The Weekly Take

All Star: Ray Washburne on cities, retail, restaurants, energy and more

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Spencer Levy
Experience is a big deal in real estate these days. That is, creating experiences through operations, amenities, placemaking, and other forms of uniqueness and utility. On this episode, experience means all that and more with a guest whose career experience offers us a view from the highest levels of the public and private sectors.

Ray Washburne
When you're trying to hire employees and they come into an office experience where they actually are excited to go to the office every day and not the drudgery of going up an elevator, that is a huge motivator for someone to take space and pay a premium.

Spencer Levy
That's Ray Washburne, who has worked in enough offices to know. Today, he is the CEO of Charter Holdings, a private investment firm headquartered in Dallas, which owns and operates office properties, hotels, and luxury shopping centers. Ray is also the Co-Founder of the M Crowd Restaurant Group, which owns dozens of restaurants, and he serves as Chairman of the Board of Sunoco, the gas and oil company, as well. From 2017 to 2020, Ray held Senate confirmed international advisory roles for the federal government. In short, his vast experience has lessons for all sides of the business world. Coming up, Ray joins us at CBRE’s Global Headquarters in Dallas, in front of a live audience, for a candid, far-reaching conversation about his work, his investments, his outlook, and insights across the real estate spectrum and beyond. I'm Spencer Levy, and that's right now on The Weekly Take.

Spencer Levy
Welcome to The Weekly Take. And I am delighted to be back in Dallas, sitting in our corporate headquarters here with several of our senior leaders, our clients, and Ray Washburne. Ray, thanks for coming out.

Ray Washburne
Thank you for having me.

Spencer Levy
So, Ray, if you don't mind, just for the benefit of our listeners, can you just tell us who you are and what you do?

Ray Washburne

Sure. I'm based here in Dallas, and I'm involved in multiple businesses. In the oil and gas business, I'm chairman of Sunoco, the gas stations, which you're very familiar with. I also own a restaurant company that has a lot of regional chains. One well known in Dallas is called Mi Cocina. I'm on the board of Red Lobster, which I was part of a group that bought it out of bankruptcy last fall after they went broke selling all-you-can-eat shrimp for 20 bucks. That was an interesting story. And then in the real estate business, I've got office properties, hotels, and then luxury shopping centers, and the notable ones your listeners probably heard of is Highland Park Village in Dallas, Country Club Plaza in Kansas City, Phillips Place in Charlotte, North Carolina. And we own a block in downtown Aspen, Colorado. So those are a few of the more notable things.

Spencer Levy
You have some of the highest-end luxury retail here in Dallas, Charlotte, Kansas City, and then you also have restaurants. How does that give you a window into what's going on in the market overall? The consumer?

Ray Washburne
Well, first, what the restaurants do… It shows me how to properly run a shopping center, because it's all about the consumer. And when someone shows up, first thing they see is the flowers and the fountains, and the first thing I tell my kids when they show up at a restaurant that you do is, what are the lights like? What's the temperature like? What's the music like? Are the bathrooms clean? You will determine the experience you're about to have before you even taste the food, or even order the food. The same at a luxury shopping center. If you show up and there's trash on the ground, the landscape is dead, you're not going to have a good experience because you're already thinking what is going on here? And so the restaurants… Having those two interconnected as an operating business really has taught me a lot of how each side needs to operate. Now, the way business is right now on the luxury side… I got a call a few years ago from Charlie Munger, of all things, and he said, Mr. Washburne, I'd like to come see you in Dallas. Would you have time for lunch for me next week? I said, let me think about it. Yeah, I think I can have lunch with you, Mr. Munger. So what day works for you? And so he shows up with an entourage of people and they come over to my office. And at the time, I don't know, he's late 80s probably. And he shows up and he goes, will you show me your shopping center? Sure enough, it was the real Charlie Munger. So we walk around the center, and then we go into one of my restaurants to have lunch. And I said, Mr. Munger, can I ask you why you're here, frankly? And he said, sure. He goes I'm the largest shareholder, Costco. And I believe this market's going to bifurcate. Now, this is 10, 12 years ago. He says, I think your shoppers are going to be going to Costco for value, and high-end luxury, and the middle is just going to get annihilated. And this is way pre-pandemic and all. And he was so right. I mean that's why he's such, was such a great investor. He actually got out and walked the shopping centers. And he flew from Highland Park Village. He flew to the Shops at Bal Harbor in Miami the next day, and then Americana Manhasset on Long Island: peer group, luxury centers. So that really crystallized in my mind where we needed to be, and that was the highest end because that consumer will spend. Last year, our centers were up double digits in luxury sales. A lot of brands have issues and change over designers, but when you get enough of them together, we do well.

