Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's conversation is an interview with Richard Barkham, the Global Chief Economist and Head of America's research with CBRE. And we, of course, are talking about the outlook for the real estate sector coming out of the lockdown phase of the pandemic.

This is our second in a row broad conversation on this topic, last episode was with Gunnar Branson, and it also bookends with a conversation that I had with Richard's colleague, Spencer Levy, CBRE's Global Chief Client Officer and Senior Economic Advisor, and a fellow podcast host back in April of 2020. Spencer and I had our conversation going into the COVID lockdown, today's conversation is Richard and CBRE's view coming out of the lockdown and into our reopening.

We are all trying to make sense of the next cycle in our business, which has been so disrupted by COVID. Richard and I talked sector by sector, and no surprise apartments and industrial come out on top. Retail will continue the secular transitions that were accelerated by COVID, alongside the continued need for grocery and entertainment retail, with the most fuzziness and wide range around the impact on the office.

I just attended my second in-person conference in a month. First was the National Multifamily Housing Council Conference, which I mentioned on the prior episode, and this past week was the University of California at Berkeley Fisher Center Real Estate Conference at Pebble Beach. The attitude at NMHC was ebullient, although acknowledging the real challenges around affordability and lack of supply in multifamily. The attitude at the Fisher Center was also quite positive, with the widest range of how the heck do we really know around what new normal we may find in 2, 3, 4 years around work from home and the rhythms and design and business models of office space. And my thanks to Richard for exploring all of these topics in our conversation.

Folks, our next interview is episode 100, and we'll be having a very special guest. Our first guest from corporate real estate, David Radcliffe, who heads real estate and workplace solutions for Google. This will be a broad ranging conversation with one of the most influential leaders in corporate real estate. And then we'll have two episodes in a row focused on environmental sustainability in our business, speaking with the heads of [Eve 00:02:28] and ESG from two major advisors, as well as an investor in the energy area of PropTech. A deep dive on the subject in the hot month of August, when some of these matters are viscerally front and center.

Since we're essentially at episode 100, I want to, again, thank my colleagues at Terra Search Partners for their sponsorship at Supportive Leading Voices, now into our fifth year. When we started Leading Voices with ULI, we could not have imagined that this would have been such a long-term project, that we would have amassed such a broad archive of conversation with such amazing guests, and have had the support and been inside the ears of so many listeners. Thank you, Terra Search Partners. Thank you guests. Thank you listeners. And I'm looking forward to these continuing conversations deeply exploring our industry.

Also, with today's episode, we're adding two new features to the show notes on the Leading Voices website. First, we'll now have a link to a one or two minute audio clip from the episode to get some of the highlights. Second, we're now also providing full transcripts of the interviews on the website going forward. Be sure to check them out at leadingvoicespodcast.com.

I hope you enjoy today's conversation with Richard Barkham. As always, if you're enjoying the conversations, please forward your favorites to your colleagues, please rate us on your favorite podcast app, and feel free to email me at matt@terrasearchpartners.com with comments, questions, or ideas for our second 100. Enjoy the episode.

Richard Barkham, welcome to Leading Voices in Real Estate. This is a bookends conversation. I had an interview with your colleague from CBRE, Spencer Levy, back at the beginning of the pandemic in March of last year, and at the time we were looking forward into the pandemic, then three or four weeks into the lockdown, and now, 15 months later, we're under control. We feel post pandemic. People are moving along, but we're not, and there are impacts on the real estate business, both short-term and long-term that we're going to get to talk about today. So I'm thrilled to have this conversation with you. And you're the Global Head of Research for CBRE. Just talk about that and what that role means.

Richard Barkham:

I'm Global Head of Research for CBRE and also Chief Economist, and what it means is we've got a research crew at CBRE of 600 people or so globally, 350 roughly in The States, 150 in Europe, and the rest of the balance in APAC, and they're very focused on just doing exactly what you said, providing a forward view. Sometimes it's a quantitative view. Sometimes it's a more nuanced, thought out judgment or view. But we're also focused on making sure that we collect real estate data, we house it, we manage it, and we deliver that to our brokers as well.

That's, broadly speaking, what the research team does globally, and I manage those people. We've got some brilliant talent within the CBRE research team, and I try to do a technical role of chief economist, which is to do macro forecasting on the precise nature of rental movements and cap rate movements around the world. So that's my role.

Matt Slepin:

If I think about it, it's interesting. I think of it from the micro to the macro, and at the micro I know research is integral to pitches on specific deals, and the research behind how we're going to sell an investment, sell a specific asset. Maybe a bunch of your 600 people are thinking very, very locally and asset by asset, and then you're rolling all this up somehow, and then you have people who are totally global in their outlook. I assume that's probably a small part of the 600 person team.

