Winter 2025

THE FAMILY OFFICE REAL ESTATE MAGAZINE

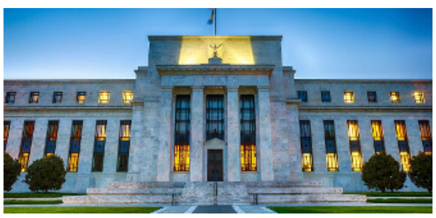
FORE MAGAZINE

From Pizza Dreams to Real Estate Empires: The Passionate Journal of Sal Lupoli







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2025: A Year of Opportunity and Transformation in Commercial Real Estate

As the calendar turns to 2025, family offices find themselves at a pivotal moment in the commercial real estate landscape. The new year brings fresh opportunities, challenges, and uncertainties, with global economic shifts, technological advancements, and evolving market dynamics shaping the road ahead. For family offices, 2025 isn't just another year—it's a chance to recalibrate strategies, explore emerging trends, and solidify their roles as influential players in the real estate market.

This year, the convergence of macroeconomic factors like fluctuating interest rates, evolving labor markets, and the ripple effects of geopolitical developments will redefine the investment environment. Meanwhile, the commercial real estate sector continues to experience a profound transformation, with trends such as adaptive reuse, ESG-driven development, and the rise of alternative asset classes taking center stage.

Family offices, with their patient capital and long-term perspective, are uniquely positioned to seize these opportunities. Whether doubling down on resilient sectors like industrial and multifamily housing, exploring the potential of life sciences facilities, or identifying value in distressed assets, their ability to think beyond immediate returns sets them apart.

But 2025 will also demand a heightened focus on innovation and agility. Technologies like AI, blockchain, and advanced analytics are reshaping how deals are sourced, assessed, and managed. At the same time, younger generations within family offices are driving a push for investments that align with their values, particularly around sustainability and community impact.

From navigating market volatility to uncovering emerging opportunities, the year ahead promises to be one of transformation, resilience, and growth. Let's dive in.

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From Pizza Dreams to Real Estate Empires: The Inspiring Journey of Sal Lupoli

By DJ Van Keuren

On the streets of East Boston, where every corner hums with stories of ambition, resilience, and community, a young boy listened closely to his father's wisdom. Sal Lupoli grew up in a modest two-bedroom home, sharing tight quarters with five brothers. Life wasn't easy, but the lessons imparted by his parents laid the foundation for an extraordinary future.

Sal's father, a hardworking restaurant worker and second-generation Italian-American, often spoke about the keys to success in America. His words were clear and unwavering: "Real estate is the key to success in America." These words resonated deeply with Sal, a mantra that would follow him through a journey that transformed him from a college student with a dream to one of Massachusetts' most innovative and impactful developers.

Today, Sal Lupoli's name is synonymous with entrepreneurial grit, transformative real estate projects, and a deep commitment to the communities he serves. His story is not just a tale of business success but a masterclass in turning humble beginnings into a life of purpose and legacy.

Roots in East Boston: Lessons of Sacrifice and Grit

Born into a working-class family in East Boston, Sal Lupoli's childhood was defined by sacrifice. The Lupolis were six boys packed into a small two-bedroom house, where space was tight and resources were scarcer. Sal's father worked long hours as a restaurant worker,

while his mother stretched every dollar to keep food on the table.

For Sal, the most valuable inheritance from his parents was their resilience and determination. His father's lessons, often delivered from a hospital bed due to chronic health issues, revolved around ownership, equity, and the importance of building something that lasts. "You need equity to buy real estate," he would tell Sal, planting the seeds of an idea that would shape his son's future.

Although the family's financial situation was challenging, the Lupoli household was rich in ambition. When Sal attended Chelmsford High School, he caught the attention of a football coach who saw potential in him. Encouraged to join the team, Sal excelled and earned a full athletic scholarship to Northeastern University—a turning point that would change the trajectory of his life.

The First Dream: Building a Pizza Empire

At Northeastern, Sal studied business management, combining his father's lessons about ownership with the formal education needed to pursue his goals. But there was one glaring obstacle: he had no money. Sal knew that to realise his dream of owning real estate, he needed to generate capital, and that meant starting a business.

Encouraged by his father to use entrepreneurship as a stepping stone, Sal identified the food industry as his entry point. Pizza, with its relatively low start-up costs and high-profit potential, became the perfect vehicle for his ambitions—despite the fact that Sal had no experience making it.

Undeterred, he immersed himself in learning the craft, apprenticing at a small family-run pizza shop in Boston's North End. He studied every aspect of the business, from kneading dough to customer service, all while crafting a business plan with guidance from his Northeastern professors. Armed with these tools, Sal opened the first Sal's Pizza in Salem, New Hampshire, in 1990, with his brother Nick as his partner.

Starting the business wasn't without sacrifice. To fund the venture, Sal's father took out a third mortgage on their family home, and Sal sold his car. It was a risk, but the Lupoli family's determination paid off. Sal's Pizza quickly gained a reputation for its signature offering: 19-inch, three-pound pizzas at unbeatable prices. The slogan, "The largest pizza at the lowest price," resonated with customers, and the business thrived.

Within nine months, Sal turned his first profit and used it to purchase his first piece of real estate, embodying his father's model of leveraging business success to build equity. By reinvesting profits into the company, Sal's Pizza expanded to 15 locations by the mid-1990s.

Scaling a Regional Powerhouse

For Sal, the key to growing his pizza empire lay in consistency and scalability. In 1994, he built a 35,000-square-foot USDA-approved commissary to centralise production. This facility produced over 12,000 pizzas per week, ensuring quality and uniformity across all locations.

This move transformed Sal's Pizza from a thriving local chain to a regional powerhouse. The commissary not only supplied the growing number of Sal's Pizza locations but also provided pizzas to schools, supermarkets, and other distributors, making it the largest fresh pizza manufacturer in New England at the time.

