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Beyond the Spreadsheet with Anthony Graziano, CEO

Helena Carmel (00:01.605)
What if you could pick the brain of one of the most respected real estate minds in America? Today we can. Today's guest is the CEO of Integra Realty Resources, a longtime member of the prestigious Counselors of Real Estate and a renowned expert in all aspects of the industry. He's also an Eagle Scout whose kids refuse to go camping. So you see, no one is perfect. But before we introduce today's guest, there's someone else in the studio. It's our own Bruce Johnson. Hello, Bruce.

Bruce Johnson (00:36.028)

Hello, Helena. How are you?

Helena Carmel (00:39.117)

I am good. Thank you. Thank you, Bruce.

Now Bruce, there's somebody special here that you want to introduce a longtime friend and colleague.

Bruce Johnson (01:11.106)

Absolutely, Helena. I'm really excited to have a friend of mine here, Anthony Graziano, who I've known through CRE, as you had mentioned, Helena. We've been members for a while. Actually, Anthony does a lot of things in addition to his day job, but he also runs the Florida chapter of CRE.

I've been involved in a couple of his events and it's been fantastic. So, but before I get too far started, I wanted to be clear that I think, Anthony, you prefer the name Graz. So I think moving forward, I'll make sure I adhere to that.

Anthony M. Graziano (01:55.918)

I thank you, but if you happen to slip back into Anthony or Tony, it's okay. My family calls me Anthony. Some of my friends call me Tony, but everybody knows the Graz. So I'm happy to go with that.

Helena Carmel (02:05.287)

The Graz, it's *The* Graz, that's so cool [laughter]

Bruce Johnson (02:10.77)

Yes, So, Graz, with that introduction, can you tell us a little bit more about yourself before we get started?

Anthony M. Graziano (02:18.709)

I was born and raised in Tom's River, New Jersey at the Jersey shore. I tell everybody, you know, I'm a victim of quantum entanglement between South Florida and New Jersey. I grew up in New Jersey. My whole family was there, loved it, loved the Northeast and New York and the whole Northeast area. But I went to school at the University of Miami. So I graduated University of Miami, went back to New Jersey.

I practiced there for 20 years and built a career there, did my master's degree at New York University. And then about 2011, my partners in Florida said, hey, we'd love for you to come down and run the Miami office. The partner down there was aging out and looking for transition. And so I went to my wife in January and said, January of 2012 and said, hey, what do you think about moving to Miami? So she started packing everything right away [laughter.]

And about six months later, we relocated. My girls at the time were six and five. My son, Joey, was 22, so he was kind of on his way in life. And we moved to Miami in July of 2012. So like I tell everybody, if you could survive South Florida in July and August, then you know you're meant to be here. And so we've been here ever since.

Bruce Johnson (03:33.232)

Yeah, so I think that I've heard you share that a couple of times and I think it's, I have a similar experience of when I first moved down here a couple of years ago, it was in the middle of a Florida summer. So I guess if you can make it once, you can endure for a lifetime. But yeah, it's a great place to be. With that, I'd to kind of shift into the meat of our discussion here.

One of the things that I've heard you say a couple of times when I've been around some of your discussions, Graz, is something you've said is *all real estate performs if you buy at the right price*. Can you kind of elaborate on that, kind of set the stage for us?

Anthony M. Graziano (04:18.925)

Sure. mean, the reality of it is real estate goes through cycles where values are increasing rapidly in a low-interest rate environment or in an economic cycle where the market's growing very quickly. And a lot of people think, *oh, I'm going to time my investment* in the real estate market. And they're trying to sort of get that perfect price or that perfect package deal, a perfect financing, perfect asset, perfect geography. And the reality of it is, in my experience, which is plus 30 years now, the best real estate performance is really driven by people that are consistently in the market. They're always watching what's happening. They're always evaluating the market, but it's an asset by asset buy and **buying right at the right price at the right basis is the key**, right? And then hold, buy and hold.

Helena Carmel (05:12.977)

Buy and hold. It sounds so simple when you say it that way, Graz.

Anthony M. Graziano (05:26.677)

Right, right, right. No, you know, look, I think that it's, it is simple. Obviously people have different mandates and expectations when they're investing in real estate. And depending on your profile as an investor, you know, sometimes that works, sometimes that's not your mandate. Sometimes your mandate obviously is to, you know, create yield and buy at a time and then sell or exit at a time. You know, there's different performance metrics around when you're going to enter and exit a market.

At some scale, when you get to investing at scale, you start to think about diversification by geography, diversification by asset class. But the reality is on a nominal basis, real estate outperforms inflation by a far margin. And it is a good investment to diversify, direct investment to diversify against the stock market and other more volatile asset classes.

So it's become really over the last 50 years, a traditional way to invest and a lot of it is about securing investments that are there for the long term and the **private investors that think long term tend to do the best in terms of overall performance.**

Helena Carmel (06:35.365)

And now that you're talking about how important it is to think long term, what are the trends? What are you seeing right now? Like a super high level, what's doing?

Anthony M. Graziano (06:45.847)

Sure. So, I mean, obviously we've had a lot of change in the economy post-COVID. So we're sitting here at the end of 2025 and we've had, you know, following the COVID, that initial shock of COVID and adjusting to what the potential impacts were in the economy. You know, the big driver there was the interest rates being pushed down to, you know, that zero interest rate policy was one of the factors that drove everybody into really hypergrowth mode. 2021-22 was tremendous record breaking in terms of overall investment in real estate, direct investment in real estate. A lot of that was driven by interest rates, underlying that a lot of it was driven by investor perspective that real estate is a hedge against inflation. So where everybody was concerned ultimately, you know, that we were going to come out and come back from COVID, they were also looking at, long-term, a lot of the costs are inflating. *We don't know what our supply chain looks like in terms of new construction costs*.

