in that you'll have the same sort of tenants that you have in a mall, but a little bit more updated with great landscaping, a lot of restaurants, places where people go to hang out. So, your lifestyle center.

Adam Ifshin

I think the big difference between lifestyle and the rest of the open air ecosystem is dwell time, right? I mean, I think the…

Brandon Isner
Good point.

Adam Ifshin
… lifestyle phenomenon is really the mall replacement in certain markets. I think one of the big drivers is the level of sales that are occurring now in open air centers, particularly when they're either anchored by a top tier grocer or its power center or maybe it's a combination of the two. And we own a lot where there's a grocery component in a power center, is the sales efficiency of the tenants has never been more powerful as a driver, and that's what's driving traffic. You may have a department store anchor in either a lifestyle center or a mall, and they may struggle to do $25 million in 180,000 feet. Whereas we've got a couple of places where TJ is doing that volume in 30,000 feet. And I think that's really the key. The traffic has come to the fore in open air. The consumer wants to be there. The consumer wants to be in the suburbs. And that's what's driving the interest on the part of the tenants.

Spencer Levy
And I think when you're talking about traffic, that was always the concept of the best, right anchor for that particular facility. And very often when you're dealing with non grocery-anchored retail, it was a big general goods retailer and department stores were obviously in the malls. But is the grocery store now that primary driver or is it something else, Adam?

Adam Ifshin
I think it's both. Look, grocery obviously has had a great run here. Incredible run. And grocery in a lot of different formats. Traditional grocery has done great since, particularly since the start of COVID. Combo, big-box grocery. So that could be both the warehouse clubs and the Supercenter or the Wegmans or the WinCo out west. All of those are working, right? They're really working. They're really resonating. The combination of assortment, convenience, price with the consumer is really working. And then you have the whole Lidl grocery outlet, Aldi phenomenon, and that's resonating certainly in working class markets and dense working class markets. Again, it's being driven by speed to convenience. We have some form of grocery in 84% of all of our assets. 69% of all of our assets have a conventional grocer, the balance either have a warehouse club or a small format grocer. I think what this opens up is this opens up the power of open air for the retailer to serve the customer. Because rent is becoming a smaller, not larger portion of their cost stack, now they can use the store as the center of their last mile fulfillment. They can use the store to test out things, because the cost of taking a risk… I met with top tier big-box player yesterday for breakfast, and he's like, we're testing a new prototype because it's not cost prohibitive to take that risk because we're doing so much volume and because the, you know, here's the thing. You have a store doing $200 a foot, you get a 10% bump, that's $20 a foot. You have a store doing $400 a foot, you get a 10% bump, that's $40 a foot. It has a very, very different impact to the 4-wall EBITDA, that store, for the retailer.

Spencer Levy
Let's just talk basic retail 101. The anchors are typically paying the lowest amount in rent, and the in-line is where you get the higher rents. And what you're saying to me is, is Ulta or stores like that considered to be an in-line tenant or are they a different category altogether?

Adam Ifshin
I think the crew in that size, right, which is really led by people like Ulta, really core DLC tenants. Ulta, Five Below, pOpshelf now, Dollar General, Family Dollar, Dollar Tree, etc. I think they're really a hybrid kind of, that's not one or the other. But in many instances, because of the resonance of those brands with the consumer, I don't think we have three or four centers in the entire portfolio where traffic isn't up over pre-COVID and up materially. And that, I think that speaks to a lot of structural things going on in the economy with the consumer, but it also speaks to the fact that these brands and the convenience that open air provides to these brands are really resonating with the consumer.

Brandon Isner
I'm going to jump in on that because you're hitting on a really good point here. I hate to compare now to the pandemic. Could we just be past the pandemic for once? But, let's think, you know, people talked about the frontline warriors during the pandemic. Well, guess what? The grocery stores acted in that way. They kept being able to deliver groceries to the people. They pivoted very quickly, very quickly to the mobile devices where you could order your groceries on app and drive up and get it delivered curbside. The setup of an open air center was built for that, you know, not intentionally, but they have a big parking lot, so you can configure it out however you want. You can have special parking for people picking up groceries. So, just the ability for it to pivot. And so it was kind of the hero of the pandemic. So it's not surprising to me that the foot traffic has kept up even past that. Another thing that's interesting about that is that within retail, I'm going to go a little bit of a distance on this one, but with everything in retail, we always have to battle against the e-commerce, the emergence of e-commerce. But grocery is emerging as an e-commerce brand. What's interesting is that grocery e-commerce is most often fulfilled in-store. The store becomes an active part of that supply chain. So online grocery has essentially been pretty even for the last couple of years. But if you break it down by segment, the segment that's diminished the most is the direct to consumer from the warehouse grocery. Third party delivery and curbside pickup have both grown. The store is an absolutely critical part of the supply chain within e-commerce.