By the early 2000s, Sal's Pizza had grown to more than 120 locations, cementing its status as a New England icon. But for Sal, the ultimate goal was never just about pizza. As he says, "Pizza was a stepping stone. Real estate was always the endgame."

A Bold Gamble: Transforming Lawrence

In 2003, Sal Lupoli made a decision that would redefine his career and legacy. He purchased a defunct mill in Lawrence, Massachusetts, a city that had fallen into decline after the collapse of its textile industry.

Once a thriving industrial hub, Lawrence had become one of the poorest cities in America, plagued by poverty, crime, and arson. While many saw the city as beyond redemption, Sal saw untapped potential.

"I mortgaged everything," Sal recalls. "My home, my mother's home, and my pizza business were all on the line." He envisioned the mill as a mixed-use development that could not only generate economic activity but also breathe new life into a struggling

community.

The project, dubbed Riverwalk, was a massive undertaking. It aimed to transform the mill into a vibrant campus with residential units, businesses, and community spaces. Within nine months, Riverwalk reached 70% occupancy—well beyond the 30% Sal needed to break even.

Today, Riverwalk spans over 6 million square feet and serves as a hub for businesses, educational institutions, and residents. Sal's vision wasn't just about revitalising buildings; it was about creating opportunity. "It was never about housing," he explains. "It was always about the jobs."

Community Impact: Building Beyond Brick and Mortar

Sal Lupoli's projects extend far beyond construction. His work in Lawrence has focused on empowering local businesses and fostering economic mobility. One of his most innovative initiatives is the Revolving Test Kitchen, a business incubator designed to help aspiring restaurateurs launch their ventures with minimal financial risk. Entrepreneurs using the kitchen retain their profits and receive mentorship from Sal's team, creating a sustainable pathway to success.

In 2020, Sal partnered with Northern Essex Community College to open the Lupoli Family Institute of Culinary Arts, providing access to culinary education for nontraditional students. This initiative reflects his belief in the transformative power of education and opportunity.

Sal's impact isn't limited to Lawrence. In cities like Lowell, Haverhill, and Littleton, he has spearheaded developments that blend commercial, residential, and community-focused spaces. These projects are not just about generating profit—they're about

fostering growth and revitalising underutilized areas.

Sal's Pizza: A Beloved New England

Institution

Even as his real estate ventures flourished, Sal's Pizza has remained a cornerstone of his journey. The brand has achieved iconic status in New England, becoming the official pizza of the Boston Red Sox, the New England Patriots, and the New England Revolution.

During the COVID-19 pandemic, Sal demonstrated his unwavering commitment to his community. By slashing prices to maintain demand, he avoided layoffs and kept his business afloat. At the same time, he donated thousands of pizzas to frontline workers, exemplifying the resilience and generosity at the heart of his business philosophy.

Leadership Lessons: From Challenges to Growth

Reflecting on his career, Sal is candid about the mistakes he's made. "Out of loyalty, I elevated people who weren't ready for certain responsibilities," he admits. These early missteps taught him the importance of aligning talent with the specific needs of his businesses.

As a leader, Sal takes a hands-on approach, ensuring that every project reflects his values. "I need to touch it, smell it, feel it, taste it, hear it," he says, describing his deep involvement in every aspect of his developments.

Strategic Investment in Dubai Real Estate: Navigating the Future with Visionary Plans and Infrastructure Growth

By Nav Takar, Haus Haus

Dubai's real estate market has long been recognized for its rapid expansion, world-class infrastructure, and international appeal. Over the past two decades, strategic initiatives and transformative urban planning have bolstered Dubai's position as a global investment hub. Today, Dubai offers international investors a unique landscape defined by visionary urban strategies, economic diversification efforts, and high-profile infrastructure projects such as Expo 2020's legacy development and the upcoming new airport. These factors collectively ensure a resilient and growth-oriented market.

A Legacy of Vision and Urban Planning

Dubai's growth trajectory is underpinned by forward-thinking plans designed to drive sustainable urban development and economic resilience. At the forefront of these efforts are the Dubai 2040 Urban Master Plan and the UAE Centennial Plan 2071, both of which shape the real estate market's long-term prospects and create an attractive environment for global investors.

The **Dubai 2040 Urban Master Plan** envisions a city structured around people-centric growth, enhancing quality of life by expanding green spaces, transforming the urban landscape, and improving transport connectivity. Central to the plan is a commitment to creating self-sustained communities, where residents can live, work, and play within vibrant, integrated neighborhoods. For real estate investors, this translates to increased demand for residential, commercial, and mixed-use properties, driven by a growing population and the city's emphasis on livability.

Complementing this is the UAE Centennial Plan 2071, a long-term strategy that focuses on innovation, economic diversification, and sustainability to prepare the UAE for its centennial anniversary. For investors, this means a stable, resilient market driven by policies that attract talent, foster innovation, and ensure economic growth.

Transformational Projects Fueling Growth

Dubai's ability to attract global investment is strengthened by high-impact projects that enhance connectivity and drive economic development. **Expo 2020** marked a milestone in Dubai's global positioning, bringing together millions of visitors and showcasing its commitment to innovation and international collaboration. The Expo site has since been repurposed as **District 2020**, a smart city and innovation hub that blends residential, commercial, and cultural spaces. This transformation is a testament to Dubai's adaptability and commitment to long-term value creation, with District 2020 poised to attract businesses, talent, and investors seeking a future-driven community.

Additionally, Dubai's ambitions extend to becoming a major global transport hub with the development of **Al Maktoum International Airport** at Dubai World Central (DWC). Once fully

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The Family Office Real Estate Institute Investment Forum was created specifically for family offices, family members and their advisors to review investment opportunities while interacting with other family offices, learning about market conditions and investment climate.

operational, it is set to become one of the world's largest airports, further cementing Dubai's status as a gateway for trade, tourism, and logistics. Proximity to this mega-airport is expected to boost demand for residential and commercial properties, underscoring the importance of location for strategic investment decisions.