Spencer Levy
And you're this barbell effect. So Charlie Munger identified it 15 years ago, but that's sort of how you get to see both ends of the barbell, too. Is that true? Is there this soft middle?

Ray Washburne

There's a very soft middle. I also own a lot of shopping centers in lower income areas and have tenants like Aldi and Jack in the Box and, you know, auto supply stores, Auto Nation, things like that. And they're doing very strong, those centers, because people don't buy on the internet in that demographic, typically. And also at the high end, they don't buy on the internet either. You're not going to go buy a $20,000 ball gown on the internet. And at the same time, you want to show up and enjoy that shopping experience. And much like I said earlier, how a shopping center has to be. How do you feel when you arrive? How do you feel at a restaurant when you arrive there? The Hermes, Chanels, Diors… All those brands when you show up at their store, you show up, they get you a glass of champagne and they show you the salon. People want that experience. So the internet is not hitting the high, high end, much like at the low, low end, most of those people are shopping multiple times a week. They're not doing weekly shopping. They're doing daily shopping because that's a lot of how they get paid. And so they're not buying on the internet. Plus they don't want things stolen at their doorsteps and things. So on those ends, yes, you hit the middle ground, the Gap’s of the world, Banana Republic's. Gap in Dallas I think you used to have like 20 stores. They're down to like 2. Really, the stores in the middle are purely pick-up, drop-off, returns. And so that's what's going to happen. That's why the mall business, the fortress malls like NorthPark in Dallas or some of the others do extremely well. That's why the middle income malls are just getting annihilated.

Spencer Levy
So what do you think happens there? And I would just say that maybe the office, or at least certain segments of office, kind of reminds us of those B-malls you just mentioned. Do you see that parallel?

Ray Washburne
Well, yeah. The problem with office, and I own, unfortunately, a lot of office, is the TI dollars. The cost of a drywall is the exact same in a building you're getting $20 a foot in rent versus the ones you're getting $80 a foot in rent. It's the exact same. And so the TI dollars are eating people alive. And for people who lived in the 80s and saw these beautiful buildings being built, which still on the outside look great, but the inside are just falling apart: elevators, HVAC systems, you can go on and on. Parking garages–you know what people don't realize is parking garages in older era buildings, they don't have the floor weight to hold electric cars. So these electric cars are much, much heavier than normal cars. So a lot of garages in these suburban office parks are going to be all tear-downs, because they can't hold the weight of cars. And a lot of people aren't factoring in the inefficiencies or really how–what's happened to a lot of this product.

Spencer Levy
Well, two points there. First of all, when I look at today's office market, I've said that I do see this like the early 1990s, because after the changes in the tax law in ‘87, we had all these see through buildings everywhere, excess office supply, and you can buy a lot of these for a song. But the market is obviously very different today and markets evolve. Not as much people that are buying these things in secondary markets. But the broader point I want to make is this: Is the opportunity today in office the same or different than it was in the early 1990s?

Ray Washburne
In the early 1990s, those are brand new buildings. All you had to do is finish the space out.

Spencer Levy
Yeah.

Ray Washburne
Today, you've got to redo bathrooms. You've got to do, like I said, elevators and mechanical systems and all that is totally shot. The other thing that's interesting today is, you look at the office parks from the 90s that were–it used to be, you'd buy a piece of land and you'd put ten office buildings out there. No walkability. What tenants want today is the walkability. And so the newer office buildings that you can walk to restaurants, and that's what the new tenants want. And so these suburban office parks that have just a 200,000 foot office building with a 600-car parking garage–there's no demand for that anymore. And so these buildings really, I mean, they're all going to be teardowns, literally teardowns.

Spencer Levy
So I was in Miami a couple of weeks ago at the Mandarin Oriental. A beautiful hotel. 25 years old. And they're tearing it down. Why? They're going to build a new Mandarin Oriental, and they're also going to put up 200 units starting at 5 million bucks apiece. But I think it speaks exactly to what we're saying here, Ray. A lot of people in this room and elsewhere might say we're going to convert all these buildings. I'm not convinced. I've met with everybody, as I'm sure you have as well, that the conversion costs are too high. The construction of these buildings is too antiquated. Is it going to be more demolition?