Adam Ifshin
You cannot hope to break even in groceries ordered online unless you fulfill it in the store and the customer picks it up. Otherwise, it's just a matter of not how many millions you will lose, but how many billions you will lose.

Brandon Isner
When fixed facility costs, that's such a small percentage, but that's – you know, logistics companies are – my counterpart, James Briggs, who knows more about logistics than anybody, he pointed out that a logistics company's spend is generally 45% to 70% on transportation. So think about how much of that is just so variable to gas prices. But if you can get many stores out there, you know, people talk about the last mile, but now we talk about the final 50 feet. So having those stores in place at a nice, steady cost, it makes it more cost effective for that e-commerce to operate.

Adam Ifshin
Look, we've only done two research pieces in the history of DLC. The first one was called *The Store Won*, because I was sick and tired of people telling me that I was going to go out of business because e-commerce was going to kill my business, right? So we actually did a research piece about it.

Spencer Levy
Adam has no strong feelings on this topic.

Adam Ifshin
None whatsoever. But the reality is that the labor cost of trying to do last mile from a distribution facility is just impossible to overcome.

Spencer Levy
Now, in terms of the last 50 feet, this may be a non sequitur, but it does bring me to another category. Adam, you've looked at your whole portfolio and thought about either putting on or you have put on multifamily on some of these shopping centers, which is something you never would have seen in open air. You might have seen it associated with a mall. How big of a trend is that?

Adam Ifshin
I think it's definitely a trend in some places. I actually met with a friendly competitor of mine today from your hometown who's going to tear down half a shopping center and replace it with multifamily, in a place that's over-stored. We're doing a total of three deals where we're seriously in for entitlements to get the ability to add a total across those three projects of about, call it right around a thousand units. It is definitely a trend. You're definitely right. It's much bigger in mall, where I think the need to try and realize repeat traffic and monetize something is much more acute. Right now, I think actually that trend in open air may be slowing a little because the deal economics of just refilling that space with retail have become a lot more compelling, while the deal economics of that multifamily deal have gotten a lot more challenging.

Spencer Levy
What is the primary impediment? You've mentioned one of them, Adam, which is simply just cost, highest and best use. I say zoning and NIMBY, as a people don't want these things in their backyards and, and that's why it's very often difficult to build multifamily in these suburban areas.

Adam Ifshin
Zoning and entitlements remain very, very demanding, particularly in the markets that are most attractive to expanding retailers, to high end multifamily rental developers, etc.. I will say this, there is no new supply coming in retail, and I think the corollary to what we talk about, which just is the jet fuel of why it's the best real estate investment class right now in all of CRE, is that we were wildly oversupplied in 2007. One of my dear friends said, we're not overbuilt, we're under demolished, in 2009. And that was really true. We are now in the 15th year of delivering less new retail space in America than we are taking offline and demolishing. And the numbers have fallen from a very low number, another 80%. In 2023, there will be fewer deliveries of new retail buildings in America than at any time since the Second World War.

Brandon Isner
I agree 100%. And Adam, we've been looking at this exact same thing that, the last three years, we've set new record lows in retail deliveries. Q4 of 2022, set a new record low in retail starts. So you're right, 2023 is going to set another new record low. And this is coming at a time when there's a lot of demand. We ran this study which was really interesting, which showed the multiples of absorption over space deliveries. And for the neighborhood community and strip center court the last two years, we are over six times

absorption of what was delivered. And that's never been done in commercial real estate except for office in the 1990s. And it's just fascinating. It's amazing that we even have to talk about this.

Spencer Levy
I want to go to something that I think we do need to talk about. Two things. Category A is, and going back to your report, which I loved about it, was its directness and simplicity in that it basically said, here is what's happening in open air suburban, here's what's happening in High Street Urban. So, Brandon, where are we with High Street Urban and what case can you make for it?