Richard Barkham:

Yes, that's right. We have very market focused researchers, then we have regional and national researchers, and then we have global researchers. So we can advise on the outlook for a particular building, but also we could talk about a global portfolio, for instance, and both from an investor perspective, should the portfolio rebalance one way or the other, and from an occupier perspective, how can they optimize their platform and provide their people with the best and lowest cost platform to function as a corporation. So we can give advice at all levels and we have fun doing that [crosstalk 00:07:01].

Matt Slepin:

I always have this fantasy, I have it in my business, which is 11 people, but I have it for all companies, which is if you were able to mush together the minds of everybody into one mind, and that one mind was able to take all of that wisdom from disparate sources and collect it, make sense of it, and then speak from it, the goal of technology and the goal of a big organization is to do that, that hive mind, I don't know the right words of that. And that's not just the mind of your 600 researchers, that's the mind of your best brokers and your best investment people. How much are you able to distill or collect that data within an organization as vast as CBRE?

Richard Barkham:

That doesn't happen naturally. I mean, we are party to all of these wonderful conversations and it's one of the advantages of being an economist in a real estate company, we talk to a lot of businesses, so I can look at the data and I can talk about what's going on as somebody who's running a big business. So I've got the anecdote to feed in to counterbalance the data, so it's a great position.

But it doesn't happen naturally. You have to manage it. You have to make sure that the people are at the front end and then connected back into the organization, and then you have the forums in which you can share your ideas, that you can feed into coming to a group view. Managing that kind of information, both the formal information, the data that's coming out of the business, and the informal information that's coming out of the conversations, despite the fact that we've got the technology, it employees an ever larger part of my daily life just to make sure that that collective wisdom that you referred to is managed, it's distilled, and it's fed back into advice and action and thought leadership. You have to manage it pretty intensively.

Matt Slepin:

It's a goal, because you will never achieve it.

Richard Barkham:

No, it's a horse race, I prefer to think of it, and you might be a nose ahead, but you'd never get a neck ahead. It's always moving. New data sources arrive, new market sectors arrive, new people have to be talked to, you have to collect data on different [inaudible 00:09:08] as they arrive.

Matt Slepin:

I want to go across the industry and think about what you're seeing and what you're learning, and so maybe the place to start is, coming out of COVID, let's talk about the different sectors of real estate and which sectors come out better, which sectors come out worse, what was going to happen, and anyhow, what's really changed in that. And I think the two darling sectors either continue to be, or most certainly are right now, both multifamily and industrial. Talk a little bit about those two sectors and then a little bit in contrast with others and what it means coming out of COVID for those parts of the business.

Richard Barkham:

Let's talk about industrial and logistics. I think when we were talking about this at the start of the crisis, we thought that maybe we'd have a big economic hit, it might take industrial and logistics a year to recover. It would be the fastest recovery. Maybe office would take a couple of years to recover, and then retail, maybe three years to recover. That was our prognosis based just as we saw and quickly became evidenced, just the acceleration in the digital economy with both online shopping and also remote working.

In the event, industrial and logistics didn't break step. They might've looked more moderately weak for a quarter, but I think Q4 2020 we saw almost record levels of net absorption, a huge occupy demand, coming out of two things. I mean, we can talk about the secular shift to online retailing, physical goods was hugely boosted by the pandemic, and that's obviously got to find its way through the distribution system and it really paid off in terms of robust demand for industrial and logistics. So I&L, didn't break step.

Matt Slepin:

One question about that, did that mean that it got ahead of itself where it should be, or just accelerated the place to which it would become? So without the pandemic, does that sector, or does that demand, go down or just keep up at that high level?

Richard Barkham:

Well, I mean, I think these levels of demand probably will go down a little bit. I mean, I think we're already seeing it in the economy. There is now a shift away from goods spending. This is what's driving the recovery, a shift away from goods spending towards services spending, towards food and beverage spending, towards restaurant spending, towards hotel and travel. So there is some diversion of revenue out of those sectors. Of course these rates of 7% economic growth, they won't continue forever. I mean, the good news is they'll continue for the next 24 years, but they won't continue forever.

So we do see some moderation in the pace of additional demand for space, but one of the really good [inaudible 00:12:03] features of the current surge in industrial and logistics is, unlike in previous episodes of huge concentrated growth and real estate, we haven't got a supply [inaudible 00:12:17]. We've obviously got new supply coming online, but I think it's more or less keeping pace with demand.

I look at the supply side and supply is increasing, there's no doubt about it. But is it getting ahead of itself? No, it's not. I think it's keeping nicely in pace with demand. And frankly, we could do with a bit of easing in the pace of demand. Occupiers could do with a higher level of vacancy, frankly, than they've currently got.

Matt Slepin:

It seems to me that we're reworking the infrastructure of how our economy works, and industrial has to get to that new place of infrastructure. And you don't want to get there too fast because it's just too hot and it hurts the way that the economy works. However, that shift is just going to happen and we're going to be there, and you're just talking about that trend.