Ray Washburne
It's going to be a lot of demolition, yes. Especially… The talk that you gave in D.C. a few weeks ago I was at. And we listened to these people who built these beautiful triple-A brand new buildings, and they're going on and on how they, you know, they're fighting tenants off from leasing space. And my question to you is, well, why don't we get somebody up here for the suburban building outside of Indianapolis? Or someone with the suburban building outside of Atlanta or Dallas or elsewhere? Those buildings are just impossible to financially, you know, to make work. And there's not much demand for them. And the ones that are, those are the low dollar investors and or tenants, and you don't want them to begin with. I just think it's a train wreck that's happening slowly in front of our eyes.

Spencer Levy
I want to talk a little bit about Dallas versus some of the other cities in which you invest.

Ray Washburne
Sure.

Spencer Levy
If you don't mind me quoting you on some of the articles I've read about some of the challenges downtown has in terms of development. It may be easy to build, but maybe we haven't always taken the right path. Now you gave a lot of compliments to One Arts Plaza, but you said some of the building around there, maybe the Arts District wasn't done perfectly, saying, "We've created an architectural petting zoo for the Pritzker Prize winning architects." Is that….

Ray Washburne
I stand by that. That is correct. Well, I mean, from the outside, you look and they won all these awards. But when you let architects take over and they're not true urban planners, you get these beautiful buildings, but with underground parking garages. So what will happen? You go to the symphony, you'll park an underground garage, take an elevator or escalator up, go to the concert, get back right in it and leave. There's no sidewalk

presence at all. And so the buildings are spectacular, but there's no restaurants or coffee bars or things like that around for people to hang out. And they needed housing interspersed there, so you get footfall on the sidewalk. So I stand by it.

Spencer Levy
I think you're talking about sense of place. And this is another thing you suggested: “Because I run local restaurants, I'm a big local restaurants fan. So we're trying to rotate older restaurants and bring in local operators that give a sense of place.” What does that mean?

Ray Washburne
Okay, well, if you go to New Orleans, do you want to go to a Morton's Steakhouse or do you want to go to Galatoire's, you know? Or if you go to Miami Beach, do you want to go to Joe’s Stone Crab or do you want to go to a chain? The big thing is, what gives cities personalities are the local restaurant scene. And so I was just in Indianapolis, in downtown. They had a fantastic St. Elmo Steak House.

Spencer Levy
By the way, I was there on Monday and the cocktail sauce is still clearing my sinuses.

Ray Washburne
That's right, that's right. I bought some on the go, it’s so great. But you had the personality of that next to a Capital Grill. I mean, there are Capital Grills everywhere. And so what I mean is the cities in the United States, the more they get gentrified with chains and things like that, what's the difference between them? That's why I'm big on promoting at Highland Park Village, we have things like Cafe Pacific and Bistro 31, local operators where the guy sitting there kissing your wife on the cheek when she walks in, they know your name, you sit down, and you have a unique dining experience. So I'm a big local restaurant guy.

Spencer Levy
Amen. I always talk about the contrast between credit on one end of the spectrum and cool on the other end of the spectrum. You certainly would like to find both, but you need that mix in order to get people in there.

Ray Washburne
So as an example, when we bought Country Club Plaza this summer. For those that don't know, it's 15 city blocks, a million square feet, first shopping center built in the United States. A spectacular property. It had just been run in the ground because it was being run like a mall, and the restaurants, they had run off the local restaurant scene, and they had brought in restaurants like a Chuy’s or a P.F. Changs and Cheesecake Factory and Capital Grille. What's so special about that? People used to drive in from Des Moines or Omaha and spend the weekend at the Plaza and shop and go to all the unique restaurants and things? Well, they have all those restaurants in those cities now, too. So what is the uniqueness of it? So we're slowly rotating all those out and bringing in the local restaurant scene. And you're right, they don't have credit. And so you kind of have to hold your hand with these people. And a lot of times lenders will say, I don't give you any credit for this local guy who's got this restaurant versus the Darden credit or a big time credit. It's like, you don't understand. That is a minor part of the overall NOI, but it's what actually makes the place.

Spencer Levy

When we talked about credit versus cool, you think about the banks. And I also think about the banks, not just in the context of retail getting a cool tenant. I think about it in the office space, about experience. If we want to have an office sector that maybe has shorter term leases, has more operational versus CapEx, but these are the kind of things I think where the world is changing. I think a thousand changes post-Covid, but I think the single biggest one is that now experience wins. What do you think, Ray?