Brandon Isner
I can make a pretty good case for it. There's a noticeable level of luxury retailers, which they are traditionally, they go into high Street districts, and there's a noticeable level of activity of reimagining their stores and remodeling their stores. Tiffany just released that 100,000 plus square foot flagship that they have in New York City. And there's other brands that are really thinking about how their store delivers their brand. And so they're reimagining a lot of these stores, renovating, and there's also quite a bit of expansion. Spencer, I know you're a big fan of Miami. The design district has never been hotter. The availability there is almost nothing. And now there's actually other developments that are being imagined for that district. And so that place is hot. And then New York City, there's a lot of activity as well. And there's been a bit of a price correction, but that's actually encouraged like a lot of healthy tenant churn and a lot of new activity that might not have happened otherwise.

Spencer Levy
Let's go back to your report because you use, you have a great section in there on customer acquisition costs. How much of that is done by the physical location in suburban open air retail versus urban, where you don't have the… and again, I'm not trying to diminish Suburban, but you have this flagship concept.

Adam Ifshin
This is a place where I think there's actually more commonality between the urban and the suburban location, the physical location, as opposed to the online experience. Our contention, our primary contention around customer acquisition costs is that the cost of acquiring and retaining the incremental customer in a pure play e-comm DTC brand is increasing at a rate that is insane and it completely prohibits the ability of these companies to make positive EBITDA. We have a chart in the report that shows how much Wayfair has had to increase their advertising spend and at the same time they've lost 30% of their customer base. That is unsustainable in any way, shape or form. I think that brands have come back to, and say, the store is a multipurpose weapon. It is the Swiss Army knife of the brand. I can do everything from lower my customer acquisition costs to increase my volumes to lower my fulfillment costs. The store is simultaneously acting as the brand ambassador on the front end and lowering the fulfillment cost on the back end. And there are very few things in a retailer's ecosystem that can do that.

Brandon Isner
We talk about this all the time, the whole idea of omnichannel, and the word still has some meaning, but it's losing meaning as far as it's almost synonymous with retail. It's just how you have to conduct business. And I agree. What's interesting about e-commerce is that it's always a value proposition. So if there's someone that can offer the product for less, the people will jump to that. If there's somebody that can offer it from less, then they'll jump

to that. But if you have – Las Olas Cafe in Miami Beach, it's where I get my coffee. I go there because the people smile when I go there and they know who I am and they know that I'm the gringo that doesn't speak much Spanish. But when I go there, she'll have my coffee ready by the time I walk up, because I go there all the time. And you know what? I like that. I appreciate that. We have a conversation and it's a connection because we're human beings and we participate in society and it's what we like to do, and the physical store, it's a part of that. A lot of us went on our first dates in a retail store, whether it’s a café or a restaurant or whatever, and we meet people and it's a social activity. So going beyond the cost completely and having that person to person connection, that's everything in retail.

Spencer Levy
We are dealing with an environment right now that has two ends of the spectrum, right? The consumer is still hanging in there, doing well, some of them better than others, because of wage increases. They're still burning off some of the excess savings from the COVID money. But now we are beginning to see the amount of debt going up again. And I would say when I talk about the economy from a retail perspective, I say that the number one risk factor is that the consumer not runs out of money but gets hit. Do you agree?

Adam Ifshin
I think, and I've been on record about this, if we have a recession, we're going to have a rich person recession, Spencer. We are not going to have a middle class recession. And I think it is really a critical distinction. I'm not sure we've ever had this in America before. I was with David Mericle, the head of U.S. research for Goldman Sachs yesterday, and David said everyone needs to remember that in 2023, wage growth will exceed inflation, even with inflation still at a somewhat elevated level, although thankfully coming down now here pretty quickly. And I think it's really, really important to understand the impact of that. That will slow the rate of consumer credit growth, right? Outstanding credit card debt. And it will absolutely stop the drawdown of consumer savings. A number of banks have already reported that they've seen this. There's been a lot of focus on bank deposits, as we know, for other reasons. Bank deposits for retail customers are not only stable, but they're growing. And many of those customers for the first time are also seeing real return on those savings in the form of better interest rates, whether they're in a money market fund or they're in a conventional bank. And it's Goldman's contention, I do agree with them about this part, that the consumer will be in better shape relative to the rate of inflation going forward here than in a very, very long time. And I think that's powerful. I think it's powerful for value retail going forward.

Spencer Levy
So let me turn now to something we talked about earlier. Where is the best risk adjusted return? Right. And that's the concept. And right now, the reason why B-office is having so much trouble is people just can't determine what that appropriate level of return is. But the key distinction with an open air is grocery versus not. And I always thought that the not, particularly well located smaller strips, was the most undervalued of all because people overvalued grocery, and maybe I'm wrong. What's your point of view?

