Greg Bates:

Scale matters. That became a mantra for the company. As did a phrase that we started talking about, which is simply that growth is actually defensive, as much as it is offensive in this new environment.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices In Real Estate. Today's interview is a conversation with Greg Bates and Bob DeWitt, from GID, the Boston based vertically integrated real estate investment manager. Today's episode seems to be a story about generational transitions at GID, but it's really about transitions in our business writ large.

I use the plural of the word transitions, since most obviously, today's episode is the story of Greg succeeding Bob as the CEO at GID. You'll get to hear the story of their baton passing. But the more interesting story is first the transition in the business that Bob really led back in the '90s through the 2000s, as GID and others institutionalized their businesses, and therefore led to the professionalization and scaling, if you will, in their case, in the apartment business. But just an example of the institutionalization of all the major food group sectors in commercial real estate.

Then to keep with that transitions theme, Greg talks about the realization as their team looked at the generational shift at GID, that GID had to scale up even further, as still a mid-sized company, to compete with the BlackStones', Brookfields', and Star Woods' now gargantuan capital base. As part of what Greg described as real estate's transition from an alternative asset class, into a primary asset class.

One of my favorite quotes from the episode, and you'll know this is one of my favorite themes. As Greg said, "It's all about operating platform. Capital appreciation was the driver of our business in the past. Going forward, our performance will be defined by operational excellence."

In furthering the transitions theme, I have a transition in my business, and therefore also in the sponsorship of Leading Voices. I'm announcing that my firm, Terra Search Partners, has just become part of the global talent advisory firm, ZRG Partners. Where we will together build our combined real estate practice globally. The resources and opportunities with ZRG are tremendous to build our global real estate practice. As we're just rolling this out, we'll invite you to learn more at ZRGPartners.com, still at TerraSearchPartners.com, and as this is coming together, I'll share more about our new practice on the podcast in the coming months.

I hope that you enjoy today's episode. As always, I'd ask you to share this and other episodes with your friends and colleagues in the business, and please rate us on your favorite podcast app. If you have questions, comments, or guest suggestions, please feel free to email me. I can still best be reached at matt@terrasearchpartners.com. I hope that you enjoy the conversation with Bob and Greg.

Bob and Greg, welcome to Leading Voices In Real Estate. I am really pleased to have you on the show, to talk about your business, your careers, and the passing of the baton succession that the two of you have recently completed. In this case, when I think of succession, I think of two things. It's obvious, succession from one leader to another, and that's what we all think about. But actually, you're succeeding at a time of massive change in the industry. So a succession or evolution of business model, equally to individuals.

I will tell you and the audience, I have been watching the TV show succession, which is a cartoonish example of egos dealing with what is really a normal pathway. You guys get to talk about a normal pathway that's going really, really well, and not about ego, I hope. So we'll have a really interesting conversation today.

Let's start with each of you introducing yourself, so our listening audience knows your voices. Maybe Bob, you start for a sec, and then Greg, and then we'll keep going.

Bob DeWitt:

Sure. I'm Bob DeWitt, and I've been at GID for 35 years. Prior to that, I was at Winthrop Financial Associates, which was a real estate syndication firm based here in Boston. I've had only two companies that I've worked for in my entire career, which was a luxury.

As a background, I went to the Tuck Business School, up in Hanover, New Hampshire. I got interested in real estate when I took a real estate course my second year, my spring term. I saw, in real estate, a nexus between investment banking and investing in real estate. In the hard assets, the tangible, hard assets, the cash flowing assets. That was a great appeal to me. I was lucky to find a job at Winthrop when I got out of Tuck, and that went great for five years. I learned a lot. I was very busy. I was VP of Acquisitions.

Then came along the Tax Reform Act of 1986, which changed the entire reason for being for syndicators. I knew then, I needed to go to a vertically integrated real estate operating company, and was really fortunate to find GID at the time. We'll get into that a little bit later.

Matt Slepin:

Cool.

Bob DeWitt:

Of course, for any of you who are listening, who remember what the real estate industry was like in the late '80s, it was a very unsophisticated industry. The current version of the public REITs had yet to emerge. They started coming out in 1992 and 1993. The technology that was available to all of us, in order to gather market relevant information, competitive information, even supply and demand information in particular markets, we all take for granted today that you can go online, and mine local permitting offices, to determine what kind of property developments are on the horizon.

You couldn't do that back in the late '80s. It was just a very different, much less sophisticated business. In fact, Matt, you'll get a kick out of this. Because you and I are about the same age. At GID, we had one personal computer, and it was on a push cart. We would move it around to whoever seemed to need it. The CEO at the time would, on occasion, come looking for the cart, if it was not being used at that exact moment, had the ammunition to refuse to add a second PC to the organization. That just gives you a little bit of an idea of how unsophisticated the world was. The world of business, and the world of real estate.

Matt Slepin:

Cool, and Greg?

Greg Bates:

It's nice to be here, Matt. Thanks.

Matt Slepin:

Thank-you.

Greg Bates:

Also nice to be with Bob. Bob and I went from being almost inseparable for five years, and now we speak on a weekly basis. So this is actually nice for us too. Thanks for inviting us.

My career, like Bob's, is pretty simple. I spent basically almost 17 years at GE, the vast majority of which were in their real estate group. Then I left after the GFC, and was one of the first people out, because I saw a market opportunity to invest at the down cycle, and went to a local Connecticut shop, and ran their investment management business.

I did that until Bob and I had lunch. I think, Bob, it was probably in, I don't know, summer of 2016. We began discussions about joining GID. Then in January of 2017, I started here, and have been here since, and absolutely love it.

Matt Slepin:

That's great. Usually we tell the stories from the beginning, but I want to tell the story from the end here, or hear the story from the end game. It's really in your succession, Greg, and in your business there. It's a, "What problem are you really trying to address?", discussion. I'm curious how you place this point in time, and your company in this point in time. I'll let you get started.