Resilience and Post-Pandemic Recovery

Dubai's real estate market has demonstrated remarkable resilience in recent years, rebounding strongly post-pandemic. A combination of government-led initiatives, demand from international investors, and economic recovery has fueled property price growth since 2020. **Residential prices** have surged approximately 40% during this period, reflecting renewed market confidence. Rising demand for rental properties has also supported high yields, with rental growth driven by population increases and limited supply.

Tax Considerations

Dubai's tax policies are among the most attractive globally for real estate investors. The city offers a range of tax benefits and economic incentives designed to enhance profitability and create a favorable investment climate.

1. Zero Property and Income Tax:

Dubai imposes no property tax, capital gains tax, or income tax, making it highly attractive to real estate investors seeking maximum returns on their investments. This tax-free environment enhances Dubai's competitiveness relative to other major markets, particularly for international investors accustomed to high tax burdens in their home countries.

2. No Capital Gains Tax:

The absence of a capital gains tax further strengthens the appeal of property investments, allowing investors to benefit fully from price appreciation and rental income.

3. Free Zones and Economic Incentives:

Dubai's free zones offer additional benefits, including 100% foreign ownership, no import duties, and tax exemptions. Real estate developments near or within these free zones, such as Dubai International Financial Centre (DIFC), often attract strong demand due to their business-friendly regulatory framework.

4. Residency Linked to Real Estate Investments:

Property investors who meet minimum investment thresholds may qualify for long-term residency visas. This policy not only promotes long-term investment stability but also enhances investor confidence by offering added security for their families.

The Role of Regulation in Investor Confidence

Investor protection and market transparency are at the core of Dubai's regulatory framework. The **Dubai Land Department (DLD)** plays a central role in ensuring secure, efficient, and transparent transactions, backed by initiatives such as escrow accounts for off-plan sales. For international investors, clear regulations governing freehold and leasehold ownership, as well as residency incentives tied to property investments, provide security and stability for long-term commitments.

Balancing Risk and Opportunity

While Dubai's market offers substantial potential, investors must navigate risks such as speculative activity in the off-plan and luxury segments. The **UBS Global Real Estate Bubble Index** notes a moderate increase in bubble risk, reflecting rapid price appreciation and heightened investor activity. Strategic plans, however, are designed to manage growth sustainably, mitigate oversupply, and ensure the market remains resilient amid economic shifts.

The **2040 Urban Master Plan and Centennial Plan 2071** provide a roadmap for stability, innovation, and economic diversification. Infrastructure projects like District 2020 and the new airport reinforce Dubai's position as a global leader in connectivity, trade, and investment. By aligning their strategies with Dubai's vision for the future, international investors can benefit from the Emirate's continued transformation and resilience. With a foundation built on strategic vision, Dubai's real estate market offers unparalleled opportunities for international investors

Dubai's real estate market is poised for sustained growth, driven by long- term urban and economic planning.

FAMILY OFFICE INVESTMENT IN REAL ESTATE POISED TO INCREASE

By RSM contributor: Gene Garcia - Real Estate Senior Analyst

Real estate investors, including family offices, continue to look for stability in a rapidly evolving market, global economy and geopolitical landscape. Family office investment in real estate will continue to increase as rates normalize and repricing becomes clearer, leading to increased deal flow.

Smart money usually moves first, and large transactions have increased as real estate megafunds place bets across real estate sectors and investors bet their capital on the operational knowledge of seasoned fund managers. But it's not all about megafunds—middle market funds will also soon be taking advantage of opportunities in this recovery.

Why family offices prefer real estate

Real estate in a family office portfolio has long been regarded as a critical investment for maintaining generational wealth due to its tax-advantaged benefits, sustained cash flow and long-term appreciation. Fundraisers across all real estate markets continue to focus on opportunities to secure family office capital. Amid disruption in some sectors such as commercial office space, family offices are reviewing real estate portfolio risk-and-return profiles and adjusting allocations accordingly. Market headwinds have changed the investment strategy of many family offices as they strategize how to improve their risk profiles by investing at different points in the capital stack through private credit, preferred equity or historical limited partner positions.

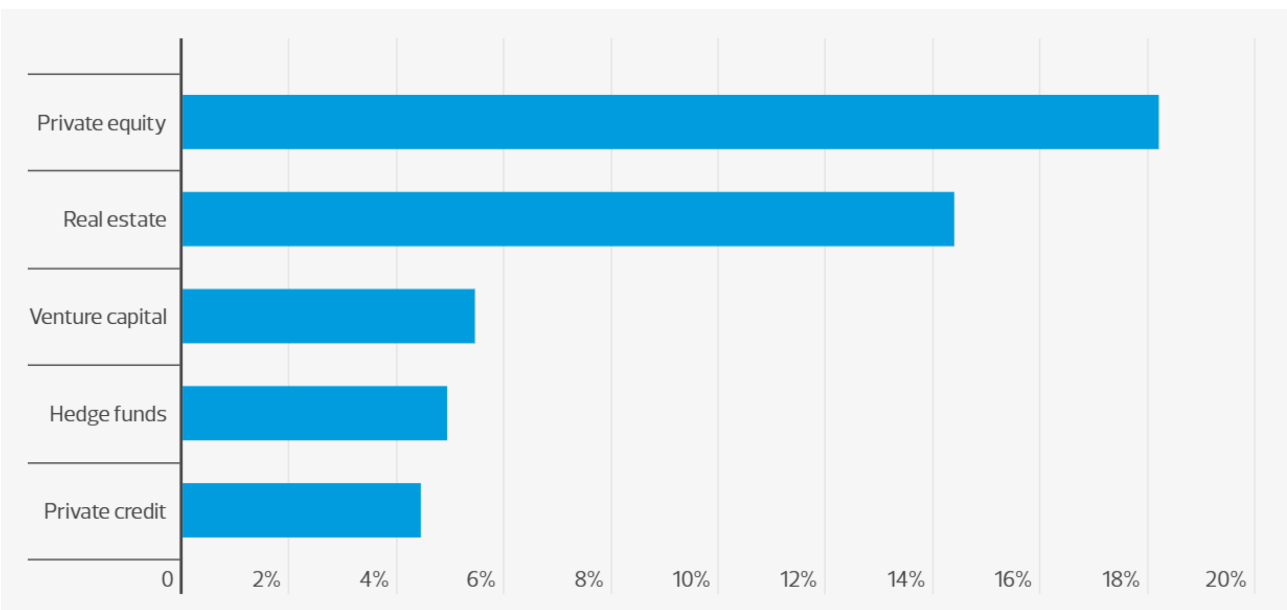
The 2024 capital raise has been a story of big funds reporting record amounts of capital raise as investors look for a soft landing and a less competitive capital market environment. A major source of this capital comes from family offices looking to lower their dispersion and downside risk by investing in real estate megafunds.