Richard Barkham:

I see this around the world, there's some natural [inaudible 00:13:10] on supply. We are building out the infrastructure, but there's a natural little downward pressure on the supply side break, which is extremely helpful, given the history of real estate and the tendency of real estate to overdevelop.

Matt Slepin:

Let's keep going. So we're going to tour around the sectors, because I want to spend most of the time on office. Multifamily within the context of post COVID.

Richard Barkham:

I mean, multifamily surprised us all about just how well it held up in terms of rent collection. Obviously there's been a lot of support, the generous unemployment support, there have been moratoria on evictions and they've been very supportive. We've seen a little bit of a notch up in vacancy. Interestingly, the biggest notch up in vacancy has been in class A space, and I think that's really as people, over the course of last year, moved out of the cities. And I don't think they were fleeing the pandemic, they were just, why pay a high rent to enjoy urban amenities, if all the urban amenities are closed down?

Most of the vacancy rates have leveled off now. They're not really anywhere near recessionary vacancy rates. The property, they're not far off the vacancy rate that you'd probably want for the normal functioning of a market. As the generous unemployment benefits come to an end and the eviction moratoriums come to an end, then we may have some hiccup in net operating income in certain segments.

On the other hand, there's a huge number of jobs that are being created right now that are unfilled, so I don't know that we're going to get a big jolt in unemployment, and that's really, for multifamily, the crucial variable to watch.

All of the evidence that I have on the ground is that the May letting season in the big cities, such as Boston and New York, has been pretty healthy, actually. Much stronger. So I think those grade A vacancy rates are likely to come down in the big cities as people go back into the cities.

Matt Slepin:

It'll be interesting to see if the industry is able to rework itself to be able to do more what we're now calling attainable housing versus just luxury, because most of the new construction in the last cycle was at the class A luxury end. There will be a balance now, I think, between that type of construction and more affordable, attainable, workforce, whatever the word is.

Richard Barkham:

Yes. I think the private sector can be really heavily involved in affordable housing, and that the multifamily [inaudible 00:15:49] is a highly skilled, professionalized industry, that is very capable of providing housing solutions. But to keep the rents affordable, they will need tax breaks, they will need some government assistant. And it's not particularly expensive to achieve, but I think the will and the motivation is there on the part of the industry, it just needs policymakers to be open-minded and thoughtful about how they tap into that.

It's actually, I think I find [inaudible 00:16:21] speak to institutional investors, there's so much emphasis nowadays on ESG, but also all of the evidence suggests that affordable housing, or attainable housing, or whatever you call it, is a very bankable asset. The cash flows coming out of it are very stable bond like investments. So I think there is an institutional demand for affordable housing, because people want to do good. I think the industry is ready to respond. Again, just needs the policymakers to be intelligent and thoughtful about making the tax system work for the private sector to provide those affordable housing solutions.

Matt Slepin:

That's a really good point. And also on the investment side, if we can begin to have investors look at the asset with predictable bond-like returns at predictable bond-like risk profile and hold periods, then that could also change the game of how we build and what we build for and we're able to build for.

Richard Barkham:

Yep, totally agree.

Matt Slepin:

Cool. So let's move on. I want to have each of these conversations on a separate podcast so we could dive deep on them, so that would be interesting. But talk about retail and then we're keep going through the sectors.

Richard Barkham:

It's very interesting, retail. We've looked hard at that. The last couple of quarters have actually seen positive net absorption in the retail sector, according to our data. You might think why, why is that happening? We've just been talking about all of that trade diversion out of retail to industrial and logistics. Well, you've got to remember that the vast majority of retail space is actually grocery-anchored, it's strip, it's neighborhood, it's in the suburbs, it's convenience based, and of course, with everybody living and working and focused a bit more on suburban life than they used to be, I think that those grocery anchored neighborhood and community centers have started to pick up.

I'm not saying rents have stabilized in the higher end malls or anything like that, but there are large parts of the retail sector, which are actually thriving at the moment.

Matt Slepin:

Maybe if you take the headlines out of the bottom 20% of retail that shouldn't be there, if you just take the outliers out of the story, the rest of that industry, what you're saying, may be pretty stable and in good places.

Richard Barkham:

Yes, that's right. The community based retail, where you've got a big, nice grocery store anchoring, you've got neighborhood community functions, that, I think, is doing extremely well. As you referred, you've got the B and C malls that were probably over developed in the 1980s. They had a brief period of prosperity in the 90s going to perhaps up to 2008, 2009. They probably need to be taken out. And we are seeing that, actually. We've put out quite a few interesting publications just on the conversion of B and C malls to logistics centers. So it is happening. I'm not saying it's widespread, but it is happening.

An issue then arises about, what about big city retail, the really high-end, high fashion retail, the power malls. I think clearly the crisis isn't quite over for that sector of the market. You've seen a lot of turbulence in the retailer sector with companies filing for bankruptcy and then reinventing themselves. Any retailer that's got physical retail now has to have a seamless internet operation to back it up as well, so the physical retail and the online retail, they need to look at the left and the right hand working absolutely in concert together.