And so a lot of it was, *I'm going to put my money in a hard asset that's not going to go to zero*. A lot of concerns there. So 21, 22, we saw a tremendous amount of investment activity. And then as interest rates started to go up, middle of 22, end of 22, the Fed started to raise interest rates. The real estate investment community was on pause because they didn't know how much higher that was going to go. What was that going to do to cap rates? What was that going to do to investment rates?

And so we saw in 23 really a freeze up of real estate investment, right? Where people were just on hold. That's fought a bit, yet, and yet we haven't seen any dramatic declines in interest rates. And a lot of investors have still sort of been on hold waiting for the economy. Then we get a new presidential administration. We start talking about tariffs. We start talking about global instability, economic instability. Everybody's sort of been waiting for the next shoe to drop.

So I would say the last year the trend has been, let's wait to see when interest rates are gonna come back down and let's make sure that asset values are where we think they are. And so there's been this sort of general pause and slow down from where we were in 21 and 22, it was super high in terms of investment activity and pricing to a certain extent.

What's interesting now though, I think is that as this has played out, you know, four or five quarters of sort of tepid sort of run of the mill real estate activity. Now everybody's waking up and saying, *wow, we hadn't really considered the impact of escalating construction costs*. People now that are looking at, *Hey, I'm going to go develop this thing*. Now their construction costs are up so high that everybody's really starting to reset their mind around replacement costs. You know, in the back, everybody buys on income in the, in the, in their forefront, saying, *Hey, we want to generate yield. We want to have income producing real estate, let's evaluate the durability of the income*.

But the flip side of the coin is, at some point in the market, people start looking at it saying, *wow, this is actually a good deal relative to replacement cost, because now I've got a high barrier to entry, because replacement costs are so high, nobody's gonna be able to build*. And so now a lot of investors are turning into markets that have not been overbuilt, and they're really digging deep and saying, *hey, I'm gonna buy an asset in this market. It may look expensive, but the barriers to entry are very high. I'm going to enjoy a long period where there's not going to be a lot of new product coming to market. I can buy this asset in this market and perform really well.*

We've also seen obviously flight to quality, right? Where investment buyers are buying, there's definitely been a preference towards buying the Class A, the best assets in the market, thinking, well, they're going to perform the best.

And then underlying all that, there's also been a bit of debt buying, right? lot of investors have reallocated their thinking in terms of direct real estate investment and saying, *you know, I'm going to put my money in debt funds and I'm going to loan, I'm going to use this money and risk adjusted return. I'm going to lend this money for other people that are buying assets. And this way, if the market falters, you know, I made it a basis that 70 cents on a dollar or 65 cents on the dollar as a lender*. So there's been definitely a preference of investment money to move towards the lending side.

But overall in the market, it's been pretty stable. We've seen some markets, you know, perform very well. Certainly Florida among them, Texas, the high growth states have been performing very, the real estate has been performing very well. There's some overbuilding in certain sectors, but, when I say overbuilding, there's new supply coming to market that's being absorbed and that's creating short term, you know, changes in rent growth and so forth.

But overall, real estate market has mirrored the economy. It's been relatively healthy. We haven't seen a lot of the distress everybody was predicting in 23, you know, that there was going to be this massive wave of distress. Then everybody was predicting that there was going to be this massive wave of refinancing that was going to cause a lot of that was going to cause distress. Where are they going to get the money when the interest rates reset? But overall, I think the lenders have done a good job on, you know, extend and pretend and extending existing loans and keeping things stable. And of course, the economy has, I think, has surprised most people in terms of its the U.S. economy, its resiliency. So that's been a that's been a positive. That's been a positive.

Helena Carmel (12:00.038)

I feel like I could stop this podcast right now, Graz, because you just gave us so much great info in such a little package. But no, I do have more questions. First of all, do you think that the economic uncertainty with the new administration, do you think we're now sort of at a baseline that *we know where we are, we know what's happening* and people are not as hesitant to act, or do you think there's still uncertainty in people's minds?

Anthony M. Graziano (12:28.429)

So it's interesting, that's a market sentiment question. It's a great question. It's a question I get asked very, very often. **My personal belief is that there is no more or less uncertainty than there was three months ago, six months ago. A lot of it's perception and a lot of it is sort of your own personal political beliefs.**

We have 50% of the country or 49, 51, wherever it goes. In terms of taking direction at the federal level... that plays out in a bigger context, right? What your personal beliefs are around immigration and all of this. I think that we start with, as a baseline, we start with the fact that 50% of the population in the United States just believes that it's complete chaos. Absolute uncertainty because they just don't believe that this administration has a handle on what the economic levers are, that it's a dishonest administration, et cetera, et cetera. So I think we start with that baseline, 50 % of the country based on their political beliefs really has a lot of fear and uncertainty around just continuity and stability and all of that.

Then you have the other 50% of the population that says like, *okay, we're going to change things up completely.* Well, when you start with the premise that you're going to change everything that naturally is going to lead to uncertainty. A lot of cards got dealt in there too on the world stage that, you know, we couldn't control. just had to play those cards. But I don't think the uncertainty is gone. And I think the volatility and the concerns around sort of bigger policy decisions with the economic levers that are being pulled.