Greg Bates:

Yeah, so that's a big question. If we talk about the macro environment, and really harken back to the initial conversations Bob and I had when I first started, we were really focused on where the industry was going. I had participated in a conversation with one of the big banks, on the rise of the mega manager in real estate. If you can turn back the clock to that time period, M&A activity among investment managers was picking up. It was clear the industry was entering a new phase.

Today, we're actually living through real estate's transition, from an alternative asset class into a primary asset class. That I believe at least, takes its logical place in between bond and equity portfolios, among institutional and retail investors.

What I've told people is, when you try to envision what's happening in real estate, consider how Fidelity and Vanguard disrupted the public equities market, with low cost mutual funds, or the emergence of ETFs. Or think about how PIMCO and BlackRock did the same, and disrupted the bond market. Their strategies were simply to provide investors with index level exposure, at a very low cost to the asset class.

If you observe BlackStone, in particular obviously BREIT, which gets lots of press these days. But also Star Wood, and now KKR, New Beam, and others, this trend is transforming real estate. We're living in this transition period, away from closed end, value add opportunity funds, that are targeting high teens IRRs. Really, the perpetual capital vehicles that provide investors with index level exposure to the asset class, and that is a big change.

When I look back at January, 2017, when I started at GID, this was Bob's and my primary challenge. We sat and spoke for hours upon hours about it. When we think about where we had to take the company in this new environment, scale matters. That became a mantra for the company, as did a phrase that we started talking about, which is simply that growth is actually defensive, as much as it is offensive, in this new environment.

Expanding our business, I believe, protected our core franchise. It enabled us to actually produce better returns, and be more competitive, more operationally efficient, in our core business, as well as growing. That became a significant advantage for us. The ability to invest across asset classes. To do more in multi-family, and to have that expanded breadth and depth of the platform, that I think really gave us visibility into pricing by market, pricing by product.

We were able, I think, to transition away from thinking about core apartments on an absolute basis, to really assessing relative value across 24/7 markets. Growth markets. Class-B, Class-A development. All that market intelligence, I think really helped transform the company.

The last comments I'll give you, Matt, I think we've all seen, the capital appreciation that drove total returns over the last 20 years is not what will define the next 20 years in the space. Our performance will be defined by operational excellence. The best managers are going to have to combine high tech, by creating operating efficiencies, etc. But also leveraging high touch, that we've been so good at in the past, to have concierge-like service levels.

How do you become that high tech, high touch company? That is one of the requirements, I think, for us in the future. I think about our business and our competition a little bit like a dumbbell. You have one end of the dumbbell with small, niche players. I think they can continue to thrive, if you're a local data center, or life sciences group, or a regional developer. Then you look at the other spectrum, with the BlackStone example we gave, of the large mega managers. The challenge resides for those mid-market folks in between, that have neither the scale, nor the focused niche.

That was one of the decisions we made, in looking at where the industry would move. We're trying very hard to have that large scale, where we get all the benefits and efficiencies of size, but we never lose that entrepreneurial mindset of being a local operator. Think about that Goldilocks scenario, of trying not to be too small, not to be too big, and become an index player or a fee manager. That's really where our focus is today.

Let's stay in a certain number of business lines, that we know well, and try to always focus on principal return and out performance, versus scale for scale sake. Staying just in those top markets in the US, and very specific, and we hope very complimentary asset types. That's our response to where we're going, and really was I think, Bob, the crux of most of our conversations for five years.

Matt Slepin:

It's really interesting. You start with strategy, or you start with the overview. You start at 100,000 feet, not 10,000 feet. You're going to get to 10,000 feet, but there's perspective on where the world's going, and how you have to respond to it.

Bob DeWitt:

Change was happening very quickly. The change was coming about at a variety of levels within the business. Technology was being created, that could be utilized by operating companies in reams, in order to make themselves more efficient. There was available, much more market level data, that could be sliced and diced. To inform investors as to which markets would offer ultimately the best long term returns.

All of these things were unavailable to us when we started our careers, respectively, 23 and 35 years ago. They have evolved, to the point where firms like ours can utilize those, in order to accomplish that what Greg was just outlining. That's important.

The one thing Greg will spend some time on, I'm sure, in this podcast, is not losing sight of the importance of the vibrancy of a corporate culture, which takes the strategy that is developed, and is now being executed, and makes it a reality. If you have the best people, the best technology, the best access to data, and you can make them all work together in a very constructive and productive way, that's what's going to mark a successful enterprise on the go forward basis.

Matt Slepin:

Yeah, let me push on one of your points. Because you said, "If you have the best this, best that, best the other," I don't think it has to be the best. I think if you ... Because right now, there's some democratization about data, and information, and technology actually. If you have all of them really, really good, as good as anybody else, not the best, but you have all of it put together in what I call a business platform, then I think it works. It's how you knit the almost best of everything together, that makes a platform sing.

Bob DeWitt:

I don't know that you'll ever know if you have the best. You strive for the best, and you settle for very, very good. But you never stop striving to implement the best technology, or the best data analytics, or whatever it is. But I agree with you. Obviously it's probably impossible to have the best of everything.

Matt Slepin:

You can't, right? But it's a balanced team, and it's a balanced process. Let me ask a different question, because our audience doesn't know you guys. Let's go sideways for a minute, and then we're going to come back to some of the subjects that Greg touched on. But just help us give an overview of your platform.

Greg, when you said that you're going to do different asset classes, most of that comment was within the multi-family sector. I know you do industrial too. But if you could talk about the asset classes you're in, types of properties, asset classes, platform, vertically integrated, and the kinds of investors that you have, that would be helpful.

Greg Bates:

Sure. GID, by way of background, is a 60+ year old private company. We're based in Boston, but we've got primary offices in Atlanta, Dallas, and San Francisco. You are right, we are vertically integrated, so we've got a deep history as a multi-family investor, owner, operator, and are extraordinarily focused on that platform that we have.