Leveraging family office capital

Family office capital is considered a “golden egg” for many real estate funds. Due to their flexibility and mass wealth, family offices can make an initial investment that evolves into a partner role as opportunities enter the market. Moreover, the relationship-based approach of family offices is valuable to real estate funds looking to secure long-term capital from a source that has the patience to weather macroeconomic volatility in exchange for healthy cash flow and long-term appreciation.

J.P. Morgan Private Bank’s 2024 Global Family Office Report, which presented the results of 190 single family offices (SFOs) surveyed globally, noted the average family office portfolio allocation to alternative assets is 45%, with a targeted return of 11%. The survey further reported that real estate generally accounts for 14.4% of assets under management for family offices, just under private equity at 18%.

In 2023, family offices increased their direct investments in private real estate as a strategy to achieve higher returns. During the same period, co-investment activity also rose, as we saw families invest alongside funds with aligned interest, to increase transparency and flexibility in exit strategies. Family offices have remained focused on real estate due to the resilience of the asset class and continued strong fundamentals in core markets.



Source: J.P. Morgan Private Bank

The Appeal of Megafunds

The **UBS Global Family Office Report 2024,** which presented insights from 320 SFOs, reported that 39% of participants mentioned "real estate correction" as a concern when asked about portfolio risk in the next 12 months. Perhaps as a result of this sentiment, we are seeing increased family office capital allocation to megafund managers due to their ability to spread out the risk. In turn, megafunds have wasted no time in making moves into real estate: These include KKR's recent **$2.1 billion bet** on 5,200 units from Quarterra and Equity Residential's plans to acquire a **$1 billion apartment portfolio** from Blackstone Real Estate, reaffirming confidence in the multifamily market.

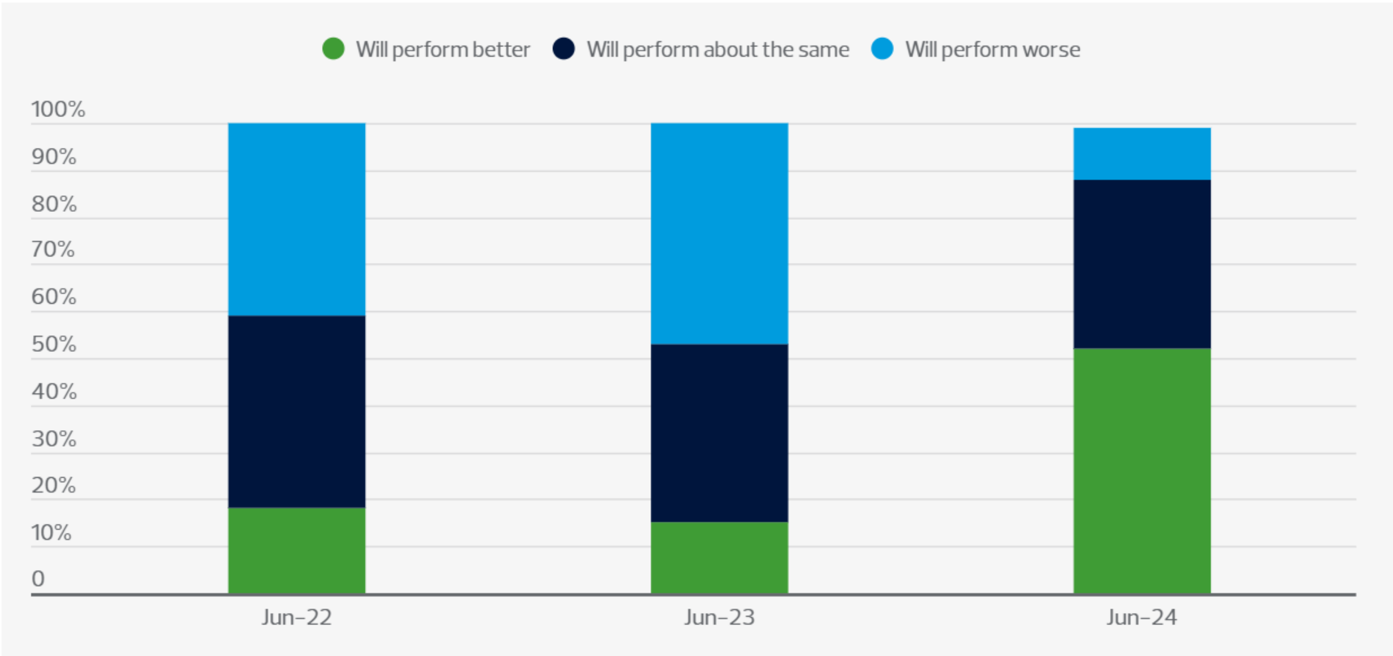
Driving the megafund trend, private credit strategies have proved to be the darling for dollars as investors enjoy hearty returns in a higher-for-longer interest rate environment. Morgan Stanley predicts the private credit market will grow to **$2.8 trillion by 2028.** Private credit funds provide investors with flexible risk-and-return profiles in real assets via direct lending, mezzanine debt, second-lien debt, distressed debt and hybrid preferred equity offerings.