A lot of pressure on the Fed to lower interest rates from the current administration, which some people say is completely inappropriate. The Fed is supposed to be independent. They're supposed to only care about the economy. But the Fed is in a difficult position because they've got this dual mandate to both control inflation and yet keep the economy rolling and so they've been balancing this has been a balancing act do I lower interest rates now which could juice the economy or to keep the interest rates high but that could hurt the employment market and so they keep, they're sort of threading this needle while there's this political pressure. From a policy perspective there's a lot of changes that are being you know brought in the economy also that are just changing. I mean take the Big Beautiful Bill as a perfect example.

The Big, Beautiful Bill was very controversial in the sense that it kind of reorganized the deck chairs a little bit in terms of investment strategy, tax strategy, et cetera. Fundamentally though, we have to recognize that there are certain, there's always uncertainty in the market. We play in that game every day in the market. That's the way it is. And I do think that in the investors are saying, *hey, we can't stand, at some point we can't just continue to stand still...*

Helena Carmel (15:15.631)

Right, how long can the pause go on?

Anthony M. Graziano (15:17.933)

Right and we can't keep blaming uncertainty. So, you know, the tariffs are a great example. I did a podcast, you know, last month and I said, you know, we're going to rip in the third and fourth quarter. You know, the economy is going to rip in the third and fourth quarter because we we've been waiting to get some some feeling of where tariffs are going to land and there's still no clear direction as to how that's going to affect the economy. So we're just going to have to play, right? We got to get in the game.

I think that the bigger positive for the US economy right now obviously has been the tech sector, a lot of the AI, artificial intelligence and other technology investments that we've made are starting to pay dividends. And I think that's from an economic standpoint, we're seeing a lot of that growth in all sectors that are now leveraging technology and really growing on the tech side and boosting productivity through investments there. That's part of what's driving it. But we're also starting to see shifts in the employment market that we have to keep an eye on because those are going to have a big impact on the long term.

And then big picture, we have a tremendous amount of debt, US debt. Everybody's focused on the US debt at the moment. But I think the thinking is that we're going to grow our way out of it. Our growth and our acceleration is going to take the sting out of that, but that is going to require inflation. So I think there is some uncertainty, but I expect we're going to see a period where things are going to be more, inflation is going to be a lot stronger over the next five to 10 years than it's been in the past 15 or 20. We had tamed inflation, had low interest rates, low inflation, and this stability that came with the predictability of normal 2%, 3 % growth. That's always the balance and mandate of the Fed to try to reach that Goldilocks point where we're not growing too fast, but we're not shrinking. But I think we're going to see, we're going to see outside growth over the next, you know, five to 10 years because ultimately we have to grow out of this debt.

Helena Carmel (17:16.539)

That's a very good way of putting it. It's a very good way of putting it. And speaking of growing, I was hoping we could talk about the markets and what markets you are picking for you know, your hot, hot areas, where are you seeing growth? We talked about this before the podcast and you said that industrial manufacturing, that was your number one, like your hottest property type. Why do you think it's so promising right now?

Anthony M. Graziano (17:46.584)

So, I mean, look, it's funny. I get investors to ask me to say, *what's the hottest investment class that we should be looking at*? And the problem is once the investment class is hot, that means pricing is elevated. There's a lot of players in the market. Competition is more fierce. So I tend to be a contrarian. I think when we were having that conversation, you were saying, what is the hottest real estate market right now? And I think if you look at the data and you look at the history, know, industrial has been absolutely ripping for over a decade. There's a lot of pushback too, a lot of it is that the community, there's been at the local level, the communities resist expanding industrial areas. Because industrial areas bring traffic, they bring manufacturing, they also bring jobs, but on the warehousing side, they don't bring as many jobs as the trade-offs that the community fights against in terms of traffic and development patterns. So we've had limited expansion of areas that are industrially zoned. That's pressure point number one.

Pressure point number two - in the last ten years we've been trying to reach that last mile of delivery so all of the major logistics and road transport networks have been scoured over by the majors and then we've done huge leasing to Amazon to Target to Walmart to all of these major corporations where time was their primary driver. They didn't care about the money, you know what they were spending on the industrial real estate was not relevant. What they cared about was getting the product to market on time. And so we saw this massive explosion in these mega warehouses.

And then we also, as an economy, have been performing extremely well in the world economy. And so then you look at all the port cities and the way in which we've been importing materials through the ports. And so all of that sort of conspired to just put industrial on fire.

I was having lunch with a good friend of mine. He's an industrial broker in New Jersey. And we were laughing. When we got into the business as kids in our 20s, you were an office broker, you were a big deal. The office brokers were the kings of the brokerage community and the industrial guys are kind of looked at as the little, the little players, you know, they were buying and selling buildings for 50, 60 a foot. And, you know, the office brokers were heavyweights. They were selling buildings for 250, 300 a foot. And now we look back on our career over the last couple of decades and I was laughing. I said, *could you ever imagine that you'd be selling industrial buildings for 300 a foot and all your office broker buddies are selling office buildings for 90?*

Helena Carmel (20:08.497)

If they even can! [laughter]

Anthony M. Graziano (20:11.379)

if they can, right? So it's complete reversal fortune. But I will say this, I mean, the industrial market now, certainly in the last year and a half, is definitely seeing some slowdown, right? We're starting to see less speculative building because you just cannot, you're not coming out of the ground with a million square footer on spec. And if you are, you're playing a big game.