I think it will take a little bit longer to get those kinds of pedestrian flows up and back to pre-pandemic levels, both in the big cities, because they do rely on office workers, they do rely on tourism, and in the power malls as well. Although, the power molds are coming back quite quickly. I think there's another 12 months of maybe stress and strain in that fashion orientated retail sector.

Matt Slepin:

Couple questions around that. First of all, I'm going to guess that people who used to hang out malls, this will be a secular change. People hang out in malls in a different way than they hung out in malls during the 90s or 2000s, or whatever. I don't do it, but I'm a focus group of one and I'm not relevant. But it'll be curious to see how that changes. That's question one.

Then question two, these are totally unrelated questions, but it's really interesting. In San Francisco, street retail had a lot of vacancy before the pandemic. A lot of vacancy. Just the moms and pops couldn't afford the way the rents were going. So in my neighborhood in North Beach, in San Francisco, just half the places were boarded up before the pandemic, and I'm wondering what the future of that might look like for restaurants, urban fabric, small shops. It's not an institutional question, but you may have a view on that.

Richard Barkham:

I think what we've got to just also be a little bit alive too, is the gen Z. That demographic seems to like, I mean, they're digital natives, but they also like physical retailing, and they control ever more economic resources as they come onto the labor force. But as I say, there's evidence that they don't like going to malls or going to retail. They're particularly addicted to eating out, but particularly they're addicted to fine dining, so I think you're going to see an ever greater blurring between the retail opportunity and the leisure opportunity.

It's not as if it hasn't already happened. You're going to have to have ever more emphasis on really high-end, imaginative leisure opportunities in order to thrive. There will be parts of town that aren't able to meet that kind of leisure based demand and create that pedestrian flow.

It's not as if we don't need more houses , is it? Some of this retail space needs to go back to residential. And if you go back to Europe in the medieval era, which you probably don't want to, that's how shops came about in the first place. They were houses and people just learned they could sell things through their front window. Well, what we've got to do is, I think, to a certain extent, convert some of that retail stock back into residential.

Indeed, it will be one of the things when I talk to policymakers around the world, that's really, really key to negotiating the pandemic, or the post pandemic, world. We need an urban environment which is really flexible. We can't afford to say, this is going to be retail forever. We've got to be able to allow new uses to emerge quickly.

Matt Slepin:

It's interesting, the flexibility is important because in a lot of new construction apartments where they have to put in ground floor retail, it often doesn't work. When it works, it's great. When it doesn't work, you're stuck with it. And you should have the flexibility to turn that back into a housing unit, turn it into live/work space, whatever it is. Hard from zoning to be able to do that because they were achieving certain social goals at the moment that that particular plan was approved, and then the owner is stuck with it.

Richard Barkham:

Absolutely. We're in a period of accelerated change, so flexibility is just the only way to negotiate that.

Matt Slepin:

I think you just pivoted to the last of the sectors, and the sector that confuses me the most about what the future looks like, and the sector that's been most emblematic of our industry for decades and decades, which is the office sector. So talk to me about what the heck's happening, what you see, what the transitions are, and what the permanence things might be.

Richard Barkham:

We've been on this, what, 40 year, as far as I can see from the data, possibly even 50 year, secular increase in the amount of occupied office space. And what's it dome? It's been hyper finance in the 90s, domestic finance in the 90s, global finance in the 2000s. Then it's been tech that's been occupying offices. And it's having enormous benefit. I mean, really a lot of the urban regeneration has been around back clustering of office activity in the big cities, and it's had fabulous benefits in terms of regenerating old industrial areas within cities, creating a full ecosystem of food and beverage and fashion to services. So the stakes are high.

Now, one of this benefits is clearly that all the big cities around the world, and in North America., Have become extremely expensive. Very expensive places to do business. Very expensive places to live. So technology tends to come with, and I think what it sets up is, we should not overstate this, but a mild tendency for some of the economic activity, the office based activity, to shift out of the downtown area, into the suburbs and into other remote places. I don't think it will be an overwhelming movement, because the benefits to businesses of working face-to-face [inaudible 00:25:51] their employees, training employees up, creating corporate culture, and doing business with clients, all of that, they're not going away. There will be a mild shift in economic activity out of the central areas, into the suburbs. Good for the suburbs. They've been neglected for too long.

Matt Slepin:

Does that mean back to suburban office parks, or does that mean workers get to work somewhere in the suburbs where the center may still be elsewhere?

Richard Barkham:

Yeah, I think it's that. I think it's the latter. It could be we may well see suburban office markets playing a larger role in business models over the next five years. It's too early to say.

Matt Slepin:

You've used a couple of different words through the conversation. One is a rebalancing, maybe rebalancing between urban, suburban, rebalancing between uses at any given time, maybe flexibility, which we haven't talked about, on what the work week looks like.

