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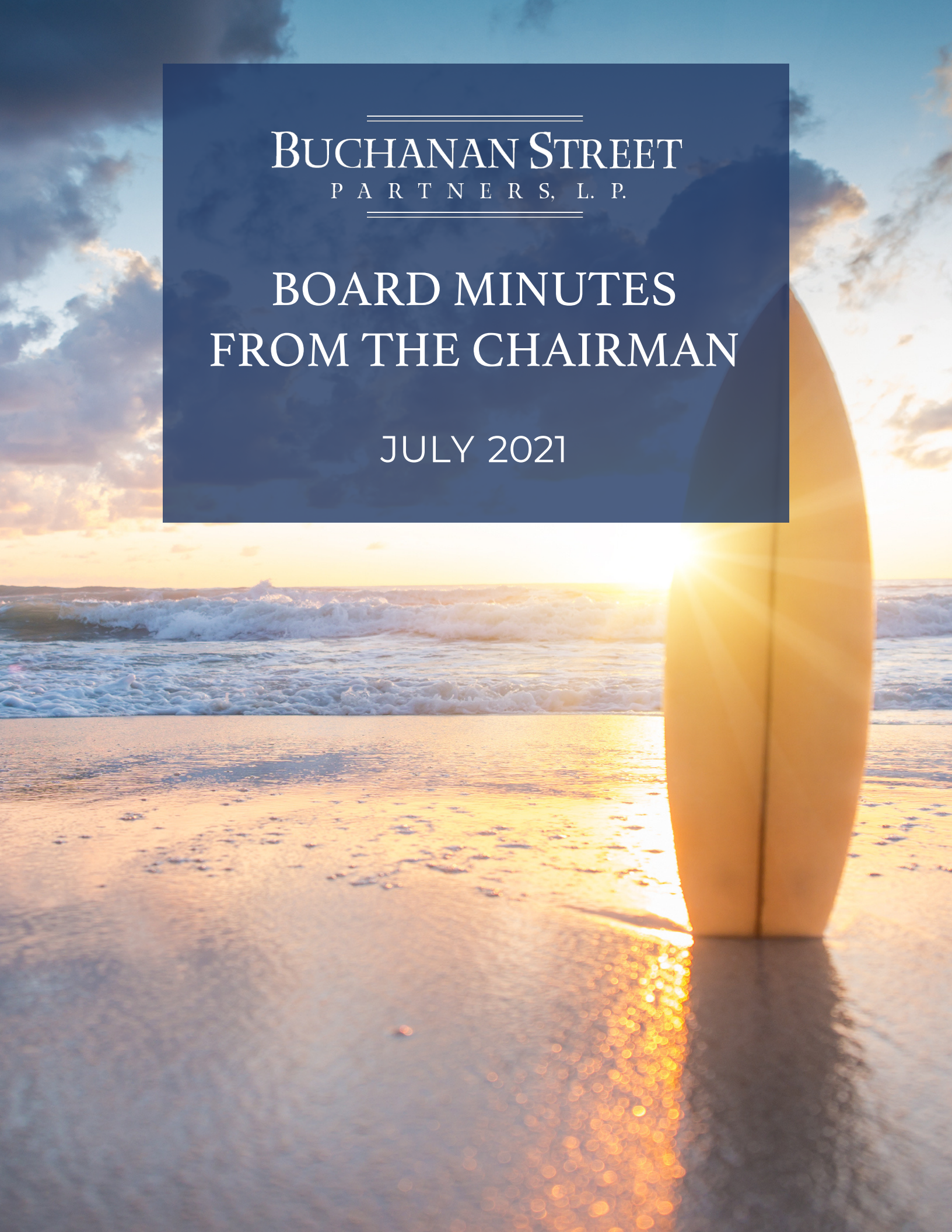
BUCHANAN STREET  
P A R T N E R S, L. P.

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BOARD MINUTES  
FROM THE CHAIRMAN

JULY 2021



# July 2021 Board Minutes

Today's real estate headlines continue to highlight the realities of inflationary pressures, potential tax law changes, the inclusion of single-family rental (SFR) housing as an asset class and the most discussed office market transformation. Certainly, each subject is already having its impact but most noticeably as it **causes investors to pause and rethink their investment thesis** and ongoing investment activities. In this quarter's Chairman Board Minutes, I wanted to **provide insights to the challenges and opportunities of processing new investments in this next chapter.**

Addressing these headline banners might guide us in our assessment to better understand the many variables at work. The adage that real estate investing is a **hedge against inflation** might be true as we think about **hard assets and their supply limitations...** but how much more return can we expect from **cap rate compression** especially as **interest rates go up?** Obviously, this is good for those investors already holding property as higher prices for construction could hypothetically limit supply further supporting a recovery in rents and asset prices, but **can your next investment be purchased at the right basis and appropriate return metric?**

**Tax advantages** have always been a **driver to real estate investing** and this catalyst is not lost on today's administration with discussions ranging from capped 1031 exchange realizations, carried interest for capital stewards taxed as ordinary income and the elimination of the step-up in basis for estate transfers. Our question then is **how might these tax changes impact valuation, industry liquidity and the potential drop-off in property sale transactions?**