Adam Ifshin
No, I think you're right. In 2014, 2015, 2016, and a little bit in 2017, we acquired over half a billion dollars of what I would call classic power center. Some of it definitely did have a shadow grocery component in the form of Costco, Walmart Supercenter, etc. But by and large, this was traditional power, right? Kohl's, Bed Bath and Beyond, PetSmart, TJ, Marshall's, HomeGoods, Ross, etc.. And we thought that there was a fundamental

mispricing of that product relative to the durability of those cash flow streams. And one of the things that we've always prided ourselves on at DLC is, we're entrepreneurs who are also, we think, pretty good risk managers. And we saw that that risk adjusted return relative to grocery, which was hotter than could be and has remained hotter. And quite candidly, it was untouchable from a price perspective. It was pricing at that point in time at very, very low cap rates. There was a lot of core demand, there was a lot of REIT demand, right, and it was pricing it above replacement cost. Whereas, you were able to buy power through that whole period of time at a significant discount to replacement cost. Now we had to go through the wash out of some of the operators and some of the tenants, but we've backfilled a hundred boxes in the last four and a half years.

Spencer Levy
You backfill anything with, other than retail, storage or otherwise?

Adam Ifshin
We are doing two storage deals now. We've done a lot of things that probably, one day might be called retail, but they are not. I guess the real poster child for this is, we are doing a 25,000 square foot veterinary hospital in a former A.C. Moore, and we had to get waivers from people like Kohl's, Ross, BestBuy, Dollar Tree, Old Navy, and they all gave them. Look, uses change and what the definition of retail is changes. I've been in this business almost as long as you, Spencer, maybe even a little bit longer. And the reality is that concepts and things come and go. If you had said to me ten years ago that there was going to be a retail landscape in open air without Bed Bath and Beyond, I would have done what I've done with you frequently, which is I would have immediately said, let's go right now to an MRI clinic and take an MRI of your brain because you're crazy. But the reality...

Spencer Levy
Not the first or the last time.

Adam Ifshin
But the reality is that concepts come and go. Creative destruction, to quote Professor Schumpeter, is alive and well, and it's very present in retail.

Brandon Isner
Over the last year, from our observations, power centers had the biggest drop in availability of any property type. And you're right, the interesting thing is looking at the backfills on the nontraditional tenant. You know, veterinary clinics, pickleball operators, trampoline parks, these are real tenants and they're ready to pay rent and move into these spaces.

Spencer Levy
Well, two things on that. One, we first had a world class pickleball player already on the show, so that is not our first mention of that. But then when you start talking about these new concepts, I think it's fair to say that grocery may be recession proof, but taking care of your pets might actually be above that. But nevertheless, I'm with you. It's these nontraditional usage that, A, create the foot traffic. But to your point, it's the restrictive covenants that many of these existing retailers have that need to be adjusted. Bowling alleys used to be disfavored. Maybe they still are, but things that create foot traffic without eating up their parking spots seems to be the key.

Adam Ifshin

My partner Chris Ressa had this, but the head of real estate, I think it was for Big Blue Swim Schools. So swim schools are another thing I think in that category. He's like, could everybody stop telling me I am not a retailer. I am bringing the customer that other retailers want. I am creating dwell time and nobody is going to a swim lesson and not getting something else while they go. And they are rightly upset about the fact that leases are a long way away from catching up. And let's be honest, through the 2010s, 2000 and teens, a lot of retailers turn giving waivers into a profit center, and that's unfortunate because we have to be a little more open, I think, as an industry to the fact that uses are going to change, consumer behavior is going to evolve. It is the one constant, no matter what. And we have to do a good job of helping the consumer access the goods and services and experiences that they want at a reasonable cost with ultimate efficiency.

Spencer Levy
Let's shift now to the capital markets for a moment, Adam, particularly as it relates to your portfolio. Just for the purposes of our listeners, describe where your portfolio is and then let's address it from a capital market standpoint.

Adam Ifshin
So from a geographic perspective?

Spencer Levy
Yes.

