NAI Global Leadership Summit
March 4-6 The Ritz-Carlton
St. Louis, MO
By Gary Marsh

The *Show Me State* showed approximately 175 NAI Global PDMs some bone-chilling cold a 4 degrees on the Sunday night arrival for the 2019 Spring Leadership Summit, and temperatures dropped below zero with the wind factored in on the other nights, yet inside the opulent Ritz hotel, the camaraderie was warm and the daytime workshops and speaker series highly productive. Here's a peak at some of the Summit's highlights.

<u>First Impressions</u>

"The greatest takeaway my partner **Jake Hallauer**, CCIM, and I had from our time in St. Louis was how impressed we were with fellow NAI affiliates and the amount of business they do together, and their willingness to share assignments. We were also amazed by the best practices shared at the conference and again, everyone's willingness to participate in the dialogue. We're very excited to learn more about our sister companies."

Ryan Schaefer, Chief Executive Officer and first-time attendee since joining NAI Global a couple weeks ago.
NAI Affinity
Fort Collins, Colorado

NAI Global Principals, Directors and Managers Zero in on Recruiting and Training Young Professionals to the Brokerage Business

The NAI PDM Mastermind Group session on Monday, led by sales consultant **Jeff Beals** (also affiliated with **NAI NP Dodge** in Omaha, NE) had its usual amount of rich content and conversation but one topic was of particular interest – attracting, recruiting and mentoring young professionals that are new to the commercial real estate industry.

Jeff Beals

Michael Kalil, the Chief Operating Officer with **NAI Farbman** in Southfield, MI said that his office is offering new commercial agents a one-year, $25,000 salary plus 10% to 20% of the senior broker/mentor's share of closed transactions if the newbie played a significant role in bringing in the new business. Kalil added that his office's mentoring program can be extended beyond the first year providing NAI Farbman and the senior broker are in agreement to extend.

By contrast **Rick Gold** with **NAI Capital** in Los Angeles said his office typically prefers to attract successful brokers that are already established in the business and may not have the benefit of working on a team. "We have been successful in attracting experienced brokers that need less training and can be productive right away," he said. "We are still always looking for new brokers that we can team up with more senior brokers in the hopes of getting them on a faster track to profitability," he added.

Scott Coombs, SIOR and President of **NAI Puget Sound Properties** in Seattle, WA, however, added another dimension to new agent mentoring programs.

"The key to success is to not only get the right runner but you also have to have the right mentor," he said.

NAI Puget Sound offers young professionals $30,000 for a one-year program and also some upside from the mentor's share of the commission splits based on merit. Coombs said it takes "five years to get over the hump" from starting in the business and "if we are successful matching a great candidate with the right mentor it can result in a long-term business partnership, which is ideal."