You guys just did an occupier survey that gives some intelligence around these topics. Any thoughts about, and I'll mash up yet co-working into the description, but so talk about all those things together. The office is not dead. I think that's the ultimate answer to this, but it's reworked and it's more flexible and it transitions to something different going forward.

Richard Barkham:

I mean, well, it's the proviso that I just made, it is too early to really call it on all of these trends. Our latest occupier survey is quite clear. What we've just seen in the last occupier surveys, there was never a majority but there was a substantial minority in that middle bucket that companies were going to make a major reduction in space. That is disappearing off the agenda.

All those people who thought they were really going to reduce the amount of space that they use, have all gone into the mild reduction in space. So I think corporate America probably on balance, although it's not a huge thing, thinking that they might mildly be able to reduce the amount of space that they use.

They're going to be a little bit more focused on a core portfolio with the flexible space that they can ramp up quite quickly and ramp down when they need to. My own guess is that that is probably temporary as well. So the emphasis on flex is probably a little bit higher than it's going to be in the long-term, when companies actually have to get back to a normal business environment.

Matt Slepin:

It's interesting because that transformation takes place around, what do lobbies look like? What does the build-out look like? And there's so many questions around that. Gosh, if I had a decision to make, I'd kick the can and try to make that decision in two years or three years if I could. I don't know how I'd buy that right now. I don't know how I'd value that. And that's probably reflected in both cap rates and transaction velocity in that sector right now.

Richard Barkham:

It's too early to talk about cap rates and transaction velocity in the office sector. Clearly the buying and selling of offices requires a degree of business travel that we just haven't got yet, so a little bit early to say there. But just in terms of interior configuration, instead of configuring offices as being the place where people go there and do the bulk of their work, focused individual work, the offices have become much more about collaboration, about teamwork, about meeting spaces, about idea generation. That new configuration of offices around collaboration is the other side of it.

Now you've got to remember as well, that the other trend that pre-existed the pandemic crisis was one towards densification, particularly in the high cost locations. I think some of the other post-crisis trend that we see is dedensification, a certain amount of dedensification. Is the office dead? Absolutely not.

Matt Slepin:

It's so interesting. So we're going to change the subject a little bit in a second, but I've never made this observation before in the podcast, but hearing your voice as you talk about the different sectors, as you move from industrial to multifamily to retail, when we got to office, you were talking about something fuzzy and you talked about something fuzzy in a fuzzier way than you did the other sectors where there's more clarity about what the present and the future looks like, which is absolutely true. This isn't you, it's all of us, coming to that conversation with questions in our mind, knowing it'll be there, but we just don't know what it's going to look like in this transition period.

Richard Barkham:

Yes. I'm an office economist. I'm a macro economist. But I'm also a amateur historian as well. I try to look back at the long-term trends, and there's no evidence, I think, that you get in real estate of sectors just dropping off a cliff. It doesn't happen that way. The changes that happen in real estate, they play out over 10 years, they don't play out over 10 months.

Firstly, to summarize, once people get back into the office, we'll see a much greater reversion to the pre-COVID situation, with people doing more or less what they did prior to COVID. That will come back and that will surprise people. And then some of these other trends about how you reconfigure office and have people figure out how many days they want to be in the office, how many they want to work at home, and then it doesn't make their life, as you've said, I've given this fuzzy picture. Imagine you're a big corporate space planner and you've got to run your portfolio for people who are coming in three days a week. Probably everybody, because of whole emphasis on collaboration, everybody wants those three days a week on the same days, so you almost can't reduce the amount of office space.

Matt Slepin:

Absolutely true. The next podcast I'm doing is with David Radcliffe from Google, and we're going to talk globally on the same exact topic, and he's wrestling with that as deeply as anyone does because of his global workforce, and they're making plans and you got to do business, and you got to do a lot of business, as Google does.

Richard Barkham:

If I could just add in one final thing, however, which is, I've said the pandemic is irrelevant. I mean, I think for me a key data point that I'm watching for the office sector, I mean, we've got great economy, we've got growth in jobs. In fact, the office market, labor market is really hot right now. People can't hire enough. I'm watching very closely the ridership numbers on the Metro system in New York. What our intelligence is telling, people are heading back into the city right now. People are moving back into cities, into multifamily, they're coming back into the office, and if you look at public transport into the cities, it's going up.

But public transport means taxis. It means Ubers. It means cycling. It means buses. The key thing, and it's not happening yet, is just getting that ridership on the Metro.

Matt Slepin:

Back on the subways. I totally agree.

Richard Barkham:

That's the key constraint right now. And I suspect, if I were to make a plea to policymakers who want to get the world back to normal, we need some sort of nudge, we need some sort of creative action to get... That Metro ridership in the old economies, it wasn't a pleasant experience in the best of times, and we are not in the best of times, so something needs to be done to get ridership back up.