Leasing activity has been reasonable, but slowed, which has obviously slowed the spec building.

And then just generally speaking, there hasn't been as much velocity. So we're starting to see now industrial opportunities emerge where things have stabilized and now you could say, okay, this is a rational, you know, yield driven investment, but the growth in industrial is slowing now.

I wouldn't necessarily say unless obviously you're in, if industrial is your thing and that's your platform, I always say there's always good real estate to buy, right? It's just a matter of finding the right markets and understanding the local markets and what the drivers are. But as a broad asset class, I think most people would agree that industrial is sort of at the top of the value chain right now. So I think there's probably more sellers than buyers in terms of if you subscribe to my thesis of buy right, I think industrial is harder to buy right because it is at the top of the value chain today.

Helena Carmel (21:34.044)

I subscribe to all your theses by the way, Graz. I'm in, I'm a subscriber. I am. [laughter]

So I want to ask you though, so this new qualified production property, a new asset class established by the Big Beautiful Bill Act, that is generating a lot of interest in industrial manufacturing facilities. You were saying you don't know that it's going to be like a game changer, that it's going to be the magic pill that it seems like it might be. Can you tell me about your hesitations? Because I was like pretty excited when I heard about it. Listeners, for those of you who aren't familiar, this QPP would permit owners of the property to immediately expense not only, you know, the tangible personal property in the facility, but also parts of the building shell that are directly being used for manufacturing. That's like unheard of. And I was really excited. But then Graz was sort of a bit of a buzzkill. Tell me why. Tell me why.

Anthony M. Graziano (22:33.869)

Sure, I never want to be a buzzkill. I mean, I really don't want to be a buzzkill. Heaven forbid. No, look, the QPP opportunities, I think, are great in terms of the acceleration depreciation for manufacturing that's in place. The red herring in it, this is where legislation and policy meets reality, right?

The idea that you could excel that an investment in a manufacturing facility would grant you tax benefits is meant to inspire more people, right? To bring their manufacturing back to the US. So the thesis behind doing the QPP was, *hey, if we make it economically attractive, people will bring their manufacturing to the US and more manufacturing means more jobs and therefore more jobs translates into a stronger base economy*.

Because again, part of the thing that the feds are trying to inspire is the is the build out of that middle class, right? The continued employment of the middle class, which it all sounds great in theory, but the devil is in the details. To qualify for the QPP, you have to own the real estate, the manufacturing real estate. And most landlords that own industrial real estate are just that, they're landlords, they're passive landlords. They're not actually involved in the direct production.

And even if you own a manufacturing concern and you say well, *I'm going to build a new warehouse*, you wouldn't ordinarily put that as an asset on your balance sheet in the business So the only way you get that benefit now is by bringing the real estate back onto your balance sheet to take advantage of that and the question becomes how quickly can Industrial businesses move to make that happen, right? And will it have that big of an impact when you look at when you look at the scale of the industrial real estate in the United States is that can have a big impact on the industrial sector in terms of values, in terms of opportunities.

So I think there's uses, there will be uses for QPP. There are certainly going to be businesses, manufacturing businesses that are going to say, *I want want to onshore. I'm going to bring this manufacturing*. You know, you think about like chip businesses, businesses with very high value. They're already spending a tremendous amount of money doing build out and fit out and the companies are investing in these buildings anyway. I think you're going to see some big players come in and take advantage of QPP, but I don't think it's gonna be this huge market disruptive process.

I remember when in the last Trump administration, when we were talking about opportunity zones, right? And the opportunity zone legislation came through and everybody was, we spent, yeah, we spent about a year hammering over all these different, the lines that were drawn around all these opportunity zones and what an opportunity it was.

Helena Carmel (25:08.679)

Right. Everybody thought it was the biggest news. Yeah. Yeah.

Anthony M. Graziano (25:21.165)

And the idea was, you've got 10 years. And if you stay invested for 10 years or more, it's a completely tax-free transaction. Well, capital gains were relatively low. The opportunities zone opportunities were there. But it was a whole new way to have to raise money. You had to go out and convince investors, hey, we're going to stay in this development deal. We're going to get into a very risky development deal. And then we're going to stay in it for 10 years to get the tax benefits. And then what happened, of course, is we got into 21 and 22. The guys that were taking advantage of OZ opportunities, the values went up so fast that it was actually better for them to sell than to hold for the tax benefit. So a lot of them actually had an OZ plan and they developed it and then they got out of it because the values, the yield was too good. They just had to sell.

We always think that these big policy things are going to have an impact. By the time everybody figures it out, deploys it, uses it, it has an impact, but I don't think it's going to be as transformative. And I think the scale of industrial real estate in the U.S. is too large, too diversified, too landlord focused, right? It's not tied to the business as much as it used to be.

When you had small businesses that could take advantage of, I mean, I'll give you an example. The incentives that we give for gross vehicle weight, right? You get a one-time deduction for any vehicle over 6,000 pounds that's used in business. Well, a lot of businesses have fleets.

Helena Carmel (26:28.667)

When it was all small shops, it was different. Families and yeah.

