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500 Seneca St., Suite 503, Buffalo, NY 14204
716.878.9295 | bluecardinalcapital.com

## Blue Cardinal Capital Expert Forum Series

**Forum #1 - Real Estate Trends**
**June 26, 2018**

Blue Cardinal Capital, a real estate private equity firm focused on the opportunities and advantages of second and third tier real estate markets in the United States and Canada, launched an exclusive Expert Forum Series for its investors, business partners and the investment firms that carry Blue Cardinal products.

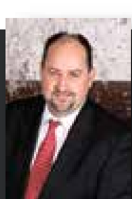
Blue Cardinal invests considerably in research, gathering market intelligence on real estate topics and analyzing the various economic factors that impact real estate investment performance relative to other investment opportunities. The monthly Expert Forum Series aims to share that valuable competitive intelligence with a select group of executives, thought leaders and active real estate investors.

The initial event in the Expert Series focused on National Real Estate Trends and how they relate to the Western New York market.

“Since 2008, we’ve had a long and very fruitful real estate cycle,” stated Managing Partner, Robert Richardson. “Historically low mortgage rates, major population and demographic shifts along with capital influx in gateway markets, are just a few of the reasons why real estate has enjoyed this period of growth. Now let’s talk about the rest of the story.”

When we analyze specific asset classes within real estate, the only asset class that seems to be widely understood is retail. Richardson called it, "the non-story" because so many people have forecasted the demise of brick and mortar retail that no one is surprised to see it happening. Though universally understood as a non-viable asset class, National headlines are still posing the question - is retail dead or going through a transformation? Richardson argues the question is largely irrelevant because, within the foreseeable future, most large retail assets cannot generate enough tenant-lease income to be profitable, and no other models under consideration are making those spaces viable.

Forum participants learned that the industrial asset class is actually the hottest category in the country right now. According to the Wall Street Journal “Rising values in the industrial real-estate sector have outpaced all other real-estate sectors this year [2017] as the growth in e-commerce has fueled demand for sites that are close to densely populated areas and well-connected transportation networks.”



**“Historically low mortgage rates, major population and demographic shifts along with capital influx in gateway markets, are just a few of the reasons why real estate has enjoyed this period of growth. Now let’s talk about the rest of the story.”**

Richardson, noting that this trend was predictable, stated, “For a good ten years or more there was more industrial space absorbed than produced and gradually vacancy rates have declined.” As a point of reference, CBRE is reporting that industrial vacancy in Buffalo is 3.4%. However, Richardson reported the real story – "the obscure story" - is that some subcategories within the broader "industrial" definition have been reporting zero vacancy for multiple years, even with construction of new space going at full speed.

Real Estate “Climate Change” was also a focus of the forum and this change is based on:

- Impact of the internet being stamped on real estate
- Impact of the millennial generation BEGINNING to affect real estate
- Impact of automation on production, distribution and consumption
- Changing expectations leading to changing motivation leading to changing priorities

Research shows that old fundamental "rules of thumb" are dying and being replaced by reordered priorities, which makes it difficult for developers to keep properties competitive. While the landscape is shifting, some cities and the developers active in those markets are "all in" with new purpose-built subclasses of housing or office space, betting that the current trends are here to stay.

This competitive intelligence is good for Western New York and offers opportunities to leap-frog other cities as concepts become more established. This is only true because the local development community can build in-demand real estate products at a cost basis that is below average and, in some cases, lowest in the country. However, because New York's zoning and economic development policies have not kept up with the evolving marketplace, some opportunities are being missed. As an example, Richardson suggested that when Buffalo’s low industrial vacancy rate, which is less than half that of other major cities doesn't ignite a wave of new developments in the most profitable category in real estate, the economic policies of local government must be out of sync with the market.

Richardson provided a similar analysis of the subcategories within the housing market and the office market, which he called the "subtle and not-subtle" categories, respectively.

Richardson was guarded in his assessment of the Upstate New York market, however he assured that if new real estate assets are on-trend good opportunities exist. When competing with markets outside of New York, the focus must be on availability, amenities, and minimizing lead-time to tenant the property that, in turn, leads to lower costs. When competing within New York, developers must have "purpose-built" product or a new product, two areas that have been under represented in WNY.

Richardson left the attendees with 5 factors to watch nationally and 5 to watch locally and promised to provide updates as those issues mature.

**For more information and to inquire about participating in a future expert forum please contact Bob Richardson, Managing Partner, rrichardson@bluecardinalcapital.com 716-861-6177**