Ray Washburne
Well, it's… We get back to Suburban Office Park, where if you lease 10,000 feet on the sixth floor of just your normal, stale, boring office building from the 90s, versus one that has a golf simulator and a coffee bar in the first floor. When you're trying to hire employees and they come into an office experience where they actually are excited to go to the office every day and not the drudgery of going up an elevator, that is a huge motivator for someone to take space and pay a premium for it.

Spencer Levy
So in addition to the local restaurants, you were on the Board of Directors of Red Lobster, which recently went through bankruptcy. Coming out. And that's an old brand. I would say a very well-known brand. How do you turn a brand like Red Lobster into something that is more, I guess, cooler?

Ray Washburne
Yeah. What's interesting about Red Lobster… We still have, I think it's 650 stores. They closed about 300 during bankruptcy. It's struggles, really, is in the suburban, is in the dense urban areas because you have so many choices of restaurants. But if you go out and you're in Waco, Texas, or, you know, Peoria, Illinois, and it's there, it's the special occasion restaurant. And people love it because that's where they go for their anniversaries. That's where they go for birthdays. And so really the focus on that is going to be stay… It was started in 1968 by Bill Darden, the Darden restaurants. And it was the first national casual dining chain that went national before the other chains came along. And so it's got an incredible kind of love affair with the communities that it's in. But when they went in to just being a box in a parking lot with ten other restaurants, it wasn't that special. But it's incredibly special to all these markets. And it's responded well since it's come out of bankruptcy and money's been invested back into it. I told you the sense of arrival when I was asked to go on the board. Before I did it, I went out to check out one they have in the Dallas area, and I drove up and the first thing I saw was at the front door, they had this big lobster, you know. Big neon lobster on the front, but one of the claws had blown off. So I took a picture and sent it to the CEO. I said, look, who wants to go eat at a restaurant with the claws blown off? So they got that claw fixed really quick. But that was the sense of arrival, you know. It's like, that's not working. I wonder what's going on in the kitchen. So that's what things are having to go through and reinvest. There's a huge capital program to bring them back up to great standards. But as far as if you look at Yelp ratings and stuff like that, people love Red Lobster. They just love it. It's just money's got to be invested back into it.

Spencer Levy
But what's also interesting about that brand. What you're suggesting, and there's an expression. Does it play in Peoria? Red Lobster may play better in secondary markets than it does in primary markets, because it's more of a part of the community. Is that how you would see positioning that brand?

Ray Washburne

Yeah, I think our highest volume one is Times Square. And so I mean, in tourist-driven places, you know, they love Red Lobster. And so it's a great brand. It'll get polished up. It's already had a good turnaround when people realize it's stabilized now and there are no more unit closures. I mean, that's pretty traumatic when it goes to bankruptcy and a bunch of units get close. But now all the strong, healthy ones are still in place.

Spencer Levy
Well, let's shift now. You are the Chairman of the Board of Sunoco, one of the premier oil and gas companies in the world. Tell us about that. Tell us how the oil and gas business is doing.

Ray Washburne
Well, Sunoco, we have 12,000 points of sale, gas stations, FBOs at airports, and things like that. So we sell around 10 billion gallons of gasoline a year. Largest independent seller of refined product. And our business is really picking up at the refinery. We sold all our refineries off. Pick it up at the refinery, deliver it to the stations, and make a markup of about $0.12 a gallon. And that's kind of the game. We own about 900 stations. All the rest or jobbers or, you know, franchised out to people. So for us, business is good, but sales with EVs and more efficient cars, gasoline volumes are down a small amount of around 4% or so. But diesel sales, which is really the driver of American commerce, because diesel is really what drives all the 18 wheelers, has held up pretty strong. So that is one thing to look at when you're looking at how commerce is doing. They're taking the product from the warehouse to the stores, and diesel sales, that's an interesting thing for your listener to follow.

Spencer Levy
Well, I think it's very interesting. You have all these leading indicators within your core business. The restaurant is a leading indicator of the consumer. The trucks are a leading indicator of internet, or just all, sales, I suppose, commerce wise. Do you try to put these pieces of the puzzle together?