Anthony M. Graziano (26:48.203)

Right? So buying a car into the business is a normal thing. But from a small business perspective, every landscaper, plumber, electrician, et cetera, that could buy a Ford F-250 and take a $50,000 one-time tax deduction did it. That had a massive impact on the number of vehicles sold because everybody, the whole small business economy in the US took advantage of that. You're not going to see that on the QPP side. It's going to be select. There will be opportunities there, but I don't think it's going to have as

dramatic an impact on the economy as people might think. There's my buzzkill by the way, boom [laughter].

Helena Carmel (27:18.331)

It's interesting, yeah, it's interesting that you bring up, no, but it was well reasoned and I see what you're saying as much as I don't love it. Just because you have a splashy headline doesn't necessarily translate into like real opportunity for people.

Anthony M. Graziano (27:35.118)

Yeah. I mean, now that said, if you're a small business concern that's manufacturing something and you are contemplating buying a building, like absolutely now is the time to talk, talk to your broker, talk to your accountants, talk to your advisors and really start to lean in because then at really at whatever point pricing is in the marketplace, if you get the right buy and you get an additional tax benefit towards that, you know, ching ching, ching ching, baby, let's go. Let's play.

Helena Carmel (27:44.519)

Yeah. Okay, so let's move on to retail, Graz, because I found it really interesting that retail, said, was like happening, you know? And obviously, you know, post-COVID, like retail has been a whole like mixed bag. And as somebody who loves the mall, I know the mall is dead. The mall is dead. But we see so many discount retailers and we see plazas and we see like experiences like people like to go to the store for an experience they can only get in the store, you know something you can't do online, so you think retail still has still has room to run, I guess is what I'm saying?

Anthony M. Graziano (28:43.081)

Again, I mean, if you take probably like a broad view of everything, retail, think still has room to run primarily because it's a functional asset class that people enjoy. They enjoy being there, right? We enjoy going out and going to, you know, in the old Greek, you know, days you would go to the agora, right? It's a marketplace and you would go and you would spend the day there and shop for your groceries and do different things. This idea of community, you know, community places where people meet shopping is just a part of that experience.

The other, the interesting thing on the retail side is that it's not monolithic, right? We always talk about like, the dying malls. For sure, we over mauled in the eighties and the rise of institutional investment in the seventies and eighties brought a lot of institutional capital to the malls, which built massive empires, right? You know, Simon and others that built these malls through the seventies and eighties...

Helena Carmel (29:34.777)

It was a wonderful time to be alive, yes.

Anthony M. Graziano (29:40.674)

And part of the driver was that we brought that, the idea of being the experience of the mall, we brought that and it gave a whole segment of our population a place to go. And then we grew up and made money and all of a sudden, you know, that continued to propagate. But a lot of those models were built in markets that, you know, the fundamental demand was there initially, but over time, you know, sales just didn't keep up, demographics didn't keep up.

Now we've shifted over the last 10 or 15 years, we've shifted our buying preferences. And of course we've been through economic cycles. mean, let's not forget, the death of the malls wasn't just because of online shopping. We had a great financial crisis. We had a lot of disruption from 2008 to 2011 that just people just had to stop spending money.

But then at that time we were also sort of re-imagining what that would look like. So we started to do downtown urban centers, we started to do festival market and festival market place is probably older, but you know, high end outlet, walkable outlet centers, right? So the great thing about retail is it's always adapting, right? And it's always changing.

So from an investment perspective today, I think my main thesis around why retail is very interesting and continues to be is that because it's constantly changing and it's keeping, it's keeping up with those changes in consumer taste and consumer behaviors and things of that nature, **the ability to continue to iterate and find opportunities in retail are there**. It's very dynamic. So that dynamism leads to great opportunities where you see something, a value-add opportunity that other people are missing. So that's number one. Number two is I don't think that demand for retail is going away. In fact, I think the need for human connection and the need for people to be together and doing things together is magnified in this digital world. And what we're finding, everybody last 10 years has been saying, you know, eventually online purchasing is going to get so great that we're not even going to need retail stores. And the reality of it is what the retailers have found out is that's just a feeder. A lot of people will shop and they certainly there's 18 Amazon boxes come into my house, you know, every other day. But that said, it's a, it's a different delivery model. And there still is quite a bit of, *Hey, let me browse, let me find out where I can find this. And* *then I want to go hunting. You know, I want to go out, I want to go find something I can't find online*. So there's that element. And then there's also, *I just want to get out of the house* and, you know, go look for something that I, so there's, think that there's still a very big human need for retail.

And then the other option is COVID completely busted the whole thing wide open. Right. And we had this period during COVID where the stores just had to adapt or die. A lot of them died. And so what happened is we shifted a lot of our retail. Utilizations and that create more opportunity because we took retail offline. In many cases, we redeveloped the retail center into an apartment. You've seen a lot of malls knock down their anchor and build a surgery center or knock down their anchor and build a freestanding Target. And so we've cleared a lot of the inventory.