I think it's a special sauce for us. But people think of us, I think, as a core apartment owner and operator. The reality is, we actually have deep experience in the value add space. We have deep experience, decades long, as an apartment developer. Those are important parts of the business, and they gave rise to us entering the Class-B space in a big way, which I mentioned earlier.

Now in the apartment space, we either develop with our own in house teams, we do a lot of joint venture development, we obviously have the Class-A core funds that people know quite well, with OPERF and CALPERS, and a large Class-B business as well now. Multi-family is established and solid. What you might not know, is that the firm has 30+ years as an industrial investor, and again, is that developer. Which is the third leg of our stool, out of four legs.

When you think of those three business lines, multi-family, industrial, development, they have a very long, storied history at the company. Then our most recent business line, which the press got word of. I would say we announced it, but we really didn't. We got caught building it. We are entering the credit space. We believe that's quite synergistic to what we do in the other three verticals, and feel like credit, and having a debt fund, is very complimentary to our core capabilities, and also an important business line. Not just for our company, but for our investors to get the diversification they need out of the real estate sector.

That, Matt, you had also I think asked about our types of investors. That's important, because we have to spend a great deal of time marrying our core capabilities, with the needs of our investors. We spend a lot of time learning what our investors need and want out of the sector, and to the extent we think that we have a unique competitive advantage, we'll provide that. To the extent we don't, we actually help our investors think about how to go to market through other people, to access certain products. That's a little bit of an overview.

Matt Slepin:

Yeah, go back to credit for a second. Is that credit into multi-family and industrial? Or is that credit across real estate asset classes?

Greg Bates:

We will focus on multi-family and industrial. I think it'll be 40% of what we do. But it is multi-asset class, and really focused out of the gate on large loans to the best kind of sponsors in America.

Matt Slepin:

Okay, and I want to come back again to the changes in the industry. But one last question about your business, is that you're family owned. Talk about the Wallace family, and their involvement, and what it means to be family owned, versus public, versus just a partnership. Whatever the rate, the alternatives are. How does that influence your business?

Greg Bates:

I'm going to give you one comment, and then I bet Bob has great perspective here too, given the decades of being a part of it. I think the single greatest attribute of being a private, family owned company is, we invest significant amounts in all of our vehicles. Ingrained in our psyche here, is a long term principal investor outlook.

If you think about the money we manage for others, we share that same perspective. We're investing generationally, just like the pension funds and sovereign wealth funds for whom we manage their money. I think that is an important differentiator. No one in our company is paid a share of fee profits. We have never done that historically. We share only in out-sized profits from the incentives we earn on the funds, and we're aligned 100% with the family ownership, that wants principal returns on large co-investments, and our investors. I think that's part of what makes GID a special place.

Bob DeWitt:

I would agree with all that you said, and just add that again, the business was founded in 1960. It has a long and successful tenured history. As Greg said, we participate in the profits generated through all of our investment activities. That creates great alignment of interest, between the ownership, the Wallace family, and the employees.

You think about, what was attractive initially when we started our separate account business, back in 1993, to the pension fund world? It was that you had, at that point, a 33 year old enterprise, that had stability, that had a solid balance sheet. That was committed to reinvesting profits and capital from the balance sheet, into those investment activities that we're doing with those investors. They drew great comfort from the fact that we had money to lose, as well as profits to share.

But all of the members of the family that are involved in any capacity in the oversight of the enterprise, are extraordinarily intelligent. They're fair. They're reasonable. They're thoughtful. They're very considerate. Gardner Wallace as chairman, and I as vice chair, president, and CEO, for 24 years, really never encountered a single instance in which the family declined to pursue a business initiative that we presented. In that regard, we've had just a wonderful partnership with these capital providers, the Wallace family. It's been a great relationship.

I think in some regards, we look like a public company who's going through a succession. Every good, high quality public company, and evergreen private company, has to go through this, and has to go through a very rigorous and thoughtful succession analysis and plan. GID began that process over 10 years ago. This is the culmination of that, at the CEO level. But we've applied it to many positions along the way. So it works.

Matt Slepin:

Yeah, last question about this. Which is succession within the family itself. In some family offices, if that's the right word, or families are, and you've described this as a highly functional family. But they have to do a lot of internal planning, so that their own succession of generations doesn't come in and mess up the business. Either hands on, hands off, lots of different issues. How do they manage themselves around that? Not manage themselves around real estate, but around those subjects?

Bob DeWitt:

The senior Wallaces have spent a lifetime inculcating into the second and third generations, that the expectation is that this is a perpetual, evergreen, privately owned enterprise.

Greg Bates:

Matt, it is interesting. Family companies can take on all shapes and sizes. That is the diligence that you do before you join a family company. I was immensely impressed when I joined GID, with all the thought that surrounded what Bob just talked about, and their version of an evergreen company and succession planning. How the family interfaces with the company.

If you didn't have such a close knit family, that has really shared values with the values of the leadership team, it can get tricky. But you do, when you work for this place, you feel like a member of the family. When you first started talking about things, Bob started with corporate culture. Man, what a great place to start. Because that is everything here. We talk at length about people, and purpose. To make sure that we have the right folks, the right purpose and mission as a company, and it's critical that's aligned with the family.

Matt Slepin:

Yeah, so let's move on to a couple of the themes that came up in the early part of the conversation. I want to touch on two primarily. One is, I want to think about time horizon on investments, and how that may be changing. Either time horizon, or Greg, as you said, "This is perpetual investment, perpetual portfolios." What does all that mean? What does that mean for what has been trading velocity in the business? Then I want to talk about business platform.

But maybe start there, in terms of returns. Do returns become more moderate returns as an asset class for real estate, and how do you deal with that?

Greg Bates:

Maybe I'll share some views on pricing, in this evolution we're seeing. We've always discussed real estate as sharing bond like attributes with equity appreciation potential, right? That's the oldest story as can be. But given that profile, shouldn't real estate returns then trade somewhere between bonds and equities? Well in the past, they didn't. Why? There was no transparency into the real estate market. There was illiquidity in the real estate market. There were tremendous swings and cycles in real estate.