Ray Washburne
Sure. Well, I'll tell you in the restaurant business right now, across all our brands, consumer traffic is flat. It hasn't grown. Okay. What has hurt is people aren't ordering as much. So your per check average is down. But what's kind of hiding that is, we've all raised prices since the pandemic, 20%, casual dining. So you sit there and look at that number and go, wow, okay. Your sales are kind of flat. Customer counts are about what they are. But my sales should be up 20%, not flat. Well what's happened is instead of ordering, you know, nachos, an entree, and three margaritas, you've got no nachos, just an entree, and one margarita. And so that's the number to watch. The consumers are feeling spent right now. Now take away the high, high end, which I was talking about earlier with luxury. The middle market consumer… Credit card debts are at an all time high. People are still going out. They want to be entertained. But they're just spending less.

Spencer Levy
Speaking of putting the dots together, you were in the prior Trump administration. Just tell us about that.

Ray Washburne
So I ran an organization called the Overseas Private Investment Corporation. And what it did was support U.S. businesses that would want to invest in a foreign country. And we did

business in 180 countries around the world. And if you wanted to build a hydroelectric plant in El Salvador, well, it's very difficult to find a bank or someone to finance it for you. So what this organization did, and we made about a billion a year in profit, it is a profit-making… one of the few government entities that made money. We would take a loan and we could give you political risk insurance. We could cross-guarantee a loan and those types of things. So it was really a tool of foreign policy and national security. So I spent a lot of time with our different agencies and with the military trying to find really where the Chinese were going. So I went to 36 countries. I was everywhere from Botswana, Vietnam, Argentina, all over where the Chinese were kind of making a play with this Belt and Road initiative they were doing. The country of Georgia, which used to be part of the Soviet Union, and where they were trying to make inroads. So I was involved in that. I was on the board of the President's Intelligence Advisory Board, which is the citizens' oversight for all the intelligence agencies: NSA, CIA, all those. I can't talk much about that, but that was a fascinating thing, because I got to see what was going on around the world from that perspective. And then I was on the board of Southern Command of the U.S. Military, based in Miami. And the U.S. Military is cut into 5 or 6 command groups. Northern command is the U.S. and Canada, Southern Command, which I was on, is everything south of the Rio Grande. Central Command is Asia and Central Europe, and then AFRICOM is Africa. And then PACOM is in Pearl Harbor, and that's where the Pacific Command. So the different command groups is the coordinating effect from military aspects, and the way that came about is during the Grenada –I don't know if you remember that war Reagan had – is we went in there and there was no way for all the different groups to talk to each other. You had the Joint Chiefs of Staff, but down on the ground, you know, the Air Force going in to bomb where they weren't talking to the Navy who's bringing ships in. And so what these command groups do is they have one person, they have all the different command groups in there. And so when we have some kind of military action, that they can coordinate all their efforts in one spot. And so that was fascinating to see all the military actions going on in the Western Hemisphere in the southern part.

Spencer Levy
So I guess….

Ray Washburne
So I had a busy time.

Spencer Levy
Yeah. You didn't have much going on.

Ray Washburne
Yeah, yeah. But all that coordinated together though, because if we're going to lend money to a country and they're about to get overthrown government, I needed to know that. And that's how I got from P-AB. And then if we had military action coming in, had to know that too. It all kind of worked together.

Spencer Levy
Well, one of the things I've advocated for for years, I'm the Chairman of the Real Estate Roundtable's Research Committee, which is why you got to see me the other day, is trying to get more foreign money into the United States. I worked on FIRPTA reform many years ago, which essentially was a 10% exit tax on foreign investors. But now there seems to be pushing in the other direction. And I'm not here to get into the politics of it all, but I will say

that foreign investment into the United States has fallen from about 15%, one-five percent of the real estate and business down to about 4%. What's your point of view?

Ray Washburne
Well, you know, it used to be foreign investment was European money. I think the Dutch are the largest owners of real estate in New York City. Yeah, back to the beginning of the United States. And so a lot of foreign money is coming here. It's what built this country. I mean, that's what built the railroads. It's what built so much of the infrastructure. We're floating bonds in Europe to fund U.S. infrastructure. But those were friendly people. The problem today is, the Chinese are coming in and they're buying a thousand acres at the end of an Air Force base's runway and things like that. So that's–there needs to be a lot more understanding of why foreigners are investing in the United States and what they're investing in. I mean, if the Chinese are buying this office building. So what? Well, if it turns out this office building has the Secret Service office in it, or it's across the street from a major U.S. installation of some kind, that's a problem. It's a bigger problem than people know.