Now, when we look at the office market in contrast, we don't just knock down these office buildings -- alternate reuse for office buildings is really difficult because they tend to be on compact sites. They're taller, but retail has a lot of land, a lot of surface parking in most jurisdictions. So around the country, think about around the country, I'm not talking the urban areas, but certainly in most suburban locations, **retail is really well positioned for redevelopment**. Single story with tons of parking, great visibility on major highways. So there's just a lot of reuse opportunity in retail. If you can't that you don't get in that you don't get with an office building, you don't often get in an apartment building. Right. I mean, how, what do you convert an apartment to? So retail is very adaptable for reuse, which is great. And it's really dynamic. And then the other thing, of course, is that as these tastes change, there's a tremendous opportunity for visibility to retail centers vis-a-vis all the social media. So you think about what it would take to draw someone to your center, and you say, well, I need an anchor tenant. And many times that's true. But there's also opportunities to just promote online and drive people to drive to your center, depending on how you tenant it. And I think the **tenanting in retail is brilliant**. A lot of opportunities there. So great opportunities for operational management and you find the right asset. And they're not building a ton of it. And all the prices have been reset during COVID. So we've already kind of reset the pricing. So all those things combined, think retail is definitely gonna see. You're gonna see retail continue to garner a lot of traction over the next two to five years.

Helena Carmel (34:22.567)

As a person who enjoys shopping that's just wonderful to hear. Thank you, putting my mind at ease. So, okay, retail is adaptable and retail is flexible and retail is innovative and interesting. But something like multifamily, I feel like multifamily is is evergreen, right? It doesn't have to be so adaptable, right? People always are going to apartments, right? Isn't there like a reason that multifamily is always like pretty stable?

Anthony M. Graziano (34:52.459)

Yeah. Well, I mean, one of the reasons that multifamily is stable is that we've underproduced housing in the US. I mean, if you look at all of the statistics in terms of historic housing production, a lot of what we're producing now is multifamily to create the rooftops necessary for the population growth. So we've been underproducing housing and multifamily therefore has been the beneficiary.

That being said, also it's, you know, the rate of default in multifamily tends to be quite a bit less. So there's been a lot of demographic shifts that have favored, um, you know, the development of multifamily, i.e. **people are comfortable not owning, right? There are urban areas, urban areas continue to expand. And as that happens, single family opportunities and ownership opportunities are reduced**. And so if you want to live in an area for economic reasons, you have a job in the area, you have your family in the area, whatever it is, if your options are reduced to renting, you know, some people would say, *well, that's not acceptable to me. I want to own a house, so I'm going to move somewhere else*. Now I think renting has become, you know, sort of more acceptable. And in many cases because of job stability, renting is often preferred.

I want the stability, but I also need higher quality and I need better amenities and I need, so now there are these tastes and preferences and behaviors of the consumer is driving a lot of new multifamily development because they're driving towards consumer preference, right? I need a highly amenitized quality building with good security. And I don't mind paying 3000, 4000, 5000. If you talk to the major multifamily developers around the country, what they will tell you is they never realized there was so much elasticity in pricing, right? We always talk about price elasticity in terms of like, what can you charge for rent? And you would go into market and you'd study the 10 rent comps in the market, you know, and say, oh, the rents are between $3.00 and $3.50 a square foot. And so you'd say, *well, I have to build in this range of $3.00 and $3.50 a square foot*. Then somebody comes in the market and drops a $5.00 a square foot rental rate in there. And they fill up immensely quick. you're, *whoa, wait, how did you do that*? It's a surprise. But they found a niche in the market where they said, *hey, we've got great job market here. We've got strong employment with high salaries. And this apartment location in this neighborhood, got a good school system, we're going to give them ample space, we're going to give them high amenities, and we're going to charge 30 or 40 % more than what the market thinks we can get.* And they got it. And then everybody started to copy that.

So what we're finding is we're seeing a lot more high-end multifamily being built at much higher prices than people expect that they were going to be able to receive. And then the flip side of that coin is that the older B-class product then needs to be upgraded. and or becomes competitive in the market as the sort of middle, the housing middle. But overall, yes, multifamily has, I'll call it evergreen, people view it as a very safe investment because the rate of default, you're trying not to get kicked out of your place and everybody pays their housing costs first, right? It's the first thing you serve before you buy a car, before you go out for discretionary spending. So it tends to be more secure and it tends to ride. When you look at the studies, of values and default rates and things like that, **multifamily tends to ride out a bad economy**.

So as we were coming through COVID, everybody was like, *flight to safety*, buy multifamily or build multifamily because there was still a lot of demand. Now, again, though, in certain markets, we're starting to see there's a lot of multifamily under construction. And so now that's starting to affect market pricing and market acceptance and vacancy and also operating expenses have gone up quite a bit. Insurance has gone up quite a bit, repairs and maintenance is up because construction costs are up. So the economics of multifamily now have been shifting and that's slowed the multifamily market. So as much as everybody says, well, it's a flight to safety, great. But in terms of value appreciation, well, in terms of value appreciation, you've got to look at the market and see, I mean, what we're doing a lot now is helping advise clients on, you know, *is there too much supply in this market? When is this market going to demand some new construction*?

And so, and we're looking, you know, discreetly at not just the overall market, you know, there's X thousands of units under construction, but really what's, what's unique about the asset context of the neighborhood and the context of local demand. but broadly what we see is if you're over about 3 % of your total inventory, if your construction pipeline is more than about 3 % of your total inventory, you're probably in for some slower. I don't want call it overbuilding, it's going to start to affect rental rates and vacancy and lease up.

Right? So you want to keep an eye on those markets where, you know, if you look at certain markets, Dallas is a great example. Austin, Texas is another great example where just a tremendous amount of activity, easy entitlements, you know, things started to come out, projects started to come out of the ground a lot quicker. And then all of a sudden you wake up and you've got six, seven, 8 % of your inventory is new inventory to be developed. It's just, it's not that it's not good. It's just that it's going to affect the growth, the rent growth for a period of time.