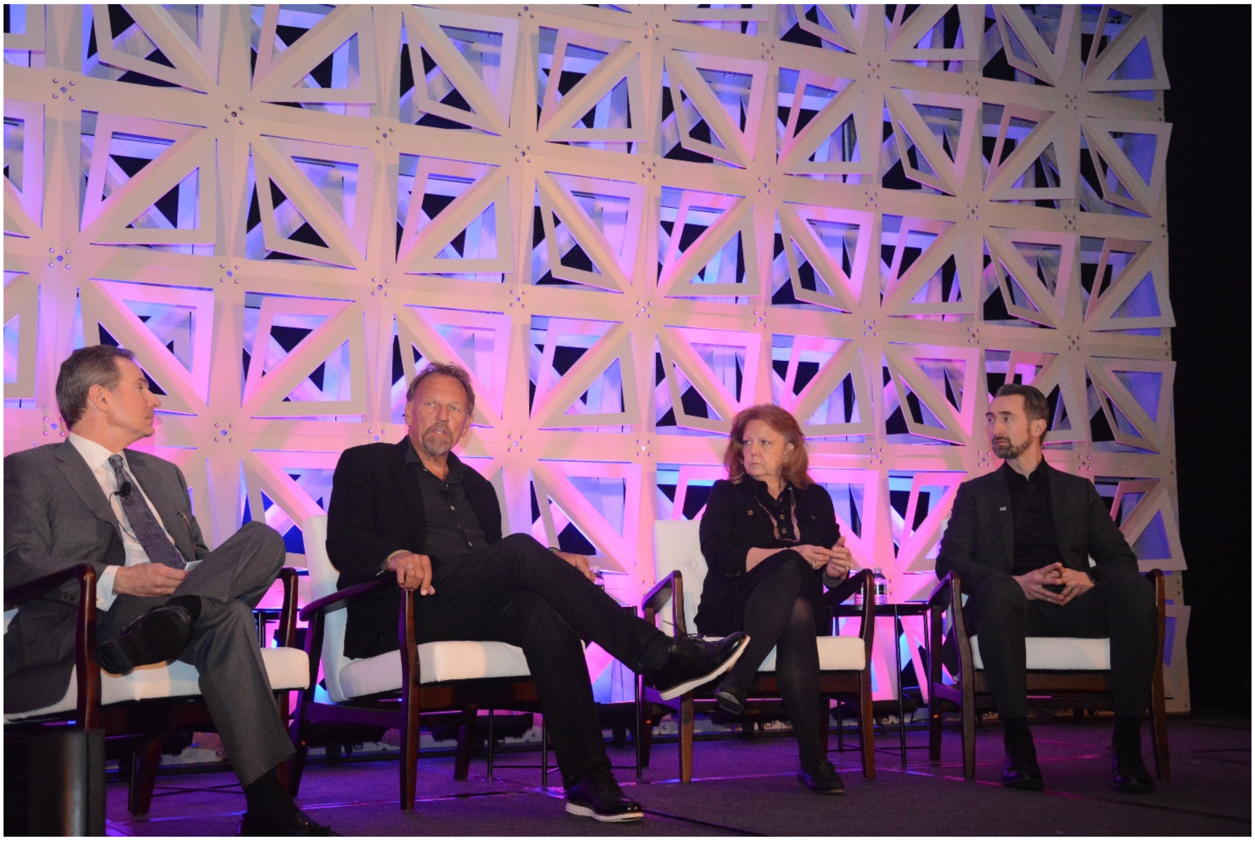
The Beals-led conversation on recruiting and mentoring shifted gears to include the merits and advantages of brokers as W-2 employees versus brokers as 1099 contractors.

Kevin Goeller, a Principal with **NAI KLNB** in Tysons, VA echoed Geis, saying that his office has 120 people including 80 brokers and everyone is a W-2 employee. For recruitment, Goeller added, "we develop young people organically because in addition to adopting the right skills to succeed in brokerage, these young people are in the middle of emerging technologies that most of our older brokers are not aware of, and these technologies increasingly reflect our client base. They are the companies we lease and sell space to now or in the future, such as Bonobos, Tesla, Soxy, Carvana, Stich Fix, Blue Apron, Sun Basket and others."

Others in the room offered that many of their brokers prefer contractor status so they can maximize their annual IRA or SEP IRA contributions, which one typically cannot, in an employee-structured work and compensation arrangement. For example, **Jordan Elliott**, with **NAI Elliott** in Portland, OR, said his office formerly made brokers W-2 employees but he switched to 1099 contractor status per the brokers' request so they could max out annual contributions to retirement accounts.

NAI Global President & CEO Jay Olshonsky, FRICS, SIOR, welcomed attendees toward the end of General Session on Monday and before the reception co-hosted by **NAI DESCO**.

Scenes from the Summit!