Family offices navigate new investment strategies

It is becoming apparent that families want new investment strategies to increase their cash flow and achieve long-term appreciation, and the current capital market has presented unique opportunities.

As distressed real estate funds take advantage of debt capacity situations, we will see behavior change around investing in real assets. Family office risk appetite may decrease, leading to movement in the capital stack. For instance, family offices may choose to invest in private credit funds; real assets senior debt or mezzanine debt; or a hybrid of debt and equity positions.

Meanwhile, the economic outlook is clouded with proposed legislation for additional regulations and tax reforms that could affect investments. Any changes to public policy concerning rent control, squatter rights, property taxes, insurance regulations and federal tax reforms can and will have an impact on the real estate industry.



Source: Preqin investor surveys, June 2022–June 2024

The Takeaway

Amid a rapidly evolving landscape, family office investment in real estate is poised to increase, with deal activity focused on megafunds. However, opportunity awaits middle market funds looking to get in on the action. While the last mile to the soft landing may be complicated, more investment in real estate amid rising optimism is always good.

Key takeaways

1. **Family office capital remains the focus of fundraisers across all real estate markets.**
2. **An increase in megafund activity suggests renewed confidence among dealmakers.**
3. **Private credit funds provide investors with flexible risk-and-return profiles in real assets.**

Family office investment in real estate poised to increase by Gene Garcia, real estate senior analyst with RSM US LLP, the leading provider of assurance, tax and consulting services for the middle market. This article originally appeared on RSM and is printed with permission from the publisher.

FLIPPING THE SCRIPT CONTRARIAN INVESTORS FIND OPPORTUNITIES IN OFFICE

By Beth Mattson-Teig

The office sector continues to face a litany of challenges with elevated occupancies, obsolete buildings and constrained liquidity from debt markets. On the other side of the coin is a rare opportunity to acquire high quality assets at steeply discounted prices. "A lot of investors today have drawn a big X across office as a product type for investment. We're not afraid of office. And, in many ways, we look at office as perhaps being one of the best investment opportunities in terms of the product profiles," says Joe Gorin, head of U.S. and European real estate investing at Barings. Fundamental real estate investors focus on investing at discounts to replacement cost and higher spreads relative to risk-free rates. From that perspective, there's an argument to say there's no better opportunity today than in acquiring office assets. However, office also is one of the most complicated product types because it has become a highly differentiated sector, from top-performing best-in-class assets to empty buildings and a broad mix in between. Capital has been sitting on the sidelines, waiting to see how office dislocation is going to play out with the added stress from the higher interest-rate environment forcing a bigger reset in values. “What we’re seeing right now is a return of investor appetite to evaluate and potentially pursue office investments in select cases,” says Daniel Younger, senior vice president, capital markets, at Lincoln Property Co., a global full-service real estate firm. Lincoln is in the market acquiring assets across a few different strategies. “We have a pretty deep base of investors we’ve been talking to who are coming back to the table with us and recognize that the opportunity to originate new office investments in this dislocated market environment could prove to be one of the best new investment cycles for office buildings in many generations,” says Younger. The firm also is starting to see more buyer competition, particularly for trophy buildings.

Bifurcated market

The office sector appears to be near or at the bottom of the cycle, and the return-to-office movement is gaining traction. However, there is a clear bifurcation as employers gravitate to well-located prime class A office space to attract and retain the best talent. KBS is one office owner that saw an acceleration of leasing across its class A office portfolio ahead of the Fed’s recent rate cut, and the firm expects the trend to continue. “We see a bifurcation not only in office product type but also within individual metro areas,” adds Robert Durand, executive vice president, finance at KBS. For example, the Century City submarket in Los Angeles is experiencing demand and occupancy growth due to the amenities offered within the submarket and its Westside location. In fact, there is new office construction happening in Century City, while only a few miles away in downtown Los

Angeles office vacancies continue to rise, he says. Data now emerging that validate the outperformance of newer, well-located assets are fueling investor interest in best-in-class assets. According to JLL, newer-vintage buildings built in 2015 or later have significantly outperformed older buildings in their ability to both attract tenants and command premium rents. Between second quarter 2020 and second quarter 2024, newer-vintage buildings generated roughly 137.6 million square feet in positive net absorption, compared with 48 million square feet of negative net absorption for older buildings. Rents for newer-vintage assets average $60.55 per foot, compared with $37.95 per foot for assets built prior to 2015, according to JLL. The value proposition is attractive given the fact that asset prices are now deeply discounted compared to a few years ago. “If you have the courage to underwrite those assets continuing to perform well, you have some great opportunities to invest in that category of office asset,” says Gorin. There also is a value-add opportunity to reposition well-located buildings that may need renovations or new amenities to create high-demand assets, he adds. On the other end of the spectrum, finding solutions for obsolete and less functional commodity office remains an ongoing problem. Likely, those redevelopment opportunities are going to come down to the location and underlying land value. Office could follow a similar path to retail, where there has been very little new shopping center construction over the past decade, and now the assets that survived are doing very well in terms of reconfiguring their merchandising mix and attracting the best tenants. Those retail owners are now seeing strong occupancies and positive NOI, but it took a decade of no supply for that to happen, notes Julie Ingersoll, CIO Americas direct real estate strategies for CBRE Investment Management. “Similar to retail, we need to see a lot of stock taken offline. We need to see a lot of teardowns, both in city centers and in the suburban office asset class,” she says. For example, CBRE IM has been looking at suburban office where there is an opportunity to repurpose that land for industrial assets. That is easier said than done because it is difficult to find those development opportunities that will underwrite, and many municipalities aren’t looking for extra industrial in their backyard, adds Ingersoll.