And then you have to decide, am I investing into that market or am waiting for it to come back? Or am I going to go in another market? There's a lot of really great opportunities in markets like Ohio and Indianapolis and the Northeast, even New Jersey. Those apartment markets are difficult to get entitlements in, difficult to get institutional capital attracted to because they tend to be viewed as slower growth markets. But a lot of them haven't really seen a lot of new construction.

And so there's still a lot of good opportunities in multifamily. I don't want to poo poo it. I'm just saying you got to do your due diligence in these markets and make sure that you know what you're buying into in terms of stability and growth.

Helena Carmel (40:40.904)

When we were talking before, you said you gotta *follow the people*. You have to follow the people. But I guess you also have to know when you need to stop following the people, right? When the market is, I don't want to say saturated... I guess location selection, I know it's so crucial, but how do you know when an area is, guess, just, done?

Is this an impossible question, Graz? You're making kind of a face. Are you thinking, *I'm not a crystal ball, lady? I don't know. [laughs]*

Anthony M. Graziano (41:15.873)

No, no, no, I get these questions all the time. I love them. No, look, my comment to *follow the people*, obviously, what you're trying to do is position yourself to grow faster than the giant. I mean, if you're going to buy real estate, you're to invest in real estate. You want to be in a market where the growth of your real estate asset is going to outpace the inflation. You're investing your money and you want to beat inflation. Well, how do you do that? Real estate's a fixed asset. So you have to think about, well, *what's going to drive the value of this asset beyond what the normal economy is growing at*. And the answer is outsized growth in the thing. And when I say outsized growth, primarily **outsized population growth**, right? Which is then gonna lead to demand, which is then gonna lead to consumer spending. A lot of the reason that you're seeing outsized population growth is because that's where the jobs are going. So it's all related, right?

You'd say, **I wanna follow the people. Okay, well, where are the people gonna go? They're gonna go where there's great quality of life, great school system, great value proposition in terms of the economy and jobs. And so when I say follow the people, mean, look at all of these things and say, is this market going to outperform the general economy? And if so, this is probably a good investment market.** Now, narrow it down and say, I'm going to find the neighborhood or I'm going to find the specific investment that I'm looking to deploy.

So, but then the question is, how do you follow the people? Well, for one thing, I can tell you this. By the time it's in the media and maybe even on this podcast, but by the time that's on the media and everybody says, oh, *this is what's happening in the market*, you're probably close to being too late if you're not already too late, right? When everybody was talking about, *oh, Austin, Texas is the hottest market and you gotta get down there because the market is on fire and there's all these things happening*. At that point, internally, inside, we were looking at it and said, *this has been happening for two years already*. The media picked it up like too late, right? That was not a lead story.

And so I would say one of the things that I always tell people is **you should be constantly talking to market players and really thinking about what are they hearing that's different than what you're hearing in the media and in the news, right**? But you want to get ahead of that story. You got to take your data points and realize there's no perfect source, but by the time all sources are telling you this is a clear path, you're too late, right?

Helena Carmel (43:33.992)

Yeah, in other news the sky is blue. Yeah, yeah.

Anthony M. Graziano (43:39.022)

My old real estate professor, Jack Winston, used to say, the last guy to the apple gets the pits. Right? So if you're the last bite at the apple, because you've waited and waited until you had perfect information and then, okay, now you're too late. But follow the people is an important element. I had another investor client of mine back in the 90s, he told me to **follow the pipe**. And I thought that was an interesting, I said, what do you mean follow the pipe? He said, if you could look at a sewer map and understand where they're expanding sewer and buy real estate in those markets ahead of where the sewer expansion is happening, that's like your flag of growth. Hey, we're about to do a sewer extension to this area of the town. And then you go, when that happens, that's going to open up a whole new possibility for density, for more intensity of development, et cetera, et cetera. mean, was just a brilliant observation. Follow the pipe. A lot of people still do that.

There are investors that follow the Walmart. I'm serious. mean, where the new Walmarts are popping up, then you're going to need a Wawa gas station and you're going to find a superstation and you're going to find all types of collateral retail, the nail salons and the Chinese restaurants and all that. They're going to pop up around wherever that, because that's going to become a node of retail activity. And therefore all the land around that's going to appreciate. There are investors that look at things that way.

I would say though, today, a lot of investors are sort of following the people and the tax advantages, we're seeing a lot of migration from around the country into the low, no income tax states. And when you combine that layer on top of that, the impact to the baby boom generation and the huge transfer of wealth that's gonna occur over the next 10 to 15 years, that lack of state and local taxes is gonna be an important feature to making that transition happen efficiently, tax efficiently. And as a result, I think we've certainly seen a tremendous amount of economic activity from North Carolina South to Florida, Texas, you know migrations away from California. Denver was real hot for a while and now we're starting to see a lot of migration out of Denver into the Western States.

So all of these different dislocations and **migrations of people represent opportunities** so I just say look just figure out what where your position is and what your what your thinking is around what you want to own but then **look at those macro trends and talk to people.** Go into a new area and you'll start talking to people at a restaurant and find out where they moved from and how long they've been here, what made them come here. know, nobody discovered Raleigh, North Carolina from an ad in the newspaper, right? People just experienced it. And then you go there and you're like, *wow, I didn't even know. You know, I didn't even know.*

Helena Carmel (46:24.38)

That is such excellent advice for a potential investor. Really just yeah. Wow. If I was coming to you and I was like, Graz, give me advice like that is just such good advice. And you also mentioned one other one other thing that I want to return to. You were talking about collinearity in real estate and you can't just be like, well, *if office isn't performing, then I'll switch to something else*. Like that you can't just do that. The verticals rise and fall together, I guess.