Adam Ifshin
So, Maine to Florida, right? New York to Dallas, essentially, right. Or New York to Texas. It's a little bit all over the lot because unlike a lot of groups, we have been an opportunistic acquirer. So where we're in Metro New York, where Metro Philly, we have a big presence in D.C., as you know, Spencer. But we're also in lots and lots of college towns that are secondary and tertiary markets. And when I talk about a college town, I'm talking about a place like Carbondale, Illinois, I'm not talking about NYU, right? Our portfolio is fairly dynamically spread out across size of markets. But the reality is, is that certainly from a, and we're not talking about the capital markets, but from a tenant demand perspective, the most tenant demand is in secondary and tertiary markets.

Spencer Levy
Well I'll make one point about that. I think it's fair to say that historically, institutions were disfavoring these secondary locations. But what's happened now is that because of the fall back in the office sector, the percentage of institutional allocation to retail is going to increase. But the question is, does it increase into some of these secondary areas? Do either of you have a point of view?

Adam Ifshin
I think that there's no question that if we subscribe to the thesis that office is going to have to become a radically smaller portion of institutional investors allocation to CRE, that they are going to have to expand where they find it because they are not going to get to their actuarial table demands from a return perspective.

Spencer Levy
So, one of the great things about the ICSC conference is everybody's here. And when I say everybody, every retailer, every landlord, all of our colleagues, and just by happenstance, walking by is Chris Decoufle, our head of retail capital markets for CBRE.

Just as we're getting to the capital markets portion of today's discussion. So, Chris, first of all, welcome to the show, not your first appearance.

Chris Decoufle
Thank you, Spencer, for having me.

Spencer Levy
Great to have you.

Chris Decoufle
Serendipitous.

Spencer Levy
Serendipity is what it's all about, right? Chris, so you heard a little bit about the last back and forth I had with Adam about secondary versus primary market retail, grocery versus not, institutions, more institutions coming in. What's your point of view?

Chris Decoufle
For sure that we're seeing increased liquidity for secondary and tertiary markets? It hasn't stopped. It's gaining momentum for two reasons. I think number one, I think technology makes tertiary and secondary markets seem very close, seem very real, seem very tangible. Whether that's true or not, it makes it very real and tangible to underwrite and understand a market anywhere in the United States or elsewhere. I think the next part is, private capital still dominates the market. So 75% of the $43 billion of offers we've received in the last 12 months came from private capital.

Spencer Levy
Define private capital for just a moment.

Chris Decoufle
So that's a very interesting question. Private capital used to be, a couple of guys around a table like this with, hey, let's put together 5 million bucks and we're going to buy this shopping center. Now, it's 100 million and up. It's family offices. It's very sophisticated operators. DLC is a perfect example. So you may have a bucket of pure institutional capital. You may have a high net worth capital. And what we're seeing is we're seeing the institutions are getting more and more comfortable going to secondary and tertiary markets if they have an operator. So that's the key. So we may see a transaction code as, say, DLC, and we might code that as private capital. But if you peel back the onion, there's a good chance there's a chunk of institutional capital there.

Spencer Levy
And because of that, I mean, I used to follow the percentage of institutions going to spaces, and we saw a mathematical direct relationship that once the institutions jumped in, cap rates would compress. Now, clearly, we're not in a compression cap rate environment at the moment because of the inflationary pressures. But nevertheless, we all believe, we hope, that inflation will be in a much better place next year and certainly two years beyond. Because the institutions are coming in, Chris, do you see significant cap rate compression coming to the sector?

Chris Decoufle
That will be interesting to see because the institutions that are pairing up with private operators are still looking for a levered IRR in secondary and tertiary. And so by the very

definition they're taking debt, which by the very definition, pricing is going to be subject to cost of debt. In sort of the classic institutions coming to a sector, there's enough all cash buyers and special debt situations that they can move the pricing. I think this will be interesting because debt pricing will be important. The offset to that is what you mentioned about the small strip centers. Small strip centers, always private capital owned, operated, bought, sold, 8 caps. Institutions came in two, three, four or five years ago. Now, routinely they're in the sixes. So there might be something there. We'll have to see how it goes.

Adam Ifshin
Yeah, the market is going to be bifurcated, right, Chris? You definitely have a size right now, it may not be your friend in terms of pushing pricing on a cap rate basis, but I think five years from now, if you just look at the macro landscape, and five years as we've learned is a hell of a long time, I think cap rates are going to be materially lower in our sector. Materially.

Chris Decoufle
I would agree with that. To me, that's the long term trend. It's the force of capital, not just institutional capital, but effectively, retirement capital from around the industrialized world. And, you know, this is a perfect mousetrap to provide current income.