Varied investor appetite

Making an investment case for office remains a tough proposition for investors. Many institutions were already making moves to reduce allocations to office and diversify portfolios to include more alternative sectors even before the pandemic. Some would argue that an institution’s current allocation to office is influencing the way they’re now thinking about office investments. “Investors who entered into the pandemic with a lower allocation to office have a different view of office appetite than investors who went into the pandemic with large allocations,” says Ingersoll. Those with lower allocations are more open to opportunistic investing, whereas those with larger allocations are dealing with challenges and don’t want to add to that office exposure risk, she adds. Those that are interested in acquiring office are playing the long game, with the likelihood that there could be anywhere from two to 10 years of pain ahead for the office sector as it works through the surplus of space and obsolescence. Although there are some signs of a recovery in office with a shift to positive net absorption in second quarter 2024, the overall national vacancy rate edged higher to 19.1 percent due to new construction, according to CBRE. "The way we look at the office sector is similar to how we have previously looked at the retail sector, which is that it may take a decade for us to get out of this cycle. So how can you underwrite an exit in year seven as a result?" says Ingersoll. "I think the right capital for modern, best-of-the-best office today is very long institutional capital that doesn't have to exit in five, seven or 10 years. And the problem with most of that generational capital is they have too much office already. So, there isn't a big pocket of capital looking at office today."

Nuanced strategies emerge

Lincoln is pursuing a few different strategies as it relates to office. The firm has an appetite to acquire best-in-class, well-located, highly amenitized assets similar to what it's been actively building for a number of years. On the other end of the spectrum, Lincoln also is pursuing a couple of opportunistic strategies. One is acquiring functionally obsolete product where there is an opportunity to raze the existing structure and redevelop as a new use, such as workforce housing, hospitality, industrial or potentially even new office. "We're seeing a lot of that in high-barrier-to-entry markets like Southern California or on the East Coast," says Younger. For example, Lincoln is currently redeveloping an older-vintage, low-rise office building in Orange County into a new industrial project. Two, the firm is acquiring existing office buildings that can be repositioned with investment in renovations and amenities. In those cases, the company is heavily focused on the cash flow profile of a building. The investment team has a big focus on being able to deliver some contractual cash flow returns with existing tenancy and then driving toward more of an opportunistic return by holding, and hopefully restabilizing, an asset over a five- or seven-year period. "We also recognize that when we're making those types of office investments, the road ahead is not going to be totally straight, and it's not going to be an immediate overnight return to the office environment that we were familiar with several years ago," says Younger. "So, in most cases, we're underwriting with capital reserves and an ability to weather the storm as office space and the workplace recover."

Buying opportunities

A key component to executing on office strategies in the current market is being able to acquire properties in good locations at the right basis, which in most cases means a healthy discount to replacement cost. For example, Barings acquired an office asset in the Route 128 corridor in Boston in an off-market transaction for more than a 50 percent discount on what the previous owner had in the asset, and at an approximate 50 percent to 60 percent discount to replacement cost. "Even for a core asset, we're not willing to price it as core. So even if we're buying higher income yield, we're going to want value-added returns for investing in office," says Gorin. Given the multitude of risks, investors are being cautious in how they're underwriting deals. Barings is underwriting with higher-than-average cap rate spreads to the risk-free rate in terms of its income yields. The team also is taking a conservative approach to the exit and not assuming that cap rates are going back to the 4 percent or 5 percent exits that existed in the past. The key question that investors are asking in today's market: Is this the type of building that is going to draw people out of their home to go to work? In a market of haves and have-nots, those buildings that are in demand are typically the ones that are highly amenitized with good access to transportation and workers, as well as those buildings with character or that offer something unique or interesting. "We need to provide an experience, and when you can do that in the right locations, there's real pricing outperformance," says Gorin.

Maturities fuel buying opportunities

Loan maturities represent a huge pipeline for prospective deals. According to S&P Global, $368.4 billion in office loans is set to mature between 2024 and 2028 based on the value of the loans at origination. Although lenders have been working with borrowers to grant short-term extensions, situations where owners are unable — or unwilling — to support their assets with additional equity is resulting in borrowers handing the keys back to lenders, short sales, note sales and foreclosures. "One of the challenges we've had is that the lenders are still kicking the can, but within the past three to six months, we're seeing lenders realize that they may just have to sell the note at a discount rather than go through a foreclosure process or an amendment process," says Gorin. Barings expects short sales to be a much more active channel for acquisition opportunities going forward, as unwinding those loan maturities will be a lengthy process that could stretch over the next three years, and potentially longer. "We're at the very beginning of it. So, we're willing to be patient to find the right deals," says Gorin. "There's going to be a lot of 'have-not' opportunities that I just wouldn't touch. But I don't think this is going to be a rush to the exits for the banks. It's just going to take a while to unwind." Another positive note for prospective buyers is that the overall lending environment is showing some signs of improvement. "The CMBS market is significantly more active, even for some office deals, and there has been an influx of private capital which is trying to fill the gap left by large commercial banks that are still rightsizing their office portfolios," says Durand. "With a more diverse set of market participants and ample capital, banks should start to see some loan payoffs. That could allow for at least some potential new office loan originations, and office real estate investors should start to see more debt capital available to take advantage of the positive trends currently developing in the market."

Publisher's Insight: Beth Mattson-Teig is a freelance writer based in the Minneapolis area. This article previously appeared in the December 2024 issue of Institutional Real Estate Americas. It is printed with permission from the publisher, Institutional Real Estate, Inc.