Matt Slepin:

Really good point. Two data points on that, and then we'll change subjects. One is, the Foo Fighters played at Madison Square Garden last week, and it was at capacity, and people were screaming, shouting, and having stuff come out of their mouths while they were yelling songs together. So people are comfortable with that. If they're comfortable with that, they could be in the subway. That's comment one.

Comment two, in my twenties, I lived in Japan and I took the subway in Japan, study abroad thing, and the guy I lived with job was a pusher, and a pusher meant he pushed people into the train so that more could fit in. And the last comment to that is a lot of the people in those trains back then, 40 years ago, were wearing masks. Because it was normal. So that's what urban life used to look like and that was a normalized thing. Uncomfortable. There were pushers. But it was okay.

Richard Barkham:

That's right. And I, for one, have decided that even long after the pandemic has gone away, I'm going to continue to wear a mask in public transport. It will probably save you from colds and flu as well, so why not?

Matt Slepin:

Totally true. And I am going back to rock concerts, and I will get close to people, and we'll all scream and shout and yell together, and it'll be really fun.

Talk about two other aspects of this, and then we're going to talk a little bit about you and how you got here. One is, talk about the different markets in The States, particularly urban versus suburban and how that winds up changing through this and that longer term changes. And then the second is, give an international perspective on all that we've spoken about as well.

Richard Barkham:

Investors are pushing out into what were previously before secondary cities. I think the other trend, obviously, in the Americans, is the trend towards the south and the east and south and the west. The Sunbelt cities are growing pretty rapidly as well. I think those trends preexisted COVID. They will continue. A lot of the places that we would have called secondary cities have actually emerged as tech hubs as well. For all of the technological changes that we've already talked about, they're very viable locations for very high skilled people to go live and have very productive careers. They don't always need to be in the urban core for that. So that adds a permanence to that Renaissance in secondary cities. I think we'll see that continue.

Matt Slepin:

Talk about it from a global standpoint. So if we were having this conversation and we were in Britain or we were in China or Japan, what might this look like?

Richard Barkham:

Britain is always somewhat similar to America, so all of the conversations that we have had about urban, suburban, revival of secondary cities, taking place in the UK. With Brexit, I think there's actually an emphasis as well on building up those secondary cities with in the UK, which probably over the last 20 years feel that they had drifted away from London, which was doing very well. So there's a deliberate effort to build up the secondary cities in the UK.

As for Europe, I think the cost of petrol is much higher. So what we've seen in America is people shifting back to their cars. I don't know that we're going to see that so much in Europe. I don't see such a permanent urban/suburban shift in Europe. I think things will go back to normal in Europe pretty quickly.

APAC, these sorts of debates, maybe apart from Australia, they don't really have relevance in APAC population. The age of the population is younger, much greater preference to work in central locations. And the size of the housing stock in Asia, individual units, much smaller, so I don't know that people particularly want to go and spend their lives working at home. So we noticed pretty quickly that APAC, Asia in particular, got back to the office almost as if nothing had happened. And the same is true of malls. So some of these debates, I think they're meaningful to a certain extent in Europe, they're not so meaningful in Asia.

Matt Slepin:

Let's totally change the subject, and I want to find out how Richard Barkham got to this place. This podcast has long been a podcast about career stories and career journeys, and so we're trying to let young people know that they could have a career just like yours in research in real estate and in economic thinking about real estate. So just talk about your background and what got you into this line of business generally, and then we'll track through your career a little bit.

Richard Barkham:

I'm British. Father was a Naval officer. Mother was a teacher. At school the subjects I enjoyed most were economics and geography, and of course real estate fits nicely into somebody who likes economics and geography, or economic geography. That spatial awareness is extremely good.

I went to university to do economics and did a PhD in economics at the University of Redding, which is the prime real estate school in Europe, it's about 25 miles west of London. I was absurdly academics at the time really, and I just wanted to a career in research and an academic career just seemed to be super interesting to me. So I stayed on, I was invited to become a faculty member after I did my PhD. I spent the next 10 years at the University of Redding publishing books, teaching students. It's a big real estate program at the university of Redding. I probably taught something like 1500 active participants of the UK property market. I participated in some great research projects and gained a lot of technical skills.

By my mid thirties, and this was all in the area of economics and real estate, I was developing commercially valuable skills and I was increasingly in demand as a consultant. I made quite a number of private sector contacts through that. And Redding being 25 miles west of London, I was able to tap into the London market.

The London market in the 80s and 90s was absolutely booming. And eventually though, by about mid-thirties, I got bored of academic life. Literally bored. I'd been at the University of Redding for 14 years, man and boy, got slightly fed up with my students going out. That's the other thing you notice as you get to become a mid-career academic, how badly the profession's paid. So I got fed up with my students going into London more than me.