SFR investments are now part of most institutional investor's real estate portfolio and are directly competing with home buyers. Some might jump to the conclusion that the American **dream of home ownership is ending** as many families are now willing to rent vs buy but this might simply be that their dollar invested in a rental property yields a more spacious and higher quality home than through outright ownership. For today's investor this then becomes an excellent hedge against a continued imbalance of housing supply providing both a predictable current cash flow with future optionality of selling an appreciated asset with the return of more home ownership but **what will the impact of this new asset class and this new renter option be to the apartment and multi-family space?**



Real estate's largest asset segment is office and employers are becoming fed up with zoom calls and flex work hours as they begin to **call back their work force** to maximize collaboration and productivity. The growing consensus now is that most tenants are planning for only **modest adjustments to their square footage footprints** with smaller companies likely to keep their office configuration or even grow them as most believe that with the **rebounding economy** they will need to **retain more space than previously thought**. Sounds good... but are employees ready to accept this new directive as the dearth of talent and recruiting wars provide prospective workers with more leverage to **consider those companies** that **offer** the new-age **hybrid officing** and **remote work platforms**?

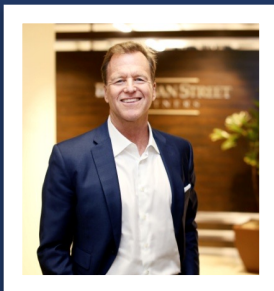
I sat down recently with our acquisition team to discuss these broader market themes as we pursue new investments. As a reminder, Buchanan is an owner/operator of multifamily, self-storage and commercial properties and a lender to all asset classes. Predictably each **affirmed the challenge** of there being **fewer available investments** to consider as existing owners reflect on the future of exchanges and where they might put their money to work. Exacerbating this reduced investment landscape is the **increased capital flows** prompted by aging demographics and reduced fixed income return options all **expanding buyer pools**. Lastly and to **further complicate capital deployment**, additional variables are at work such as evolved real estate usage requirements, the entrance of life sciences as a new segment, the decentralization of medical space and entrance of telehealth, the offshoring of remote work, and the flight to the suburbs are all examples of **new influences and relevance in the making of today's real estate investments**.

Each member emphasized though that the **new playing field is allowing for differentiation** as they can present a more nimble and predictable buying solution to sellers by staying under the radar of the larger institutional shops who either need volume or investment size to deploy their massive capital allocations. The group exemplified several of their recent transactions which allowed for **adaptive re-use optionality** in either converting office to a higher and better use such as medical or life science or providing an ultimate for-sale product to industrial users as multi-tenant industrial supply continues to get squeezed... as the growth in e-commerce is driving up demand for smaller industrial spaces nearer to cities so fulfillment firms can quickly get their products to customers. The team spoke about searching for **need based real estate products with accelerated demand** that have been **fueled by demographic shifts**, the continued rise in housing cost, and varied consolidation and relocation while also providing a **balanced hedge against both inflationary headwinds and the potential for recessionary times**.

Two final themes they shared were the **willingness to buy vacancy** to realize **predictable value creation** from merchant builders who are either forced to sell by their construction lender or have realized enough of a profit to justify their early exit... and lastly, they emphasized the need to kiss more frogs and **thoroughly underwrite more transactions** to differentiate themselves from other buyers who are not as prepared. Ultimately this has provided a benefit to **overreaching offerors** as sellers come back to the predictability of the completed homework to win the prize though at a **reduced price or the right price to the silly money**.

My final takeaways include a **continued appreciation** for the **challenging work of making and creating investments** and noted how important that knowledge, a supported innovative culture, and collaboration is to the **balancing of the art and science of deal making**. Most importantly, I thank our many investors who have allowed us to expand our platform offerings as we become **highly convicted about new opportunities in the marketplace**.

Best to all,



**Robert Brunswick** is Co-Founder and Chairman of Buchanan Street Partners, a real estate investment management firm headquartered in Newport Beach, California. In his capacity, Robert has directed the entrepreneurial growth of Buchanan Street since its inception and continues to lead its current strategic direction. In his day-to-day activities, Robert is responsible for chairing the firm's Investment and Executive Management Committees.

In 2005, Robert was named Ernst & Young's Entrepreneur of the Year and in 2009, the Boy Scouts of America honored Robert Brunswick and Buchanan Street Partners with the "Good Scout Award" within Orange County. In 2007, Robert established Buchanan Children's Charities, a 501(c)(3) organization which measurably improves the lives and educational opportunities for America's children. The charity's signature fundraising events have included Challenge for Children, Encore for Education and the Real Estate Summit, and in 2016 Robert was the recipient of the UCI Center for Real Estate's Power-packed Philanthropist Award.

Robert holds a B.A. from the University of California at Berkeley and has completed Berkeley's Haas Business School Executive Management Program. He currently serves as a Board Member of Bixby Land, the Hoag Hospital Board and is a Founding Member of the UC Irvine Center for Real Estate. His professional affiliations include membership in the Urban Land Institute, Pension Real Estate Association and Young Presidents Organization. Robert is passionate about educating our future leaders and has taught multiple commercial real estate classes to UCI undergraduate and graduate students as an adjunct professor.

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