Hart Realty Advisers

More informed retail investing — Using advanced analytics

David "Mac" McWhorter, executive director of the Institute for Real Estate Operating Companies (iREOC), recently spoke with **David Hart, Sam Latone, Josh Kagan** and **Gregg Katz** of Hart Realty Advisers. An excerpt of their conversation follows.

CONTRIBUTORS

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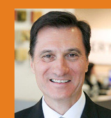
Co-CEO



Sam Latone
Co-CEO

Josh Kagan
Chief Investment Officer

Gregg Katz
Chief Strategy Officer

For people who don't know a lot about Hart Realty Advisers, let's start with a brief overview of the firm.

David Hart: Hart Realty Advisers is an SEC-registered investment adviser that has focused exclusively on U.S. real estate investment management through customized separate accounts on behalf of institutional investors for more than 30 years. Hart has operated during multiple real estate cycles and executed core, core-plus, value-add and opportunistic strategies. Hart's clients have included public and corporate pension plans, endowments and high-net-worth family offices. Hart is the investment management division of The Shopping Center Group (TSCG), which is the largest privately-held retail real estate services platform to tenants, landlords, developers and investors in the U.S.

Are there specific sectors that you find more attractive than others?

Hart: Over the years, Hart Realty Advisers has invested in all four main real estate sectors. However, right now, we are focused on retail and leveraging the vertically integrated platform of TSCG in the sector to execute core, core-plus and value-add retail investment strategies for our separate account investment management clients.

Why retail? That seems to be one most people are avoiding.

Josh Kagan: We are frequently contrarian players, subject to our assessment of the risks, and we generally like going one way when most of the people are going the other. Although the real estate cycle is pretty long in the tooth, we think there is a fair amount of runway left in retail. The fact that so many people believe the retail apocalypse headlines and, thus, avoid retail, provides opportunity due to pricing dislocation and a smaller competitive set of buyers. The key is to have the skillset and experience to add value to the retail we acquire. Retail is unquestionably evolving. We are finding tremendous value in well-located retail that is ripe for densification. Our current strategy utilizes retail as the foundation and other uses to redevelop portions of a retail center into a mixed-use environment. So, we might add residential, medical office or even hospitality, thereby reducing the existing retail GLA and creating a strong sense of community.

Does this mixed-use strategy work in both urban and suburban communities?

Kagan: It does. We are working on an existing urban acquisition, where we will be bringing in a vertical development component. However, we are also taking a hard look at some suburban shopping centers that we own or that we can acquire that are prime for densification. So, it is really a function of how well located the actual real estate is, as opposed to whether it is urban or suburban environment. In the end, well-located real estate can be appropriately reactivated by astute operators.

Hart: But it's not all about densification. We also see opportunities to preserve and/or create value in traditional retail assets. The breadth and depth of our analytics and research, as well as our footprint of 20 offices, allows for a deep dive during the underwriting phase and then to create an operational plan that de-risks the investment from a go/no-go investment decision, as well as the execution of innovative redevelopment and operational strategies.

Kagan: Because people are running away from retail, we can often acquire very good assets at very attractive pricing. That gives us lots of opportunity to use our operational skills and deep experience to create value for our investors.

Sam Latone: TSCG is the largest privately held firm of its kind in the United States, with 20 offices across the country, 73 partners and more than 215 employees, 30 of which reside within our analytics and research group. In addition, we lease about 65 million square feet, manage over 12 million square feet and exclusively represent more than 430 users of space in one or more our markets and sell/finance over $500 million of assets annually.

What makes us such a compelling platform is that Hart can leverage the power of the balance of the company. Hart has excelled in developing creative strategies, finding hidden opportunities, and working closely with investors. The management team understands real estate inside and out. We've been through good and bad times and know how to continue to improve assets, even during difficult times. As the investment management business line of TSCG, we utilize the capabilities of all company business lines, including tenant representation, landlord services, analytics and capital markets. Our footprint comprises 20 offices on the East Coast, all of which are no more than 2 hours from any MSA that has a population of 100,000 or more people. In essence, this allows us to de-risk the investment throughout its lifecycle. TSCG has historically focused on retail real estate. As retail has and continues to evolve, the manner in which we create an optimum merchandising strategy has changed. In essence, it's no longer about only retail but rather maximizing co-tenancy that includes alternate uses that drives foot traffic and creates a sense of community to increase and maximize dwell times.

Why did Hart Realty Advisers decide to partner with TSCG?

Hart: Over the years, Hart has invested in office, retail, multifamily and industrial. However, the advisory business has been changing and we see real opportunity in the retail sector right now. Therefore, I felt it was important to become vertically integrated with the best retail real estate operator in the business. We spent a lot of time looking for the right partner and it turned out that TSCG was the best cultural and operational fit for our team and clients. For us, the combination was truly 1+1 = 3.