Anthony M. Graziano (47:03.233)

I think that's, think that is largely true. And I think that we've seen specialization in real estate from an operational perspective, that it's much more difficult to be a generalist, right? In the old days. And I hate to talk about the old days. I sound like an old guy, but, you know, I knew a lot of real estate investors that they, their investment thesis was *I buy real estate, you know, I buy land and I build some retail, and then I'm going to build an apartment over here. And then I'm going to do this other thing over here.* And they had this sort of broad-based perspective that, *I'm a real estate investor and I'm agnostic as to which type of real estate I own*. And then I also, and we have institutional clients that look at and say, we want to own a basket of real estate and we don't want to be geographically too concentrated. And we also don't want to be asset class too concentrated in one asset class. We're going to play across all of these asset classes.

And that diversification is fine, but what we're starting to experience in the marketplace is that if you are a multifamily investor, you are going to concentrate in multifamily and it doesn't necessarily help to say, wake up one day and say, *hey, I'm liquidating my entire multifamily portfolio because multifamily is, you know, at a perfect price point and it's ideal for me to exit. And now I'm going to go over here. I'm going to redeploy into office*. It's a completely different operational model. And so what we're finding is that the **operational models are really important to the performance**. The management, whether it's third party or, you know, directly managed is important.

And it's more difficult today for investors to hop. I'm not suggesting that you don't diversify across different asset classes. What I don't like is the discussion or what I kind of resist is the discussion, like, *hey, let's liquidate*. And by the way, the institutions did a lot of this post 2020. It was like everybody wanted out of office. If they were in an office, if they had a big office portfolio, they had to get out because they had to convince their investors that they were continuing to raise money to invest with. *Hey, we're not gonna be over levered in office. And to the extent we are, don't worry, we're gonna work through that. But our new thesis is we're gonna come over here in multifamily and industrial.* Well, all that does is it shifts a massive amount of money towards those two niches, which then drives the prices up, which then makes investment in those a lot less desirable in terms of yield. So when the market is shifting like that from asset class, big, big money asset class to asset class, it's actually **affecting the pricing, which is then eroding the benefit of the diversification**, because you end up overpaying for the stuff that everybody wants.

If you came to me and you said, I've got $10 million to invest, I would talk to you about what your specific requirements there, and we would develop a strategy. If you said I have $4 billion a quarter to invest, that's going to be a different type of strategy, right?

But my general thinking is, from what I'll call the “bread and butter real estate investment community,” the doctors and lawyers and Indian chiefs that are investing one to $10 million, is basically don't get yourself so focused on chasing the best asset class at any given time. **Buy your real estate right, hold it long term, don't be worried that the market is coming and going because ultimately all real estate is gonna suffer if the economy is suffering and all real estate is gonna have a great run if the economy is doing well.**

And so it's all gonna sort of move together. And when you're in and out across asset classes, you're not maximizing your management expertise, right? You really need to focus on performance, asset performance and operational excellence.

Helena Carmel

And as you mentioned, which I think can't be overstated, don't let unfounded concerns about uncertainty and the administration and whatever get into your head. I think that was such an important point that you made not to let that spook you, you know, that, yeah, there's always going to be uncertainty. There's no more now than in the past. And just to keep that kind of perspective in mind. So don't be afraid to hold on to what you've got.

Anthony M. Graziano (51:49.464)

That's exactly right.

Helena Carmel (51:59.357)

Whoa, not to quote Bon Jovi or anything as a fellow New Jerseyan.

Anthony M. Graziano (52:02.574)

[laughter] It's okay. It's okay. I was just gonna say it's okay. You want to quote the Boss or Bon Jovi knock yourself out.

Helena Carmel

Graz, I enjoyed this so much. I have to thank you so much for your time. I feel like you have forgotten more about real estate than most people ever knew. And I just, I learned so much. Thank you so much for your time.

Anthony M. Graziano (52:22.018)

Thank you. hope the listeners enjoyed it. was honored to be here. I don't know if I've forgotten more than anybody knew, but I can tell you that I'm getting to that point with old man wisdom where I've seen enough cycles that I can kind of look to take a longer view of this. I think it offers some perspective. I think that when people start to panic, that's bad. And when people start to get complacent, that's bad. And the good news about where we are in the economy today, I think, is that everybody's really thinking hard about what the future of real estate is in the next five to 10 years. There's a lot of change happening. All of that breeds opportunity.

And I said to my daughter the other day, she said, did anybody ever buy a piece of real estate and sell it for less than what they bought it for? And I think one of the greatest things about real estate is that on a nominal basis, whatever pricing you think is bad today, when you look back 30 years from now, you're going to say, *wow, I wish I bought that*.

Stay invested, stay smart, make good moves, but overall I'm very bullish on the US economy and the real estate surrounding. So thanks for having me today.

Helena Carmel (53:23.239)

Wonderful. that's wonderful to hear, Graz. you lifted everyone's spirits just now. Listeners, if you liked what you heard, why not subscribe? We're on Apple Podcasts, Google Podcasts, Spotify, Podbean, or just visit capstan tax.com slash podcasts. I'm Helena Carmel. Thank you for listening to Beyond the Spreadsheet, and we'll see you next time.