L-R: Jay Olshonsky, **David Peterson,** CEO of **NAI Hiffman** (Chicago, IL), **Debbie Harms**, CCIM, SIOR, CPM and CEO with **NAI Maestas & Ward** (Albuquerque, NM), **Jordan Elliott**, President & NAI Director with **NAI Elliott** (Portland, OR)

L-R: **Terri Johnson**, CRE, and guest presenter with **Capstan Tax Strategies**, **Debbie Harms**, **Terry Martin-Denning**, CEO of **NAI Horizon** (Phoenix, AZ)

L-R: **Evan Kline, NAI Shames Makovsky** (Denver, CO), **Ryan Schaefer, NAI Affinity** (Ft. Collins, CO), **Jake Hallauer, NAI Affinity** (Ft. Collins, CO)

Coretex Innovation Community

Cortex Innovation Community (of St. Louis) **President & CEO Dennis Lower** gave an overview of the economic development engine that started in 2002 with an initial investment of $29 million from a few of the region's leading institutions, including St. Louis University and Washington University. Lower joined Coretex in 2010 and has spearheaded its growth as an innovation hub from 35 companies to 390 companies and academic units now, with some 5,700 employees and nearly $342 million in annual direct payroll. Coretex is a 200-acre parcel of land centrally located in St. Louis and a 5013c3 entity. It's a 24/7 innovation district with live, work, play and learn elements. Light rail was recently added to the community and a new hotel is coming soon. Lower said the keys to Cortex's success has been in creating horizontal connections and serendipitous connections in a mixed use and diverse environment. In the last four years nearly $1 billion in private development has occurred, making it one of the hottest real estate submarkets in the St. Louis region. The long-term goal is to have 15,000 jobs on the Coretex campus and make St. Louis one of America's leading centers of innovation and entrepreneurship. Not surprisingly, Lower said one of their greatest challenges is attracting technology talent to St. Louis.

Tax Cuts & Jobs Act Overview and Impact on Commercial Real Estate Investing

Terri Johnson, CRE, Co-Founder and Managing Partner with Capstan Tax Strategies, presented a detailed overview of the Dec. 22, 2017 Tax Cuts & Jobs Act (TCJA) enacted by Congress a little over a year ago. She began by describing it as the biggest tax reform in this country since 1986.

The biggest impact on real estate is the Bonus depreciation deduction, which allows investors to take the complete deduction of personal property and land improvements in the *first year* for an acquisition, renovation or new construction project, rather than taking the deduction over a 39-year schedule. A cost segregation study provides the data required to support this accelerated depreciation, resulting in significant tax savings.

The Tax Cuts and Jobs Act (TCJA) increased the Bonus depreciation deduction to 100% for properties placed-in-service between 9.28.2017 and 12.31.2022 and rates will subsequently decline. Qualifying assets no longer have to be new – they must just be new to the acquirer.

In addition to encouraging investment and property acquisitions, the power of the TCJA is making certain projects more attractive candidates. Johnson noted that the new law is sparking a wave of new interest in previously declined investments. Taxpayers and developers are taking a second look at deals that they passed on due to marginal ROIs. With the first-year 100% Bonus deduction in place, some of those investments might be well worth reconsidering, stressed Johnson.

Johnson moved on to discuss Opportunity Zones, established by the TCJA. Qualified investors must first form an Opportunity Fund (OF), or reinvest capital gains into a previously established Opportunity Fund, to invest in specific zones that the governors of all 50 states have designated. There are over 8,700 Certified Zones in all 50 states plus Washington, D.C., Puerto Rico and the U.S. Virgin Islands, and all are low-income areas.

Qualifying OZ properties must have "original use" with the OF, or the OF must substantially improve the property – major redevelopment opportunities. Capital gains can be put into funds to buy, develop or re-develop property in Opportunity Zones (OZ). From a tax benefit perspective, investing in OZs is a front-end, temporary tax deferral and the capital gains tax would be paid when the property is sold, exchanged, or by 12.31.2026, whichever comes first. Johnson said that the OZ factor is not a *huge* tax benefit, but it does step up the basis on most acquisitions. For example, if the taxpayer holds the investment for 5+ years, the tax burden on the original capital gains investment will be reduced by 10% and if held for 7+ years, the tax burden on the original investment will be reduced by 15%. The major tax benefit comes at the end if the asset is held for at least 10 years. The taxpayer is exempt from paying capital gains tax on the subsequent gain accrued from investment in the Opportunity Fund.

Crucially, "The real estate deal has to still make sense -- without the Opportunity Zone status," Johnson said. She noted that OZ projects being improved must be completed within 30 months, and that this stipulation does add an element of risk to OZ investments. This window is subject to change and may be extended by the IRS.