Adam Ifshin
I think it's also important to note, Spencer, that this is a sector that has maintained through the school of hard knocks a level of underwriting discipline that has not really been there in a number of other product types. But I think it's really important to understand that that pricing discipline, I think will have a huge impact in a longer run. It creates more runway for cap rates to compress. I think you would agree, Chris. But it also sets up a scenario where I'm hopeful that it won't get ahead of itself, right? A lot of institutional groups have long memories, elephant-esque memories, and I think that price discipline is important. I really do.

Spencer Levy
So let's go with final thoughts. So first, Brandon, you've read this terrific report. What do you agree with the most? What might you take exception with about the report?

Brandon Isner
I basically got this job because I'm not apologetic about the retail sector. It's part of who we are as a culture and it'll just continue to drive. And when you think about the different ways you can invest in secondary and tertiary markets, not every CRE type has great assets in tertiary markets, but there's a great grocery anchored center in every single city over 50,000 people, maybe even less than that. So regionally, if you're buying, you can really spread your risk. And then again, with retail turning to more onto the open your grocery side, a lot of these tenants, they’re everyday type tenants. Fitness centers, cell phones, salons, grocery, these are tenants that people are going to see every single day. It's going to make the properties more successful. And there's nothing being built in the pipeline. So are these fundamentals, they’re real.

Spencer Levy
So, Adam, any other final thoughts?

Adam Ifshin
The one thing we didn't get into a little bit that we do address in the report is, we think this is durable. We do not think this is faddish. We do not think this is cyclical. We think this is

structural. There are a lot of people out there who are now locked into their houses with sub 3% mortgages. We call them the 3% handcuffs. But I think there's been a structural shift in where people want to live and where they want to shop and they are locked into, that mortgage is an asset for that family. It is undeniably an asset. I think the duration of how long people live in a place, particularly if they own it, is going to be longer than it's been historically in the postwar era. And I think that that bodes really, really well for suburban retail. So I think that's maybe the one thing we didn't hit.

Spencer Levy
Chris Decoufle. Serendipitously having you here today. The capital markets. Final thoughts? Where are we? Where are we going in open air retail?

Chris Decoufle
Well, as I think everyone said here, open air is an outlier from all the product types. And I think as this cycle deepens and frankly, other product types, there's sort of more reveals on the real state of their respective fundamentals, more reveals on the respective states of their underlying capital structures, retail is going to emerge, and it already is in it for many of us, as kind of the steady eddy property type. And that's an interesting thing if you think about it. I mean, what does retail do? Provides steady, durable cash flows. That's what it does. And the benefit is that if we look at our entire book, we're selling everything now 30, 40% below replacement cost. And that's really thanks to rent rolls that take a long time for them to turn. So there's a lot of insulation between market rent and actual rent. You throw Brandon, what you said about supply and demand, that's a permanent supply-demand imbalance. It's not going to change.

Spencer Levy
On behalf of The Weekly Take. I want to thank first and foremost our friend, Adam Ifshin, CEO of DLC, and his team, Katrina and Michael, who, by the way, are sitting right in front of us today, giving us the occasional thumbs up, sometimes not the thumbs up, but nevertheless, Adam Ifshin, CEO of DLC, thank you so much for joining us.

Adam Ifshin
Thanks for having me, Spencer, as always.

Spencer Levy
Brandon Isner, our Head of Americas Retail Research, one of my really close friends in the company, and I can't wait for the time we go to Little Havana for coffee.

Brandon Isner
Let me know. I'm down.

Spencer Levy
And then our special guest star – reminds me of, like, those 1970s shows like *The Love Boat* and *Fantasy Island*, where they had these unusual special guest stars walking in. But this one is, well, it's not like *Fantasy Island* or *Love Boa*t, because it's Chris Decoufle, our Head of Retail Capital Markets, CBRE. Chris, thanks for joining the discussion.

Chris Decoufle
It's a pleasure. Great to see everybody.

Spencer Levy

For more on open air retail and related content, please visit our Website, CBRE.com/TheWeeklyTake, where you can also use the “Talk to Us” feature to air your thoughts, questions and feedback directly with our team. We might follow up on what you tell us on a future episode. And as always, we hope you'll share this episode as well as subscribe rate and review us wherever you listen. As the summer season begins, we're just getting warmed up, working on programs about investment strategy, the evolving state of flexible workspace, and a perspective on CBRE’s annual U.S. Office Occupiers Sentiment survey that you'll only find here on our show. Stay tuned for those conversations and lots more. Thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.