Spencer Levy
As the Chairman of Sunoco, I'm sure you have a point of view on this. We track where all the new manufacturing is, where all the new data centers are, and they seem to be following power and water, not just the actual power source, but transmission. But nuclear power keeps coming up now as a hot new source. And since you're about my vintage, you'll remember Three Mile Island was a scary three words. But now Microsoft is a big investor in it. What's the future of energy in America? Big question, but the different components, whether it's oil and gas, nuclear, or otherwise?

Ray Washburne
Well, if you look at natural gas, okay. If we can get pipelines built, we have enough natural gas to take care of all the problems we've got. We just have got to get it out. But now in this administration, you know, it's going to open up again, and you've seen it. And natural gas is the easiest nonpolluting thing you can pull out. And so that's where it's going to go. I think we're kind of seeing that exposed right now.

Spencer Levy
Let's bring it back to the United States. You have an asset in Kansas City. And here's my funny Kansas City story. I may be an expert in nothing. I am an expert on airports. And Kansas City's airport may have been the worst airport in America until recently, where they put a billion and five into it. And I was there the other day. Beautiful. Salt Lake City just did their airport. Nashville just did their airport. Even Albany's putting money into their airport. Tell us when you're picking a city, Ray, what are some of the key components, infrastructure or otherwise, that you say, this is essential? Or maybe you went to Kansas City before the airport was done and you said, this is going to get much better after that.

Ray Washburne
Well, in Kansas City, it's very difficult to find 15 city blocks, continuous, with a million square feet on it, anywhere. Kansas City's a very, very old city, a very stable city. And it's got an NFL team. Very important. If you're an NFL team… Saint Louis doesn't have one, and look at the decline they're on. So I would not go to Saint Louis, because I just don't see the corporate potential upshot there. And Kansas City has had a way to draw a lot of young people. And that's one thing we surveyed was, are kids graduating from college and going to that city? And they are. There's a lot of entrepreneurial, you know, energy in that town. And so we're also in Charlotte, North Carolina. Charlotte's kind of the capital of the

Mid-Atlantic region, and it's got so many banks headquartered there. We're very pleased with our property we have there.

Spencer Levy
Where in Charlotte is it?

Ray Washburne
It's called Phillips Place. It's down, if you know where South Park Mall is, it's across the street from that. We have a brand new RH, one of their superstores, in there, the Restoration Hardware. And we're bringing–we just entered a Hermes deal. We're trying to turn it into the luxury center of the Mid-Atlantic, much like the Highland Park deal.

Spencer Levy
What's interesting about Charlotte and Dallas, and again, different cities, but both of them have downtown areas that are struggling a bit, but have these great areas that are doing fantastically well in a new part of town. I happened to be in Charlotte, near the ballpark. Is that how you see these cities evolving, where they had these older, more established areas that are going to struggle? Maybe old office. Maybe not a lot of walkability. Talking about the art district here. And then people just building in a new place. Or, do you see a revitalization coming anytime soon for these downtown areas?

Ray Washburne
Well, kids want it. When they get out of school, they all want to live in urban areas. You know, it's not so much as, I'm going to go rent an apartment out on the freeway somewhere. They want to be where the action is. And companies try to recruit those types and people need be where their employee base is. So the urban areas–and Kansas City is doing a good job. They have, I don't know, 20,000 people live in downtown now, you know, these old buildings. It's just the old building stock is pretty much built out now. The easy ones. Now, the key thing is, how do you take a 50 story, million square foot, downtown 1980s era office tower with 25,000 foot floor plates with a garage that's separated–I mean, how do you turn those into apartments? And so, I mean, I look in Dallas, and Dallas has a street called Ross Avenue. Everything north of Ross: great. You go one block south, you're now paying 25% of what you're paying. Literally you could hit a nine iron and hit that building, but you go the other way, and it's because there are these '80s era buildings that you just can't convert because a million square foot building… I mean that ends up being a thousand units, 1,200. I mean, you just can't swallow that.

Spencer Levy
And these buildings that are in northern Dallas, or buildings that are in the better parts of town in other cities, and I think you're going to see that in cities that for the best submarkets, people are going to be price insensitive. Do you agree with that?

Ray Washburne
That's right. I totally agree. We're building a project actually. It's CBRE's, but we're partners with, or Trammell Crow Company, actually, you know. I mean, we're getting rents well over $80 a square foot, whereas you can go literally not two miles away on Central Expressway and lease all the space you want for high teens a foot, and from these '80 era type buildings. So I mean that's the bifurcation. It's kind of like the Charlie Munger deal. You've got the highest quality. The problem in the lowest quality is you have to spend money to maintain it. And it just didn't make any economic sense to do that.