In the end, I didn't actually actively look for it. I think I did a visiting scholarship with Norm Miller and David Geltner at the University of Cincinnati. So I went to The States for a while and worked with those guys. Then came back and I was still bored of being an academic. And eventually somebody, [inaudible 00:40:11] consultant came along and said, "Would you like to take a position in investment research with a company called Hillier Parker?" Which was promptly bought by CB and became part of the CBRE family.

I stayed there two years, a ranging shot in business, and then I moved to a brilliant company, the Grosvenor Group, which is a private property company of the Duke of Westminster. If you're interested in history, it's just a great company to work for, but their core assets were Mayfair and Belgravia, 300 acres of prime central London.

I worked there and I fell in amongst the development community, because it was a big developer. We developed offices, we developed malls, and I was dyed in the wool investment academic, but I fell in with developers and I got involved in developing London offices, a big mall, Liverpool ONE, regenerated the city of Liverpool.

If anybody wants to career in real estate, a period in the development is just indispensable. You learn more about real estate than you'd ever find in books. So then I had this background, academic background, and I had some actual on the ground commercial experience. I very quickly moved into helping Grosvenor deploy capital around the world. Then, in 2014, CBRE came and asked me if I would be Global Chief Economist.

Matt Slepin:

Let's just go back to Grosvenor for a few minutes, and I think of the word venerable when I think of Grosvenor, that's like the perfect word for that 300 some odd year company, and they're big in The States. We do work with Grosvenor people, who are just wonderful folks. And it's fascinating the way you just described it because first what lit you up was talking about doing the work in development in England, in Great Britain, because the work becomes really real.

Richard Barkham:

That's exactly right. I mean there's everything involved. There's 1,001 commercial decisions and activities, and I was lucky enough to be able to deploy research in all of those. Deployed research to try and persuade people to put equity capital into projects. Deployed research to try and get big retailers to come and take a large amount of space in the malls that we developed. So I learned, I was able to put my academic [crosstalk 00:42:25] into practice. But any big development just throws up problems, complicated little problems come up every day, every week, and you've got to solve them and you learn by doing it.

Matt Slepin:

And now you're complimenting your academic background with practitioner practitioner practitioner in the real world, brutally, around individual deals. So what a brilliant pivot.

Richard Barkham:

It was super fun. I was very privileged to work for Grosvenor. It had a social conscience as well. Not many people know that. I mean, they all know Mayfair and Belgravia as being prime global [crosstalk 00:43:05]. They I don't know that 30% of the housing units on those two are affordable. The affordable housing was an essential part of how the Grosvenor estate worked in Mayfair and Belgravia. So yeah, just a chance to see that in action and contribute, in a small way, to taking it forward.

Matt Slepin:

One question, we talked about this a few minutes ago when we were talking about the multifamily sector and companies that take a responsibility in their business and their business practice, and I'm thinking if you're a venerable 300 plus year old company, in real estate we don't generally look at it that way. We generally look at a transaction that may even have a life cycle of three, five years. But I'm wondering what the perspective of a 300 year old owner who cares about their brand, and hopes to be there in 300 years in the future, what that may mean for the behavior of that business or other businesses that play like that.

Richard Barkham:

I can summarize that in one word, and the word is stewardship. We were inculcated with the idea that we were just stewards of this land and that we would have to hand it on, not only in full working order, but enhanced, still delivering what it was set up to do, through the next generation. So you always take decisions, not just to maximize the current income, although anybody with a commercial mind wants to do that, but also, how's that going to resonate in five or 10 years time? How does that particular development or transaction impact the bloke next door or the business next door? How do we use our skills to maximize the value of this brilliant land asset?

Matt Slepin:

That's a wonderful word. It should, or could, be a core value in some of the ways that we operate our business. And it's interesting, I never thought of that precise word defining my clients in different ways in search. You work with clients who have a longer term perspective, their reputation means everything. Those words fit in that bucket. So then you show up at CBRE. So talk about how that shifted your perspective in that third act of your career, and what's that meant for you?

Richard Barkham:

Grosvenor was an entry level global job. They've got 18 offices around the world. CBRE has got 380 offices around the world. So it's just you take a step into a bigger... You need that global experience. It's [inaudible 00:45:32] company. But the change in perspective, I think it's you go from stewardship, obviously with a company that's based around brokerage, it's all about transactions, but really the perspective that the current management team at CBRE sets is really just to strive for excellence. It's always about achieving excellence. Excellence in results for our clients. You become very client focused. Quite often that's around the pursuit and the closure of a transaction. I enjoy that remorseless pursuit of excellence in this area.

It's also CBRE are a very successful MMA company, so the company's growing. They're now a fortune 120. And what really I enjoy about CBRE, I have to say though, is in 2017 they said to me, "We want our chief economist to be in America." So I was able to up sticks at a relatively late stage of my career, and move to America, and just immerse myself in the real estate industry in America.