HAS THE U.S. OFFICE MARKET REACHED BOTTOM?

By Loretta Clodfelter

There are indications that U.S. office market fundamentals are set to shift in a positive direction, reports JLL. “We are officially calling ‘bottom’ in the office sector as of Oct. 1,” says Mike McDonald, senior managing director and office platform co-lead at JLL Capital Markets. He notes the office market has reached an inflection point in third quarter 2024 not only from a leasing fundamentals perspective but also from a capital markets perspective, and that preliminary third quarter volume (excluding medical office buildings) is estimated to be $11.3 billion, an increase of 33 percent, year-over-year — “which would make office the fastest-growing segment out of all of the main property types.” According to JLL, 2024 year-to-date volume is up 6.9 percent year-over-year

and is only some $10 billion from 2023 full-year volume. “2024 will almost certainly represent a step in the right direction in terms of deal flow, and 2025 is positioned to see a further increase in activity,” says McDonald. He also indicates JLL’s office bidder activity is up materially year-over-year, comparing year-to-date 2024 with the same period of 2023, with the institutional investors showing the greatest bid momentum this year. In addition, bids of more than $100 million are also up materially, as larger core and core-plus transactions have returned to the market. “Last year, we experienced a lot of sponsor interest; however, without the equity/LP interest,” says McDonald. “This year, the LP capital is showing up with a very strong conviction about the future of the sector.” McDonald notes, “One prominent factor driving closed deal activity — particularly lender-driven and short sale activity — is the ‘great basis reset,’ particularly for lower-quality, tier 3 and tier 4 assets.” He says more than half of the office deals that have traded in 2024 so far (57 percent) have recorded pricing in the 20th percentile of historic pricing in their respective markets, meaning pricing today is lower than 80 percent of deals that have traded in the past 10 years in their respective markets. “What this tells us is that both lenders and owners have begun to capitulate on value for lower-quality assets, and the market as a whole has largely hit bottom,” says McDonald. McDonald adds, “We see the market at the intersection of ‘FOMAM,’ or fear of making a mistake, and ‘FOMO,’ or fear of missing out — with more investors jumping off the former ‘capital artery’ and jumping on the latter. We expect a surge of transaction activity in the first half of 2025, as demand, i.e., capital, will draw product to the market.”

Looking ahead to 2025, JLL is forecasting a continued rebound in leasing activity and fundamentals in 2025 for higher-quality product. National leasing activity is up 25 percent in third quarter 2024 compared with third quarter 2023, and quarterly activity surpassed 50 million square feet for the first time since first quarter 2020. In addition, tenant requirements are up nearly 10 percent, year-over-year, and sublease additions are down 75 percent from peak 2022 levels. “We are at the beginning stages of a liquidity cycle in the office sector,” says McDonald, “and outsized risk-adjusted returns are bringing capital to, and mostly back to, the sector.” He notes that the first wave of capital came from private, high-net-worth investors, but as 2024 unfolded, there was a surge of institutional capital into the market, which JLL expects to continue into 2025.

"Institutional investors won't come back for just any office but the right office: lifestyle office, differentiated office, magnet office and experiential office, etc.," adds McDonald. "The continued trend of removing obsolete and vintage office from the sector — through redevelopment, demolition, reimagined and alternate uses — is both much needed and beneficial to the health of both the leasing environment and the capital markets environment. Office is back. And it really never left in the first place."

Publisher's Insight: Loretta Clodfelter is editorial director at Institutional Real Estate, Inc. This article previously appeared in the December 2024 issue of Institutional Real Estate Americas. It is printed with permission from the publisher, Institutional Real Estate, Inc.

HOW A SECOND TRUMP PRESIDENCY MAY AFFECT U.S. COMMERCIAL REAL ESTATE MARKETS

By Jennifer Molloy

With Donald Trump's reelection to the U.S. presidency on Nov. 5, real estate professionals must assess how Trump's proposed economic and housing policies might shape the U.S. market to seize emerging opportunities and mitigate potential risks, according to RCLCO. According to the firm, "Tariffs and immigration policy changes present the risk of returning to rapid price growth, which could make new investment difficult." RCLCO sees the following as potential opportunities and challenges:

Opportunities

1. Tax cuts and regulatory easing:

Potential short-term stimulus for commercial real estate because tax cuts and reduced regulations might encourage business expansion and investments.

2. High-end real estate demand:

Potential tax breaks favoring highincome individuals may drive demand for upscale and luxury properties, leading to higher activity in exclusive markets.

3. Opportunity-zone program renewal:

A renewed program similar to Trump's first term could attract significant private capital, boosting commercial interest in underserved neighborhoods.

4. Pause in regulatory momentum:

Some regulatory initiatives, such as rent control, are unlikely to be on the federal agenda. Challenges

5. Tariff-driven inflation and higher interest rates:

Proposed tariffs on imports, especially a 60 percent tariff on Chinese goods, could increase construction costs, driving up prices on housing and commercial projects. Tariff-induced inflation may lead the U.S. Federal Reserve to raise interest rates, further affecting new home affordability.

6. Federal deficit and inflation risks:

High federal spending combined with tax cuts could grow the deficit, putting additional upward pressure on interest rates. Inflation would increase costs for construction materials and labor as well as lead to higher mortgage rates, dampening real estate demand.

7. Labor shortages due to stricter immigration policies:

Tighter immigration may reduce the labor pool for construction, increasing wage pressures and project costs. In addition, a lower influx of immigrants could reduce demand for rental housing in major cities.

8. Affordable housing challenges:

Rising construction costs and mortgage rates will continue to complicate affordable housing development. Further, the new administration is not likely to take up the push for supporting increased housing production as demographic talking points are considered.