Do you have a geographic focus?

Hart: We are primarily focused on where the TSCG offices are located because we believe we can provide the best value when we have access to real-time local knowledge. When we overlay that local presence with deep analytics of social, economic and consumer movements, including lifestyle and work patterns of the market, it helps inform us from a 360-degree viewpoint and therefore reduce the risk for our clients.

Kagan: We also obviously take a hard look at economic drivers. First and foremost, we are focused on vibrant, dynamic markets that have economic drivers for the long term. However, because of the local knowledge we gain through our various offices and business lines, we are able to identify and exploit local inefficiencies in markets that might otherwise be overlooked for one reason or another.

Hart: We are not necessarily focused on the A markets. There is a tremendous amount of growth in numerous secondary markets, particularly in the south and southeast, such as Charlotte, Raleigh-Durham, Orlando and Tampa. These markets are becoming hubs of education, economic, research and technology. In fact, we are getting better risk-adjusted yield in some of these secondary markets than we are in the primary markets. Pricing is generally more attractive and, again, because of our local presence, we can best determine risk and return profiles for our clients.

You've mentioned analytics a few times. Where does that analytics come from?

Gregg Katz: We have an in-house technology analytics group consisting of 30 professionals who cover digital marketing, mapping, analytics and research. When everyone else was cutting real estate research after the recession — playing the contrarian again — we invested heavily in research and analytics. This was a time when retailers and landlords were all asking for more information, and it just wasn't out there. That heavy investment ended up paying dividends, as we were one of the few firms that have the data and analytic skillset to help our clients, which provides us with a distinct competitive advantage.

What types of data are you gathering?

Katz: We are looking at everything from mobile location data to geo-social data, which is a consumer personality and sentiment-based data set. We, of course, look at supply and demand and all the other standard metrics, but it is this consumer behavior component that really helps us de-risk the overall investment and investment strategy, and sets us apart because most people are not looking at properties that way. Successful investment is all about adding value and eliminating as much risk as possible — and focusing on consumer behavior does that.

Latone: We are looking at why consumers move in the way that they do. What are their patterns? What does that behavior look like? Especially where they come from and go to after they visit us; i.e., their workplace to a specific restaurant or the urgent care center to the grocer or pharmacy. It is a very top to bottom approach, which allows us to make some great decisions by focusing on leveraging consumer behavior to create the optimum merchandising mix in any environment that may be singularly focused (office, retail, multifamily, etc.) or mixed-use.

Kagan: In other words, consumer spending analytics provides us great data for a go/no-go decision on the actual investment, and then helps us craft the right operational strategy should we choose to make that investment. And that is the value proposition for our clients. We are not an allocator but rather a vertically integrated operator. Maximizing the value is largely about de-risking an investment, and this analytic platform provides top-down data that is then integrated with our ground roots, granular bottom-up approach.

Why do you use a separate account structure?

Hart: We believe in having a partnership with our clients. Whether we have discretion, discretion in a box, or no discretion, we keep our clients informed of all major activities and have regular dialogue with them as appropriate for the situation. We feel the separate account format works best for that type of arrangement. Having regular communication with the client allows us to shape the portfolio to their current needs. We deliberately limit the number of accounts we handle and also avoid having multiple clients with similar strategies to eliminate conflicts of interest. This allows us to stay out of a rigorous rotation cycle, which can create issues when multiple clients are looking for similar real estate.

Why would an investor invest with Hart as opposed to another manager?

Kagan: I think our differentiator is comprised of three separate parts. One is 30 years of being a registered investment adviser acting in the investment management business with very successful returns. Two is our operating platform with 215 people, boots on the ground, managing, leasing, representing tenants, living, eating, working, playing in each of these markets, that ultimately gives us unparalleled insight into those markets. And the third leg is the data analytics portion that very few investors fully understand how to use. The way in which Gregg and his team have been investing in and performing high-level data analytics for over six years is market leading. The result is that we have proprietary algorithms and ways in which to synthesize and interpret data that provides insights into markets, sub-markets, specific assets and distinct consumer and work patterns within a trade area that allow for better investment decisions. We turn information into insight and translate this insight into informed investment decisions.

Hart: We are not trying to be all things to all people. We know very clearly where our strengths are, and we leverage those strengths to the benefit of our clients.

OVERVIEW

Our goal is to turn information into insight and insight into informed investment decisions. Hart Realty Advisers creates sustainable protected value through investment in institutional-quality real estate for our Separate Account clients while managing and protecting their risk. Over three decades our mission and sole purpose has remained the same — providing consistently strong real estate investment performance, outstanding client service, and continually putting our fiduciary duties first, earning the trust and respect from clients, operators, partners and employees.

CONTACT

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