I hope I've made a contribution. Others would have to judge that. But it's been a fabulously rewarding experience to learn more about American life, corporate life, civic life, political life, just a whole bunch of stuff that you, as chief economist, have to have an opinion on.

Matt Slepin:

Right. And how much of that late career change, just change for change sake, or are you talking about America's interesting? I'm curious.

Richard Barkham:

I've always spent a lot of time in America and if I could... People always used to joke and say, "You should have been born an American." So I've always loved America, so the opportunity to come here and just learn how to live in America, learn how to be successful in America.

You learn new things. When you're making a presentation, the things that work in Europe don't work The States, so you have to learn about presenting material, you have to learn about how people react. Particularly as a manager, I start that by saying, I manage 600 people. You've got to learn that Americans react slightly different to people elsewhere in the world. It's just the opportunity to learn has just been fabulous.

Matt Slepin:

Did you have a choice of where to move? And how did you choose Boston, if that was a choice?

Richard Barkham:

Boston came about because we've got... You may be aware of a little company called CBRE Economic Advisors, which was founded by Bill Wheaton of MIT [crosstalk 00:48:04]. They were coming to the ends of it, they were moving into retirement, and they wanted somebody to look after, a senior economist to be there, just to make sure that company transitioned and played a part in the life of CBRE. So I moved to Boston in the days where, in order to run a company, you had to be located in the same city. I would say, as well, if you're a European coming to live in America, going straight to Dallas might be a bit of a culture shock, going to go to Boston, it doesn't feel that different.

Matt Slepin:

Boston, one of the oldest venerable cities in the US. There's huge cultural ties.

Richard Barkham:

Yeah, that's right. And there's a lot of Europeans there. The streetscape is different. It's medium density. It's red brick. These are all things. And the place names and the street names feel familiar.

Matt Slepin:

Feel familiar, yeah. So we're going to start wrapping up. One surprise that you found coming here that you did have to adjust? You talk about public speaking. I don't know if that's the one. But pick a surprise and change of behavior in your life.

Richard Barkham:

I'll tell you what a really pleasant surprise, is just how accessible boating and cheap boating is. I mean, I like sailing, and compared to Europe there are just boats everywhere in America. Even in land. Every other person's got a boat. So the accessibility and relative cheapness of boating of all forms in America, just a really pleasant surprise.

Matt Slepin:

Second last question is, what have we missed in this conversation? What haven't we talked about that our listeners need to know is coming in real estate?

Richard Barkham:

I think I would say we've had this big shock, both from COVID and also government stimulus. We've got to think just because the COVID is disappearing, which I believe it is not disappearing but coming down to manageable levels, I think we've just got to be alert to aftershocks. I would be dishonest if I could actually say where they are, but they will be there. You just don't get this kind of economic event without good things and bad things coming as a result. So let's not get complacent. The world is improving. We're on stimulus. The economy is recovering. Let's just keep a flexible and alert mindset, I think, to things that might pop up.

Matt Slepin:

That's a wonderful summary. It's interesting. I just wrote down, not binary thinking. I hate binary thinking.

Richard Barkham:

There is a lot of long-term continuity in the built environment, and we can all take comfort from that. But I just think the economic policies that have been put in place, there will be unintended consequences which nobody can quite see yet.

Matt Slepin:

Huge.

Richard Barkham:

We just need to keep our wits about us as we negotiate the next three years of coming out of COVID and winding down this disease.

Matt Slepin:

Well said. Last question on Leading Voices is always, your advice to a young person thinking of a career in the real estate business.

Richard Barkham:

I think I would go back to what I said. I mean, having a background in geography, spatial awareness, I've found always extremely useful. If you want to go a bit further, just a good understanding of urban economics always helps. But I also think if you can find some place in the development industry for a while, you will find that a fabulous place to learn about real estate, and that will carry you through a brokerage career or an investment career or a management career going forward.

Matt Slepin:

Great advice. It's interesting, I think of development as the most multidisciplinary thing I've experienced in my life, and you have to understand, and it's like an orchestra leader, because you have every different player that you're having to command through the process.

Richard Barkham:

That's right. And you have to learn the law, you have to learn financing, you have you learn the construction, and particularly you have to learn how to negotiate with people and get them to do what you want to do. It's a very interesting learning experience.

Matt Slepin:

Wonderful. He, Richard, thank you very much. Really enjoyed this conversation. I will see you at a conference in the future, I hope. You're always up on the stage and I'll come say hello, but let's keep this conversation going. And I really appreciate your time today.

Richard Barkham:

Thanks, Matt.

Matt Slepin:

Hey, this was great. Thank you very much.

Thank you for listening into Leading Voices, and I hope that you enjoy today's episode. I have a request, if you enjoyed the episode and found it to be valuable, please share it with a friend or two. If they're podcast wary, take their smartphone in your hand and subscribe for them and teach them to listen. You'll change their life. Seriously, thanks for listening and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time.