That has changed quite a bit. Now if you look at public REITs, I would argue you get better data and transparency out of real estate operating companies, than any other business you could invest in. So I think that evolution has allowed us to ask the question, "Where should real estate trade?" We in particular have done a lot of research on multi-family, as well as industrial. But I'll give you the simple multi-family example.

Multi-family has about a 0.6 beta to the S&P 500. Dramatically less volatility than the S&P 500. If you look at the world and say, "BBB bonds today," now we're in a weird point in the world here, with geopolitical issues, and macroeconomic issues, and inflation. But just imagine a steady state could exist today. BBB bonds are in the very low 3% range, and the S&P is forecast to throw off 7 or 7.5 over the long term. If multi-family has a 0.6 beta to the S&P 500, and it provides a dividend yield the same or greater than bonds, where should it trade within that spectrum?

I think what you're seeing is, on an absolute basis, pretty scary cap rates. But intellectually and academically, pretty rational cap rates. If apartments trade at a 3.5, and you get three points of growth, you effectively, over a long term, will get about a 6.5% un-levered return. That's probably where apartments should trade.

As allocations to the real estate sector increase, and all of a sudden real estate becomes a primary asset class, I think you're seeing that. I think you're seeing institutions want real estate over the long term, for those types of returns. You're seeing retail investors flock to the space, just looking for exposure to US real estate.

My view is, this is where apartments probably should trade. Things do get a little frothy. We see some stuff in the markets we don't like, but I think they're transient. But the days of trading real estate are probably going to be slightly more subdued, and that's logical to me. The costs of buying and selling real estate are real. Having been someone who ran opportunity funds in my past, right when we fixed an asset and got it to the point where you wanted to own it for forever, you then had to turn and sell it. It was nice, because you got your promote, but disheartening, because you knew your investor should own that for the long term.

Matt Slepin:

So does that squeeze out the value add model to some degree? Where you have closed end funds, and a lot of trading going on, to assets that you really wanted to keep in the first place? Just upgrade them?

Greg Bates:

I think the value add business model is harder today, and that's largely because if you look at these perpetual fund, and they can be odyssey funds, or the sector specific funds, there's an allocation for value add within those. All those vehicles will be core plus. But the way they get to core plus, is being 85% core, and 15% either development, or repositioning, or value add. Their cost of capital is simply lower than a pure value add fund.

I think the value add guys really do have to have a niche or a special sauce, or some angle. Because increasingly, they're going to be competing against very large players, with more access to capital, and a lower cost of capital.

Matt Slepin:

Right, it's like the build to core concept, but value add to core instead of value add to sell and flip. Then the less transactional cost, and that business model probably works better. You're just buying a B, keeping it as a B, and it's okay.

Greg Bates:

Bingo.

Bob DeWitt:

The logical extension of that, Matt, is that the more assets that need to be renovated, or improved in some fashion, with better management, the more of those they get into the hands of the capable operators, the fewer opportunities are left. The longer this takes place, and it has been taking place now for 30 years, the fewer opportunities really are available, until there are huge dislocations, like in the retail space.

You've got, what are all the big regional malls, and the neighborhood malls, going to look like in five years or 10 years? That's very different than the multi-family and the industrial space that we're in.

I just wanted to comment about where we've gone, in terms of the place where real estate should trade. Keep in mind that in Europe, for the longest period of time, real estate was really serving the role as a repository for capital. It was not being invested in, or increasing cash flows and capital appreciation. It was capital preservation primarily. They've always had lower cap rates than we've had in the United States.

Now, we're not going all the way there. We are going to be, I think where Greg indicated. Somewhere between the fixed income securities, and the equities. That's all very logical, and it's been methodical in terms of how it's happened. Starting with the 1993 advent of the modern REIT era. That's when capital, both retail and institutional capital, began to get more comfortable with the quality of management, and the availability of really good information and data. That's when the institutionalization of real estate really began in earnest, and this is a logical evolution.

Matt Slepin:

Which segues to the next question, which is this business platform question. It really gets to the differentiation between different larger operators, and their ability to have an end to end business platform. Maybe the best, or the bar is raised for everybody. Talk about that in your vertically integrated business. Talk about, a little bit, technology. Talk about culture. You've mentioned all these words. How does that all knit together?

Greg Bates:

When you look at technology today, it almost becomes a baseline requirement for operating efficiency. It can be big data. We all like to talk about big data. I talk with our teams about little data, and say, "Let's all actually perfect the little data, and run the business better, before we think about the holy grail of big data." Then the technology on the front end of the business is transformative, with what our residents are seeking.

That was the combination I mentioned before about, how do we become high tech, but also remain that high level of service that we have? I think the way you do it, is really trying to take all the menial tasks, and we either centralize those, automate them, or we outsource them at the property level. Then we provide things like self guided tours for residents.

Matt, think about it this way, right? You want to pump your own gas, and get in and out of there quickly, right? You want to check yourself out at the grocery store. You can actually shift tasks to prospect and residents, away from our own staff, and leave the resident with a better experience than if we were to do it. That is a win-win for everybody in the future.

Then we take what might be fewer people at a property level, right? You've always had five or six people working a 300 unit apartment project, say. But we can actually have fewer people, but transition them more into a resident relations world. Where we're talking about amenities and services, and concierge-like behavior with our staff at the property level. I think that's a pretty special change. Our jobs are more rewarding. We can pay people more for that higher level of service. Our residents are happier. That's ultimately what we're driving for, and it'll take, I'd say three to five years for the industry to really make great strides in that direction.

Matt Slepin:

I'm guessing most of the larger players of scale would say much the same thing that you just said. So I'm wondering, for you, how that differentiates yourself in terms of stickiness with employees, stickiness with residents, or op-ex, which may be going the same direction for everybody?