Economic Overview by the St. Louis Fed

Bank Economist and Research Officer **Kevin Kliesen** with the **Federal Reserve Bank of St. Louis, 8th District**, gave an overview of the U.S. economy and what to expect by 2020. He began by sharing the astonishing fact that since the end of the recession in 2009 private employers in the U.S. have added $20 million jobs, or about 200,000 per month.

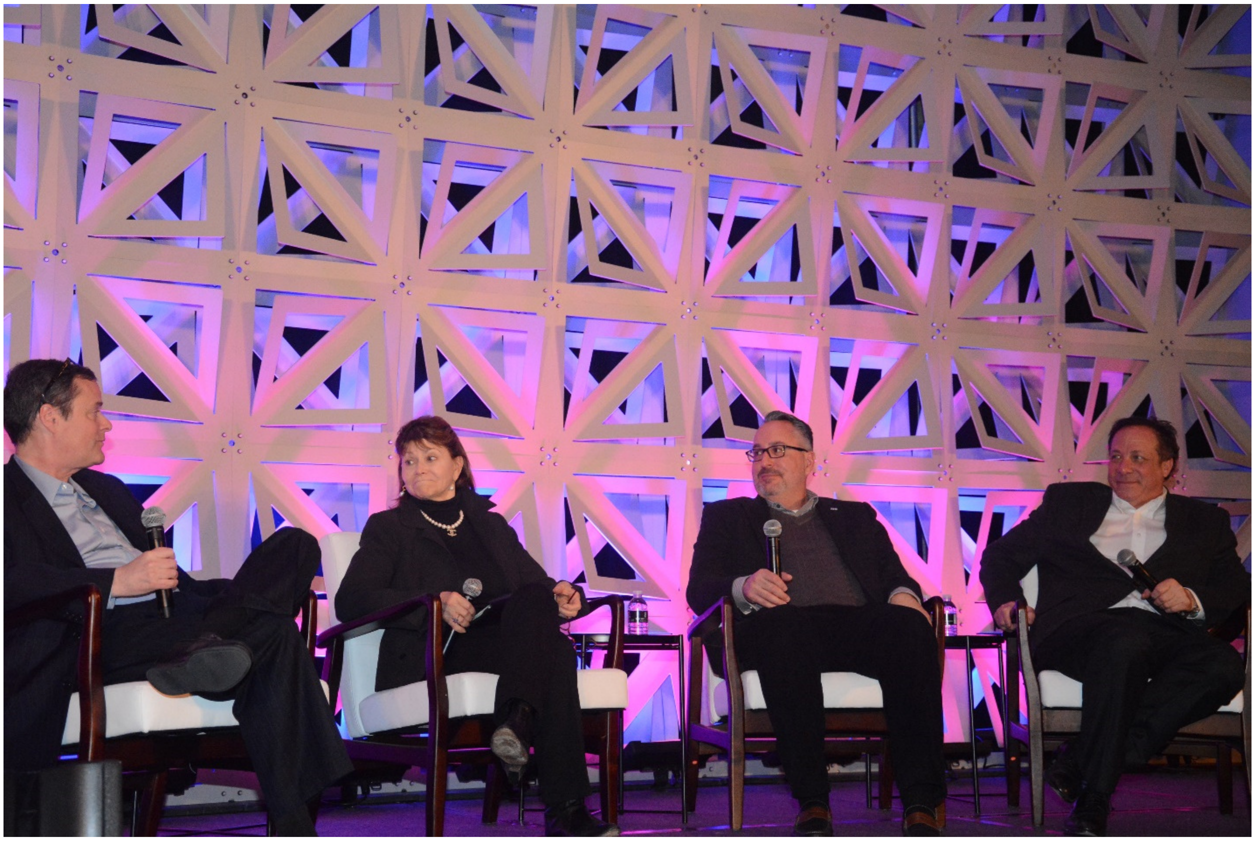
All those new jobs have brought us to the point in which a shortage of labor, particularly in construction, is one of the strains on our economy.