Spencer Levy

So Ray, in building these new buildings today, the office in particular, what's the difference between the amenities that you might put in today's building versus what you might have built 20, 25 years ago?

Ray Washburne
Well, 20, 25 years ago, there were really no amenities in a building. I mean, you had bathrooms. That's about the biggest amenity you'd get. I mean, today, I mean, you walk in–people that have dumped money into these '80 era buildings. I mean, you walk in, they have a coffee bar, like I was saying earlier, at the front, the golf simulator, which no one ever uses but it looks great on the tour. You've got to have the big weight room. You know, all those things, which no one ever dreamed of putting that in in the past. Valet, dry cleaning pickup. It's almost like these really need to be run like a hotel. And where they're taking care of. Because people really value, since the pandemic, people value their time so much. They're like, I'll pay any kind of premium so I don't have to spend my time to go do that.

Spencer Levy
Well, I think we have a valet in this building right downstairs, and it's a big deal. I mean, think about how much time that saves you. 15 minutes on each end. Think about the safety issue. Think about the weather issue for something like that. But that really goes right back to what we were talking about before. Each of these amenities, while there might be some physical amenities, they're really experience amenities. It's like, I want my experience to be better, because most people don't necessarily need to be here. You want them to want to be here.

Ray Washburne
Well, let's go back to that as far as the restaurants go in an office building.

Spencer Levy
Yeah.

Ray Washburne
You can go get your normal chain steakhouse to go into an office building. Not that big a deal. Not that unique. But getting something unique in the base of the building helps you rent the rest of the building up. Now, your lender might say, well, you don't have great credit on these people. If the guy's a great operator — he might not have a great balance sheet, but he's a great operator, you know, showing up every day to run his restaurant — that gives that building the unique spin that it has versus just another me too office tower.

Spencer Levy
Should we try to maintain more local flavor when we're thinking about the office, not just restaurants?

Ray Washburne
Are you talking about interior design?

Spencer Levy
Interior design, the design of the building. Because the buildings, often interior and exterior, look very similar from city to city. Is that the way we should go, or should we try to maintain more local flavor?

Ray Washburne

Well, I like the local flavor. But you know, when Philip Johnson was in his heyday of designing buildings in Houston and different places that were unique. Today, these buildings, I agree, are all blue glass and just kind of the same, boring exterior look. But you do get a premium for the Starchitect type building, which unfortunately, a lot of developers don't want to spend that extra money for.

Spencer Levy
When you say Starchitect, like a star architect?

Ray Washburne
Yeah.

Spencer Levy
Building it to whatever the highest, coolest standards are.

Ray Washburne
Yeah, that's right.

Spencer Levy
And you go to New York City right now, you take a look at the case study. Everybody says One Vanderbilt, which is right next to our offices at 200 Park. They're getting rents over 300 bucks a foot there. And across the street, there's older buildings you probably can get rents for 50 bucks a foot.

Ray Washburne
Yeah. Well, when you're recruiting or you're competing with your peer group and they're in that nice building and you're in the dump, I mean, there's a little ego in there, too, I'm sure.

Spencer Levy
I'm sure there is. So you're…

Ray Washburne
But that building, too, built that observation deck on top. And I think that observation deck throws off, I mean, tens of millions of dollars a year in income, which, that was kind of an afterthought. Took a little bit to put that up there and they weren't sure it was going to work. I mean, you capitalize that. It's like the Empire State Building, the rooftop. There are other areas you can generate a lot of money in these office buildings that aren't something you normally think of in an office building.

Spencer Levy
So I'm in a room here of not only great real estate professionals, but people who love your restaurants. And I would be so remiss if I didn't ask you the question of what is your favorite at your restaurant, the Mi Cocina. Is it the “Mambo Taxi?” And what is the “mambo taxi?” Or the brisket tacos?

Ray Washburne
Well “Mambo Taxi” is our signature margarita with our own formula. It has a strong sangria in it and it's kind of our legendary drink. We sell… Like, Saturday is a great day. I bet we sold, I don't know, probably 30,000 of them Saturday.

Spencer Levy
30,000 margaritas?

Ray Washburne
At our restaurants, altogether. And then on… brisket tacos are probably the number one favorite thing.

Spencer Levy
That's fun, though. I mean, look, it's a business like any other, but it's a fun business. You get to go walk in there….