Greg Bates:

Yeah, it's interesting. I do think we will all end up moving similarly down a path towards technology. But just like everything in the world, the way you manage that transition, and the way you try to retain your culture, is going to be the big differentiator. For us, that high service, high touch part of it becomes very important. You can see, some people embracing technology I think are doing it well in our sector. Others are trying to figure out, "How do I reduce labor expense through technology and outsourcing?" That is a part of the answer at best.

Because ultimately, residents have a choice. Today the markets are all full, and they don't have much choice. But the vast majority of the time, residents have a choice, and the switching cost isn't much. So you've got to be better than everybody else.

Matt Slepin:

It's interesting, I had a conversation, this was in Boston actually. It was with an old line company. We were talking about, this is nitty gritty, but we were talking about turnover of employees at the site level, in the multi-family business. This old line company in Boston said, "Turnover? No one leaves."

Now that's actually a negative, because you have the calcified person behind the front desk, and boy, you don't want them there. But in the institutional world, turnover is 50%, whatever, 40% per year of employees, as well as residents. If you could turn that by 10%, 15%, 20% in terms of loyalty or stickiness, then that really does hit the bottom line.

I'm also guessing that as you knit together your business platform, with all the technologies and culture stuff, that it's a harder switching cost, for an employee to jump from one of these places, in terms of how they've integrated all of this together to another.

Greg Bates:

So Matt, you hit on one of the key things. In the industry, you're right. In the management companies, turnover is tremendously high. We have turnover levels that, depending on the year, can be as much as 1000 basis points below our peers. If the industry is running at 32%, we might run at 22%. Now, the great resignation bumped everybody's numbers up. But this is one of the most important things. When we talk about people and purpose, a big part of that is making sure that the people that we care deeply about, who are our employees, stay with us.

Because if you don't, think about, if you're trying to grow at 20% a year, and you have 30% turnover, 40% of your people could be new in any given year. Between the new hires, and the turnover. If you have 1000+ people in a management company, and you're talking about 400 new faces every year? You become a hiring and a training company. Using technology so that, not that we have to reduce jobs, you don't. It's just less back-filling as you grow. You're not actually letting people go. You're just slowing the pace of new hires.

If we can do that, and provide a more rewarding job for people, so there's less burnout and retention is longer, that is the answer for us. We keep coming back to, how do we recognize and reward our people, and make this a place that nobody ever wants to leave?

Matt Slepin:

Cool. It's not the roach motel. Let's totally change the subject around this. Greg, this is yet another segue. But it's a segue to your background. Because when we talk about people, culture, platform, at least 20 years ago the company everyone thought about was GE. I want to talk about your career at GE Capital, before coming to GID. What did you learn from the best times that that company had?

Greg Bates:

I started there in one of their management training programs. It is a spectacular leadership training and management training company. The ethos of the company is oriented around that leadership. The company really taught you how to run businesses, and they taught you how to grow businesses. Those core principles are transferable across industries.

I think about what Bob and I were focused on doing here together for years. It's still what I'm doing now, which is strategy focus. No strategy drift. Setting goals. Managing people. Really measuring processes, and driving accountability on the few things that really change the business. Not letting us wander. That focus and discipline is so important.

The other thing I loved about GE in its best years is, we were always growing. The energy that a growth company throws off is remarkable. The number of promotions, new opportunities, stretch assignments that come out, really do energize your employee base, and create a lot of optimism and retention.

Foundationally, I think a lot of what we learned at GE, even though the company went through some very tough times afterwards, was best in class. Things that you hang onto, and are embedded in your psyche as a manager.

Matt Slepin:

Mm-hmm (affirmative), and how much was your learning basics of real estate and real estate investment, and how much did they layer on this management training stuff? Which, I don't think during those years, existed almost anywhere else.

Greg Bates:

People in GE Capital were moved from business to business. I lived in 11 different homes in nine years, when I was, from out of college until I got, I think until our second child was born. You were always on the move. Real estate was different. People who got into real estate got in, they stayed in, and they were in pillar jobs, doing them for decades even. It was just one of those special businesses that got in people's blood, and they didn't want to leave. Then when outsiders came in, like I did back when we bought Security Capital, everyone gave you a weird look when you came through the door-

Matt Slepin:

So how many years before real estate were you there, and then real estate?

Greg Bates:

I spent four years there, and then went to business school, and came out, and actually got into E-business and financial planning and analysis at GE Capital corporate. Then about 18 months later, they bought Security Capital, and I was leaving to go work in M&A in the healthcare division. They canceled that assignment, and my move to Chicago, and sent me over to the real estate group. It didn't take long to fall in love, and never want to leave real estate.

Matt Slepin:

One of the things we know in the real estate business, was a best and worst of times at the same time, dealing with GE. They were famous as a re-trader in the business. Throwing their weight around in a painful way. Talk about that, and maybe trying to change that culture too.

Greg Bates:

It's so interesting. Bob and I talk a lot about our incentive plans at the company here. I'll contrast them with what we had at GE, because we did re-trade. We actually fixed it later in my career at GE. But it was a lasting lesson for me. We basically had originators that were paid to go source deals. Then when you do that, you have to have a gatekeeper somewhere. So we had risk and underwriting people, independent from the origination arm.

What happens is, people aren't all aligned. The originators will cut a deal, shake hands in the marketplace, bring it up the line, and people will feel like they have to do their job, and beat it down, or change it. Or, "Well, if you won it at an auction, you must have paid the most. So go back and pay less." That was a little bit a part of the culture for a while.

It's tricky, and it's why I think the funds model is the best alignment of interest you could have. Because when your employees all make a dollar only when the company and the investors make a dollar at the end, you're all wanting the same thing. At GID, and I give Bob great credit for creating this culture over 25 years, you can do a deal on a handshake, with a leadership member of GID. Because we all behave the same way, and we're completely aligned. It makes us quite different than the experience people had at GE.

