

KBS: Bringing institutional real estate to RIAs and individual investors

Recently, *Geoffrey Dohrmann*, founder and CEO of Institutional Real Estate, Inc., spoke with *Charles Schreiber* of KBS. The following is an excerpt of that conversation.

How would you describe KBS to someone who doesn't know what you do?

In short, we are an investor in high-quality, multi-tenanted, mid-rise and high-rise CBD office assets located in markets with a limited amount of development.

Why is that your focus?

Our goal is to mitigate risk whenever we can. We avoid markets where there's a risk of overdevelopment because we don't want new buildings competing with our existing properties. We know tenants will often leave a perfectly good existing building for the shiny new one down the street. And that actually plays into why we avoid single-tenant properties. A few years ago, funds would focus on single-tenant buildings because it doesn't take much to manage one tenant. But the hidden risk comes into play when it comes time to sell the building. If you have a single tenant with an eight-year lease, that building is going to lose value the closer you get to the end of the lease. For example, if you want to sell the building six years into that lease, the buyer will be looking for a discount because they know they might have an empty building in just two years if the tenant leaves for newer space.

KBS has been around for about 26 years. How has the industry changed in that time?

The major change has been the amount and sources of information available to the investor. In the past, investors would receive a rosy report from the seller, and that would be it. Today, there are several very talented and sophisticated real estate research companies that are generating reports and information on the markets. This third-party information has reduced the overall risk in the market because unbiased data provides a foundation for more accurate return projections, which in turn allows more accurate asset valuation.

What else has changed?

Companies are valuing their employees more. It used to be that a company leased space in a building convenient to its C-suite executives. Now, it is more likely to look for a



Charles J. Schreiber Jr.
Chief Executive Officer



Peter Bren
Chairman and President

Throughout their 40-year careers, Mr. Schreiber and Mr. Bren have been involved exclusively in real estate. They founded KBS in 1992 and continue to oversee all of its operations, including the acquisition, management and disposition of individual investments and portfolios of income-producing real estate assets.

building closer to its employee pool. They are also more likely to want amenities for those employees, rather than something like an executive dining room. For example, when we acquired a building in Portland, Ore., we put in 200 bike racks. The tenants absolutely love it.

What are some other amenities that tenants appreciate?

We put a variety of spaces in the buildings that can be used by the tenants, so they don't need their own dedicated conference or meeting rooms. We'll have some sort of food service in the lobby. We have buildings where we have exercise facilities, with men's and women's locker rooms. These are the types of amenities that allow a 30-year-old building to compete with a brand-new building.

Has your operating model changed over time?

In the beginning, we had a rather standard set up, where the portfolio manager would be responsible for both investing in the markets and connecting with the investors. We have changed that model so that Peter Bren and I are the primary investor contacts. Investors can call our chief accounting officer or asset manager if they have questions, but if there's bad news, Peter or I will talk to them. If there's something that we need to change, Peter or I will talk to them. If we need to go to their office, Peter or I will go. We don't send somebody else. This model allows us to focus on the investors — and lets our investors know that we consider them worth the founders' time — while our portfolio managers focus on investing and what's going on in the markets.

Another model you've recently changed is distribution. You have launched a real estate fund that is available for direct investment.

Yes, KBS Growth & Income REIT is a fund with well-located and well-leased multi-tenant office assets diversified in four key U.S. office markets. The fund is registered as a 506c for Registered Investment Advisers and accredited investors. There is no middleman on this fund. It's a direct investment, meaning there are no up-front sales commissions. If the investor invests \$100,000, the entire \$100,000 goes right into the investment.

How does this new product help the RIA?

The response from RIAs has been tremendous. They've never before been able to offer an institutional real estate product to their retail clients. This fund makes it much easier to access true real estate and all its benefits. In addition, it gives an RIA access to tremendous market data from KBS. An RIA can place this fund on their custodial platform, and they can begin participating in the dividend distributions. The KBS Growth & Income REIT is not a blind pool; there are well-located multi-tenant office buildings already in the fund. In addition, this fund has no up-front commissions.

Can you tell us more about the KBS Growth & Income Fund?

As mentioned previously, the fund is registered as a 506c private placement for accredited investors with a minimum investment amount of \$25,000. Presently, we have four multi-tenant office assets in the fund, and we are looking to add more as fundraising progresses. The current assets include Commonwealth in downtown Portland, Offices at Greenhouse in Houston, 213 West Institute Place in downtown Chicago, and Von Karman Tech Center in Irvine, Calif. As of June 30, 2018, the current offering price (NAV) was \$8.79 per share and the current distribution rate was 6.00 percent based on NAV. The portfolio totals 683,952 rentable square feet and is presently 98 percent leased.

Is there a level of due diligence involved with the RIA?

In many cases, yes. RIAs value their clients, and they want to make sure the alternative investment offerings on their custodial platforms are high quality. We believe in 100 percent transparency, so we would typically work with their due diligence firm to thoroughly analyze our team and the KBS Growth & Income Fund. We have also met with several RIAs personally, so they can meet our team face to face and get to know our firm and how we actively manage our properties.

What do RIAs need to know to make recommendations about choosing product sponsors like yourself?

You want to make sure the sponsor is credible and stable. You want to know how long they have been in business, their total exposure to the marketplace, their current portfolio, and the tenure of their team. RIAs need to have a sense of real estate. A lot of retail investors access real estate by investing in a single building via a partnership. This can be labor intensive and risky because everything is tied up in the performance of that single asset. In our portfolio, if we have to sell a building, it doesn't have a negative impact on the investor because the other assets will be continuing to perform while we replace the sold building with one that has an opportunity long term.

What's the best career advice that somebody has given you, over the course of your career?

I think there are three things: be a perfectionist, be tenacious and have a vision. I let everyone in the company know I'm not their proofreader. Everything needs to be perfect when it comes to me. If I'm looking at a report and the date is wrong, how do I know the IRR calculation is right? How do I know the annual yield is right? How do I know the assumptions are right? Everything has got to be perfect because our investors, board members and other stakeholders need to know they can trust the information we provide. Then there's tenacity. Everything is not going to go smoothly. You need to just keep going if you believe in your goal. And that brings me to having a vision. That's not about how much money we are going to make this month or next month, or even this year. It's about what this company is going to look like 10 or 15 years from now. Being able to create that vision is something that's really, really exciting. And I can't wait to see it come to fruition.

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