The U.S. added 2.7 million new jobs last year and brought unemployment down to a 50-year low. GDP was 3.1 percent for the year – the best year in the U.S. since 2005. Inflation remains low – below 2 percent, and Kliesen expects it to remain so. If inflation holds at its current level through 2019 it will be the 8th consecutive year in which inflation remained below the Federal Reserve's forecast, he said.

Forecasters expect Germany to slip into recession sometime this year, joining Italy, which is already in recession. That's because Germany's economy has relied heavily the last eight or nine years on the Chinese economy importing so many goods, machinery and material from Germany. Kliesen said China still claims its GPD is running around 6 percent but he thinks it's closer to 3 percent.

Unlike many economists, Kliesen thinks there is a very low chance for the U.S. to dip into recession any time soon, leveling the risk at 20 percent. Since the end of the recession the Fed has raised interest rates 225 basis points and while many forecasters expect the Fed to raise rates once, and maybe even twice by 2Q2020, he said his boss – the President of the Federal Reserve Bank of St. Louis, James Bullard, has said he sees no reason why the Fed should raise rates in the near future. Accordingly, 30-year fixed home mortgages have dipped to 4.75 percent recently and by 2Q2020 Kliesen said home mortgage rates should average around 5 percent. He added that many forecasters believe the U.S. gross domestic product will be cruising as low as 1.5 percent by the end of 2020 but Kliesen thinks it will be higher.

Capital Markets Panel



L-R: **Arthur Milston**, NAI Global Capital Markets, **Maribel Koella,** CCIM, SIOR, FRICS, CRE (NAI Koella RM Moore, Knoxville, TN), **Carl Berman**, CCIM, MiCP (NAI Elite, West Hartford, CT) and **Larry Bergman** (NAI Bergman, Cincinnati & Dayton, OH)

NAI Global's co-head of Capital Markets, Arthur Milston, moderated a panel of NAI Professionals from different markets across the country to share highlights on some of the deals they have closed recently, which include a multifamily and student housing property in Tennessee, and the prospective marketing of properties in Bloomfield, CT and Dublin, CA.

Mr. Milston started the session by discussing dozens of investment sale opportunities the Capital Markets group has pursued with NAI offices and professionals in recent years, the highlights of which include:

- $2.1 billion in new business pitches
- $480 million in sales opportunities and deals in the market
- $100+ million in closed transactions
- In total, the Capital Markets group has closed more than $7 billion in transactions in 48 states in the past seven years

Closing Remarks by President & CEO Jay Olshonsky

NAI Global's Leadership Summit concluded with a talk by Jay Olshonsky who encouraged the audience to go about their business and adapt as change happens, be proactive and get in front of "it," whatever it is. His message for 2019 was to embrace change and create opportunities while they are happening, and not wonder what happened after the fact.

Here's a recap of some of Olshonsky's comments:

- "Remember in 2009 when the U.S. was shedding 500,000 jobs a month? We created phrases like "blend and extend" to get leases closed, no matter how bad conditions were."
- Expect leases to be shorter going forward as companies adapt to new FASB rules that require longer leases to be on balance sheets, versus off balance sheet.
- Citing Green Street Advisors, he said industrial rents will continue to lead other CRE sectors and is projecting 4.9 percent rental rate growth in 2019, while office space will see slowing rent growth due to high concessions and the sublet market will be really tough this year.
- Co-working space companies are paying healthy 20 percent commissions to procuring brokers. With the surge in popularity for shared office space, some New York landlords are now shunning deals with co-working companies.
- The Venture Capital community prefers West Coast markets and ranks LA, San Diego, Oakland and Portland among its favorites.
- Of the 25,000 jobs Long Island City lost when Amazon pulled out of its New York deal, he said those jobs will migrate elsewhere.

- Interest rates and mortgage rates are still at historic lows. “Buy, lock and load. We will never see rates this low again.”

- Saying “never bet against the U.S.,” Olshonsky said that others have called us the “intellectual property country” and even when cycles shift and if a recession does come, the U.S. will stay ahead of other countries because of our penchant for invention and creating things and businesses.