Look, you're right to mention it. It's not for the fault of the people. It was really the organizational structure that gave rise to that.

Matt Slepin:

Structure and compensation drives behavior.

Greg Bates:

For sure.

Matt Slepin:

It just does. Okay, change subjects again. How did the two of you meet?

Bob DeWitt:

We met at a place an hour north of Georgia, called Barnsley Resort. It was hosted by Malcolm Macomb at CBRE. He brought together some leaders from the multi-family space, and wanted to have us all just get to know each other, and share experiences and ideas, and hope for new relationships. That was at a time when the world was a little unstable, and real estate was going through some challenges.

We'd sit around a table, and I remember, Greg is there representing GE. I expected him to talk his book, coming from a big public company. Yet he was very forthcoming, very articulate. Evidenced a great understanding of the drivers of value, and the dynamics of our business. But I liked the way he shared his perspective with the rest of us.

When Greg and I got back together six years ago, when we started talking about succession and planning at GID, the one concern I had was, "How close is he to the operating side and the development side in real estate? He's always been a provider of equity capital at GE. But he did have the five years of experience with the firm in Connecticut." That was valuable.

But it became pretty clear to us, to Gardner Wallace and me, we thought, "There was a time when our particular personalities, and leadership qualities, and traits worked really well, as we were building this company to the size it was." Now what we really needed was someone who could continue what we had done, from an entrepreneurial perspective. But bring a little more discipline and focus on process and procedure. We thought the combination of his experience at GE, and at the private firm in Connecticut, was ideal for the next phase of GID's growth.

Matt Slepin:

It's interesting, because you talk about process and procedure. What I've heard through this conversation from Greg is some process and procedure, but a lot of strategy. So they're combined inextricably well.

Bob DeWitt:

Yes, and strategy is the paramount. That's a foundational aspect to any business success. But I took for granted that we can posit that strategy was number one important. But Gardner and I were good at strategy too. What we needed to add was policy and process.

Greg Bates:

When I was at GE, I did not like the Six Sigma, the process orientation. My brain isn't quite wired that way. But I always respected it, and those were always the people on my team that I held close to me. Because I knew it wasn't a tremendous skillset. Then as we decided to grow this business, I was using the analogy with Bob and Gardner, that you go from a job shop, when you're a smaller company, where everybody gets a chance to work on every widget at the same time, and you make the best decisions when you do those things.

You can make the best widget on Earth. But when you grow a company, you never want to be a factory with an assembly line. But you do have to change, and have more process orientation. So you have reliable, repeatable processes, and there can be a little more accountability and delegated authority as the business grows. Doing those things was the greatest challenge.

We talk about the succession planning, the strategy shift, and then the operational execution. Interestingly to me, the succession planning was fairly smooth and uneventful, just given the years of preparation Bob and Gardner had put into it. I think because we were so aligned on the future direction of the company, we were actually able to talk a lot about, "Okay, how do we execute this? What are the operational steps required to get us there?" That was helped, I think, by the fact that when people come to GID, they just don't want to leave.

When you think about, "Okay, Greg has to step into Bob's shoes, maybe that's a leap. That's going to take some time." Then you look at the team below me, of what is now 30 SVPs across four business lines. Those people were so ingrained in GID's culture, and decades long subject matter experts in their specific asset class, that it gave me the ability to say, "I've got to go do X. Now you guys own Y and Z." You get nervous about that, and then you turn around six months later and look at them. You say, "Oh my god, they're doing it better than I would have done it. Thank god I transitioned it to them, because there's a wildly talented group."

Matt Slepin:

Let me ask you a question about that. Because there's a tension between longevity, and the ability to change. So Greg, as you come in, realizing that what got you here isn't going to get you there, which means there's going to be change afoot, how do you balance that long term culture with the need for constant change as well?

Greg Bates:

Well look, it was one of the things I valued about the company when I came in. Your point that your greatest strength can also be a weakness is true. The flip side is far more scary than stability, which is, a new team with six people come together, nobody's ever going to give them money, right? So you need that stability and proven track record, and shared values. We had that. Every person we hired and brought in was hand picked, because they had the same values we did. It doesn't mean they thought the same.

We really valued diversity of experience, opinion, skillset, communication style, all of it. That's what created a high functioning team. But everyone had the same shared values and mission that we had as a company, and in how we would all interact with one another. The truth is, you go in and you go on your first asset tour, with people like Bob in the leadership team. They're telling you the trash chutes are in the wrong places, and it's under-elevator-ed, and, "Here are going to be the issues." You think, "Man, I'm in trouble. These guys know more about apartments than anyone on Earth." That was a real shift, and a level of angst for me at the onset. But it all worked out.

Matt Slepin:

Well, there's always a danger of getting into the weeds too much. You have to balance, again, we're talking about balance throughout this entire conversation. But it's the balance between the weeds, and the strategy, and the plan, and the platform. That's the trick. Sometimes not knowing the weeds can help.

Greg Bates:

Bob, don't you think that's a big strength of the company, is just the depth on the operational side, and everything we do? Which really was the focus of being vertically integrated. It was a mandate of Bob's, actually, when I came on. That we're not going to enter a business unless we truly believe we have a competitive advantage, and we can go tell investors that we do things differently. You have that-

Bob DeWitt:

I think it's very important to understand all of the detail that aggregates to derive value in our core competency business of multi-family. Everybody at GID, the property management, the asset managers, senior management, had been steeped in that. To Greg's point, what is the length of a walk between where you park your car, and you enter your apartment? How do you get rid of your garbage? All of those things, you have to think about what the daily irritants to a resident would be on site, and minimize those, or eliminate those. That comes from just familiarity with that asset class.

Getting back to your prior point though, about the tension between the familiarity of long term employees, who understand how to work together. Because they know each other's personalities, they know each other's foibles. They all know how to work effectively together. Then the challenge of ensuring that you're bringing in real current best practices.