Ray Washburne
Well, it's fun when it's working. I mean, we've opened some duds and that's not fun. But no, I've been involved in the restaurant business for 35 years. And I mean, we've had everything from steakhouses. I'm a partner in the Cru Wine Bar, as you see in the airports and all those things, and those go great. The challenge in the restaurant business right now is it is so expensive to build these stores. It used to cost us to build a 5,000 foot store a million and a half dollars. Now, it's 4 to 5 million. And so you're going to see a big pause on… you just can't afford to build. And that's why the boxes are getting so much smaller. Even like a Chili's or even Chick-fil-A. I mean, a lot of them are just doing away with even the dining rooms. They are just drive-thrus now. And I've seen a Chick-fil-A deal in Atlanta they built where it's… the whole kitchen's on the second floor, and the first floor is just 4 drive-thru lanes, and it comes down on conveyor belts, and they just crank it through the deal and you can't even eat inside. Businesses just changed a lot. And for us to build another Mi Cocina, it's so expensive that, I mean, you really have got to have a crosshairs that is going to be, you know, a killer location because the expense is so great.

Spencer Levy
$4 to $5 million new construction, plus a long term lease, unless you own the real estate.

Ray Washburne
To put it in square footage numbers, it's 6 to 800 bucks a foot to build out a restaurant.

Spencer Levy
And a well-performing restaurant does what kind of sales per year?

Ray Washburne
Our restaurants are 120 to 150,000 a week in sales. So it's, you know, call it 6 to $8 million type. But at Chili's, those places are doing 60,000 a week, probably. Something like that. So it's 3, 3.5 million. So you do the math. The $3 million unit should make 15% margins. That's 450,000. You just spent 4 million to build it. What's your return on investment? Not that great. So it's pretty simple math.

Spencer Levy
And what do you think is the single biggest driver of the cost going up? Is it labor or is it….

Ray Washburne
No. It's just construction cost. Just materials and everything else. But you know, landlords which I am one, okay? I mean, we've driven rents up so high. I mean, Highland Park Village, we're over $400 a foot now. And when I bought it it was $36. And that was only 15 years ago. So we've gone from 36 to over 400 bucks a foot. It's expensive. Now, your normal strip center… You want to go grind up a strip center out in the suburbs? You know,

they're all quoting the mid-40s a foot for, you know, you get a Jersey Mike's paying 40 bucks. I mean, it's tough.

Spencer Levy
Well, I like that just simplification of what's possible. You bought it ten years ago, getting 36 bucks. You're getting 400 bucks today. That's what's possible if you do it right. That's what's possible if you're in the right market segment. That's what's possible if you do the right things for the center. Well Ray, any final thoughts here? First of all, we really appreciate you coming out here. Any final thoughts you would say about retail? About Dallas? Where do you see the next couple of years going?

Ray Washburne
Well I would just say the cautious wins ahead, which I do think a recession is coming. We've been around long enough. I mean, I got out of college in 1983. I went to the ROTC and I can't believe how long we've gone – probably since '09 – of anything that even resembled a recession. And so young people out there that are listening to this that think trees grow to the sky, they don't. And when it stops, it's not going to be pretty. And what's going to stop? We have a $36 trillion federal debt. We've got the highest consumer credit card debt of all time. We have construction costs that won't come down. We have inflation that just, I mean, we've just got to get things to break somehow. And so, anyway, just be prepared because when it breaks, it'll be ugly for a short period of time. And that's the time to get your greatest opportunity.

Spencer Levy
Well, like I said, when things are bad, there's great opportunity. You quoted Charlie Munger, I'll quote Warren Buffett. When people are fearful, be greedy. When people are greedy, be fearful. Right now I think people are more fearful, but they will be worse during a deeper recession. On behalf of The Weekly Take, what a pleasure to have Ray Washburne, the CEO of Charter Holdings, the Chairman of Sunoco, and about a dozen other things. Thank you so much for coming out today, Ray.

Ray Washburne
Glad to be on. Thank you.

Spencer Levy
For a deeper dive into Dallas and other related content, please visit our website CBRE.com/TheWeeklyTake. You can check out our archives, subscribe to the show, and drop us a line with a review, with feedback, or with any suggestions for what you might like us to cover on the air. Tune in next week for more, including more from investors and operators who will reveal their views on compelling opportunities and other ideas, including some niche assets that have weathered recent economic cycles, and other insights that might surprise you. Thanks for joining us, and we'll see you again soon. I'm Spencer Levy. Be smart. Be safe. Be well.