Publisher's Insight: Jennifer Molloy is senior editor of Institutional Real Estate Asia Pacific. This article previously appeared in the December 2024 issue of Institutional Real Estate Americas. It is printed with permission from the publisher, Institutional Real Estate, Inc.

THE CLIMATE OF CONSTRUCTION IN AN UNCERTAIN 2025

By Elise Mackanych

Despite shifts in certainty from global movements, political transitions and natural disasters, the construction industry's resilience proves to be steadfast in the outlook for 2025. While these changing factors present challenges and opportunities, JLL's 2025 U.S. Construction Outlook identifies three key focus areas to start the year strong: getting ahead of the curve, critically embracing sustainability and innovation, and building for people and resilience.

JLL predicts 2025 will show a more modest performance than the incredibly strong 2024. This is largely due to reported contractions for nine out of the 12 previous months, as well as construction starts being at record lows. However, interest rate cuts and increased loan originations are supporting predictions of a strong round of starts for 2025. With federal policies expected to change, infrastructure spending, trade policies and regulatory environments may also be affected. To get ahead of this curve, JLL suggests industry participants anticipate continuous evolution in demand while being mindful of the greater political and economic transitions at hand. The report also reminds readers to be aware that these factors are known to change rapidly. Construction materials and costs are expected to increase in 2025, despite a respite in 2024. Regardless of the recent political uncertainty around environmental policies, JLL predicts sustainability, green building practices, efficiency and minimized carbon footprints will maintain importance, due to local regulations and climate targets.

Many asset classes have already embraced sustainability in their model for growth, including data centers, healthcare and advanced manufacturing. This is likely to influence related materials. The recent natural disasters in the Southeast are expected to increase prices. To embrace sustainability and innovation and cut costs, JLL suggests focusing on the right technologies and teams.

With uneven patterns of growth in people, policy and development, it can be challenging for the construction industry to adjust accordingly and quickly. In addition, labor, compounding climate risks and revised policies present more unprecedented challenges. To capitalize on the growth of the industry, the Outlook urges industry participants to focus on the resilience of their assets and nearby regions, as well as prepare for infrastructure investments and interconnectedness of developments. It reminds of the impact of strong development: “where one resilient project can spur resilience across a city.”

Ultimately, construction is prepared for growth. Strategic positioning of real estate is more important than ever, considering the current and upcoming changes in environmental, social, demographic, and financial changes. Industry participants must be adaptable, as they focus on maximizing short term efficiency without losing site of long-term goals. The value of real estate lies within its power to strategically influence space utilization, technological integration and sustainable practices. Those who can balance these diverse, and possibly challenging, factors, are best positioned to thrive in the upcoming uncertain climate of the construction industry.

Publisher's Insight: Elise Mackanych is associate editor at Institutional Real Estate, Inc. This article previously appeared in the December 2024 issue of Institutional Real Estate Americas. It is printed with permission from the publisher, Institutional Real Estate, Inc.

FED CUTS KEY INTEREST RATE, WITH POTENTIALLY MORE CUTS TO COME

By Loretta Clodfelter

The Federal Open Market Committee approved a cut of 50 basis points in the target federal funds rate — to a new range of 4.75 percent to 5.0 percent — at its meeting in September, citing an "uncertain" economic outlook, as it moves to balance its goals of high employment and low inflation. The FOMC "has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance," according to a Sept. 18 statement. While a rate cut was widely expected, the Fed came in at the higher side of the potential range of possibilities, reflecting a bolder action to combat economic weakening. "The Fed's 50-basis-point rate cut signals confidence in the progress on inflation and a softening economic backdrop," says John Berg, global head of private real estate, Principal Asset Management. "For private real estate markets, the Fed's narrative surrounding a 50-basis-point cut will influence investor sentiment. With real estate investors focused on both space market fundamentals at the property level and the cost of capital, rate cuts attributed to eroding worry about inflation would be welcomed by investors and constructive for property valuations. However, if rate cuts are accompanied by a narrative of employment and economic growth concerns, valuation benefits of the decreasing cost of capital may be partially offset by more conservative property-underwriting assumptions." For the commercial real estate industry, this could release some of the pressure on stretched borrowers, but it won't alleviate all of the sector's challenges. According to Anthony Graziano, CEO of Integra Realty Resources, "We expect a flurry of activity on multifamily refinancings that may work now given the rate cut; it eases existing financing with rate cap expirations and floating-rate debt, and it improves bank liquidity which allows for more lending. But overall, the commercial industry still faces the headwinds of weakening consumer confidence, increasing household debt, changes in the job market and changes in spending patterns — household and business expenditures — which all correlate with real estate health. This rate cut will help ease those pressures but will not erase these conditions." CBRE Research notes that this is the beginning of what is expected to be additional loosening in monetary policy, with positive impacts on the commercial real estate sector: "The Fed indicated that it expects an additional 50 basis points in cuts this year and 100 basis points in 2025. The forthcoming rate cuts, coupled with lower bond yields, will bolster commercial real estate investment activity and asset values." One likely beneficiary of a rate-cutting cycle: public real estate stocks.

He notes that this dynamic has already been in motion, with REITs beginning their recovery in anticipation of Fed cuts.

"The onset of the Federal Reserve's rate-cutting cycle is expected to serve as a major catalyst for REITs, boosting valuations as discount rates fall. Historically, REITs have outperformed during similar economic conditions, and sectors with resilient, long-term cash flows are attractive today. Investors seeking real estate exposure should see this period as a compelling opportunity to benefit from REITs' liquidity and potential for cap rate compression,"

says Todd Kellenberger, REITs portfolio manager at Principal Asset Management.

Publisher's Insight: Loretta Clodfelter is editorial director at Institutional Real Estate, Inc. This article previously appeared in the November 2024 issue of Institutional Real Estate Americas. It is printed with permission from the publisher, Institutional Real Estate, Inc.

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