Greg articulated how that worked at GID. But that's potential in every organization. Bring in some fresh ideas, and don't be afraid to recognize that some of those ideas really are better than the ones that you've been operating with, and you should implement those. I think that what we've done at GID now, is created an environment where both can actually happen side by side.

Matt Slepin:

One of the interesting themes in this whole conversation is, it's not about real estate investment. It's not about operations. It's not about technology. It's not about management and people. It's not about stewardship. It's all of that, and you have to be a leader-

Bob DeWitt:

It is all of it.

Matt Slepin:

... across every one of those things, to be successful in this. Before we move on, any other comments about, how long, Greg, were you in the understudy role? Is that's the right word for it. What was that like? Talk a little bit about that.

Greg Bates:

Look, so there was certainly a trial period for sure. Bob was nice to say that maybe the decision was obvious. But I think more at the end than at the beginning. Because I came in, and you feel established in your career. But there's a real learning curve when you enter a new company. So Bob endured that with me, as did Gardner. That trial period was probably the best thing we ever did.

Look, I didn't feel like I was trying out for a spot on a team. I felt comfortable that I could lead the organization. But with the recognition that I just wasn't ready yet. At the moment, when you think you are, right? You always think you are, and you're always ready for the next job. But the process was a measured process, and I have far more respect for it on the other side of it than you have during it, when you're impatient.

Because I think Bob can say that we sat down a few times, and I'm like, "All right, let's go. Let's get ready." You feel that. But the best thing that happened to me, and I think to the organization as well is, Bob and Gardner and I would sit and talk for literally hours on end. Sometimes not even remotely about business. But all of those conversations we had about life, and family, and political issues, whatever it was, we got to know each other well, and the way we think, and the way we tackle problems and issues. That means a lot.

To have that foundation and trust is probably a big part of it. So I don't know how you can transition a family business to someone, unless you've debated tough issues, you disagreed, and tried to reach consensus. I really do think that long measured process is important. But it can only happen with certain people.

Bob and Gardner are both very kind, and very gracious people, and don't need the spotlight, and don't have big egos. If you don't have that, and someone has to be an autocrat, and the buck has to stop on their desk, and they've got to be in the spotlight, it doesn't work. Nobody could do that for three, four, five years. The people here made the process work.

Matt Slepin:

It's really interesting, I've recruited for this job, and people don't want this job because it looks like a free option on both sides. Then you make that investment, and Greg, you're betting that Bob's going to actually be able to let go. Which, half the leaders don't let go on the first try. It takes the third or fourth try before they're really willing, "Okay, you're good enough. This is going to work, and I'm ready to roll." It's a hard thing.

Bob DeWitt:

It wasn't as hard for us. One of the things Gardner and I were trying to accomplish, with a three to five year transition was, we didn't want to just dictate to Greg and the new leadership team, what the strategy should be. We wanted them to be inculcated into the culture of GID, and then we wanted to watch how they formulated what Gardner and I had already thought was an appropriate future strategy. We just didn't want to recite it. That's what happened.

As Greg has said a couple times during this podcast, we would spend hours talking about what the benefits and the risks of different approaches to growth were. I think we, by and large, always agreed. That was, we're just really fortunate that that's the way it all unfolded for us. Having said that, there were a couple of times, to Greg's point, where I felt Greg's fingerprints squarely between my shoulder blades.

Matt Slepin:

Let me change subject again. Bob, when I think of you, I think of someone who loves the industry. I think of someone who's a steward and a leader in the industry, so I want to talk about the industry, not just the company, and not just the investments. But you've been a leader in NMHC. I believe that you see something in the apartment industry from a public policy standpoint, and from a raising the bar across the industry, that that leadership has helped accomplish. Do you want to talk about that for a few minutes?

Bob DeWitt:

Well I'll tell you, outside of running GID, being engaged and involved in the leadership of NMHC was the best thing I've ever done. It's really eye opening. When you think that we don't operate as an industry, within the bounds of our own rules. We don't set the rules. The rules are set in so many ways by the market, and by Washington. We needed to have a voice on Capital Hill, that could serve to educate, and inform our legislators and their staffs, the Federal Reserve, Treasury Department, whatever the incoming administration, HUD, we needed practitioners to be able to convey to legislators what the unintended consequences of legislation that they might be contemplating would have. GSC reform.

Matt Slepin:

Huge.

Bob DeWitt:

Very important during the great financial crisis. Ensuring that we had access to debt capital was paramount to the survivability of our industry. The primary point of liquidity in the system, and the debt system, was Fannie Mae and Freddie Mac. There was risk that, once they moved into conservatorship, that they would shut down. We're a highly capital intensive industry. If the industry had been deprived of debt capital, who knows where it would have headed.

There was not enough equity in the system to equitize maturing loans. Just being involved and engaged with legislators, to make them understand, and the secretary of HUD, to make him understand. For him to be able to take that message to president Obama at the time, that was critical.

Matt Slepin:

It's an interesting point. You said survivability of the industry was critical, and part of the issue. It's interesting, I wonder at a time of a great housing shortage in our country, how we as an industry have both the general population, as well as the legislators see us as partners and collaborators to solving these issues, versus, "We have to survive. We have to make as much money as we can." Those are two totally different subjects. But going forward, I think that's going to matter the most, is being seen as a partner towards those goals.

Bob DeWitt:

Yeah, and I think there's a certain group of politicians, and in the public, who look at us as not a partner, but a source of the problem. That's too bad. We have to work on that public relations issue all the time. That becomes crystallized during rent control efforts at various state levels. Because we're portrayed as the profit hungry private owner. Little do they know that we have, as our source of capital, retired public employees from the states of Oregon and California.

Matt Slepin:

I think both on the issue of rent control, and the issue of NIMBY-ism, we have to be seen as partners. Not-

Bob DeWitt:

Yeah, NIMBY-ism as you know is a local issue. You try and make it a national issue, but the federal government doesn't have control over land use policy in different states, and counties, and municipalities.

Matt Slepin:

It's still the public though. In my mind, I agree with you totally. We had a YIMBY on the podcast a month ago. One of my favorite conversations, leading YIMBY in the country, so listen in. But it's still the general population who doesn't like the word developer, doesn't like the word landlord. So I think we have work to do, to reclaim, or for the first time claim that we're partners here.

But before we go to the last question, Greg, any comments on what you see in the future? We've talked a lot about change through this whole conversation. But if you look out 10 years, and look to your successor, what will those changes mean? Any thoughts about that?

Greg Bates:

I do think when I'm done, we will have seen the full transition to the democratization of real estate that we're talking about. It will be a different business, and GID will be a lot larger company. I do think, when I look at my succession, and I look at the younger generation here within the company, we now are getting big enough that we actually have the bench strength internally. That I think our executive committee will be filled largely with people who have come up through the company, and been here. Same with the CEO transition.

But I think something you and Bob were just talking about will be important. Even after I retire, we will need to find the right person who is not just the steward of the company, but also helps with the stewardship of the industry. Because I think what you all touched on is important. The residential sector in the United States has exogenous pressures, and constituencies, that we need to satisfy. I think that will be an ever increasing outside force on how we operate the companies.

Jeff Immelt at GE used to say something that I liked, where he said, "In order to be a great company, first you have to be a good company." I think that's going to be important for the next generation of leaders. There's a social element to what we do, and a need to satisfy the greater good, and not just profits, that I think is felt within our employee base, within our ownership group, and certainly within our investor base.

Matt Slepin:

We haven't talked about climate. We haven't talked about diversity. We haven't talked too much about housing shortage. We just brought that in. But you're operating in the world there, where those mandates totally exist, and for good reason.

Greg Bates:

It's amazing how much of my time I spend on those things. ESG and sustainability, and our diversity, equity, and inclusion programs, are really important to all of our stakeholders.

Matt Slepin:

Let me ask you a question about that. Is it window dressing, or is it real? What's the difference between window dressing, and real caring about those topics?

Greg Bates:

I think some of it's window dressing. I have said, if you're going to make a net zero commitment to the world, then you're going to satisfy it by paying for carbon offsets, I think that's silly. We are really trying to focus on tangible things that we can do differently. We're not focused on window dressing. It wouldn't be authentic to our people if we did.

I think about diversity, equity, and inclusion. One of the things, Matt, we focus the most on, is we have a large Spanish speaking population here. We made a commitment to take every person in our company who wants it, and teach them English as a second language. We've gotten such great response from it, we said, "Look, we'll teach your spouses. If you make the commitment to learn and do this, and this can change your life, and your career trajectory here, we're going to invest in all of you."

So we're doing things, I think, that are authentic, and that our people are telling us are important, from the ground up. I hope and pray we do it the right way. Because I think if you make a bunch of public statements, like people did after George Floyd, and then you don't actually operationalize it or change what you're doing, I think it backfires in a big way. We're trying not to make a bunch of statements, and we're trying to just show people some key actions.

Matt Slepin:

Last question always on Leading Voices, is your advice to a young person entering the real estate business. Bob, I'm going to start with you.

Bob DeWitt:

Well I'd say, be more patient than your generation seems to be. I think the generation coming out of college today, or business school, seems to have a bit of ADD. They want instantaneous gratification. It just is unrealistic to expect that. I'd say focus primarily on finding a firm that has a vibrant, robust culture, that aligns with your own personality, and your own set of values.

Once you do that, then make sure that any task that somebody asks you to undertake, you execute to the very best of your ability. Even if you think the task is beneath your capabilities, just do the best you can, at any given moment. Be patient enough to absorb everything. Learn from the people who have something to teach you in the organization.

Now, don't be so patient that, if you find yourself in a toxic environment, you should leave. But understand what you're trying to achieve from a long term basis. To Greg's earlier point, you spend more time in the office than you do with your family. So make sure that you're working with people that you like, that you enjoy spending time with, and it'll all work out.

Matt Slepin:

Cool. Greg?

Greg Bates:

I couldn't agree more with Bob on virtually every one of those points. But I'll give you something atypical that you probably don't hear. I have been speaking with the company about this an awful lot. It really has to do with optimism, and risk taking. If you look over the past century in America, the stock market has had 75 positive years, and 25 negative years. Returns during those good years were 50% more positive than the bad years were negative. So that long term trend is actually understated.

Yet as an investor, judgment and prudence is crucial. It's easy to be pessimistic, or focus on downside risks. When you do, you seem sensible and wise, because it is sensible and wise. Optimism conversely can sound caviler, and people can seem ignorant of risks. But the great lesson of history is that you have to take risks, and be optimistic. The future is invariably going to be better than the past, and the data proves it, time and again.

So the simple message I have for all of the people in our company, young and seasoned, is to go for it and take risks, and believe deeply in what you're doing, and commit to it. Know that the future is going to be brighter for those who really go after it, and look at the glass as half full all the time. I wrote in a letter to employees, something similar, that that was Bob's greatest legacy for the company, was just this amazing optimism and belief that the company could do anything, and the people in the company, more specifically, could force that achievement through the sheer willpower they had.

That's been my message for the year. I find myself giving myself that advice, to make sure I live by it.

Matt Slepin:

Absolutely. It's a hard one, to keep that in mindset. Especially when times go bad.

Greg Bates:

Exactly.

Bob DeWitt:

Yeah.

Matt Slepin:

Hey guys, this has been a wonderful conversation, so thank-you very, very much. I really, really appreciate both of you-

Bob DeWitt:

Thanks for having us, Matt. Appreciate it very much.

Matt Slepin:

Cool.

Greg Bates:

Always great talking to you, Matt. Thanks.

Matt Slepin:

Yeah, thank-you.

Thank-you for listening in to Leading Voices, and I hope that you enjoyed 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 smart phone 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.