



Bentall Kennedy

Recently, **Sheila Hopkins**, managing director – Europe and infrastructure at Institutional Real Estate, Inc., spoke with **Wes Ahrens**, **Scott Matthews**, **John St. Onge** and **Betsy Weingarten**, asset management product heads with Bentall Kennedy. The following is an excerpt of that conversation.

How is Bentall Kennedy's asset management strategy different from that of most other advisers?

Wes Ahrens: In January, 2013, the asset management function was aligned by product teams for Office, Industrial, Multi-Family and Retail. This structure allows us to apply common responsible investing principles in a property-type specific way that addresses the unique operating aspects of each property type. Asset managers in each group are considered specialists who are focused on being the best asset manager in the business in each of those sectors.

Betsy Weingarten: As Wes says, about two years ago, Bentall Kennedy switched from a generalist approach to a specialist approach. This does help make us unique. It has allowed us to hire true experts in these areas. When you get the right team in place, the real estate part can take care of itself.

Would several of you work with one investor in a separate account?

Scott Matthews: It is dependent on the client's investment mandate. Some of our client accounts are discretionary, where product type for the most part is open. Then we have other clients who are very specific on product type, deal size, market and targeted



Wes Ahrens is Senior Vice President, Asset Management (Industrial Sector Head), based in San Francisco. He has more than 30 years of experience in institutional real estate investments, with the majority of that time spent in asset management and development. Prior to joining Bentall Kennedy in 2013, he worked for several companies, including Prudential, RREEF and Walton Street Capital.



Scott Matthews is a Senior Vice President, Asset Management (Office Sector Head), based in Seattle. His prior roles included serving as a dedicated portfolio manager and as Director of Asset Management. Prior to joining Bentall Kennedy in 2002, he worked in portfolio and asset management positions at several companies, including GE, Cushman & Wakefield and Great American Bank.



John St. Onge is Senior Vice President, Retail Services, based in Toronto, with responsibility for overseeing the retail portfolio in Eastern Canada and the United States. He has more than 30 years of experience in the retail and shopping center industries. Prior to joining Bentall Kennedy in 2004, he held senior management positions with The Rouse Co., Hammerson, OMERS Realty Management Corp. and Oberfeld Snowcap.



Betsy Weingarten is Senior Vice President, Asset Management, Multi-Family U.S., based in Bethesda, Md. She has more than 20 years of multi-family development, redevelopment, asset management and operations experience. Prior to joining Bentall Kennedy in 2013, she held positions with Apartment Investment & Management Co., AvalonBay Communities, Security Capital Atlantic (Archstone) and The Shelter Group.

returns. So although the product type specialization is a bit less efficient for us as a company, it serves our clients really well because many of our clients come to us with specialized needs.

What else differentiates Bentall Kennedy's approach to asset management?

Weingarten: We have a very integrated approach between our functional teams. As an example, asset managers work closely in a

partnership with our acquisitions team on the underwriting of new business opportunities. I think this type of collaboration across functional teams helps Bentall Kennedy to be able to set and then meet the expectations of our clients in a better way.

John St. Onge: Many of our counterparts in the retail industry do not have the kind of operating and development experience that Bentall Kennedy's asset management team has. We are very focused on fact-based,

research-driven decision making. While intuition plays a part in real estate decisions, we will not make any acquisition or development decisions without doing a tremendous amount of research.

Ahrens: Also, Bentall Kennedy's asset managers are much more involved in activities in the field. We do not want oversight by asset managers sitting in their office and reading reports. They are expected to be out in the market, to know their properties and tenants, and to visit with tenants during property tours. They are expected to inspect an asset once a quarter and walk the property with the third-party manager. We want to see how the property looks and make sure it is being properly managed.

How does asset management help Bentall Kennedy create value?

Matthews: For the most part, we are long-term strategic investors, so our approaches to value creation reflect this perspective.

St. Onge: Our primary business is to focus on assets where we identify an opportunity to create value through active asset management. We generally try to achieve our growth by focusing on the operations of

our asset, by maximizing rents and reducing expenses. We look for leasing opportunities — properties where the previous owners may have had vacancy that we think could be leased or could turn into a redevelopment opportunity. We apply a strategy on how to expand a shopping center, to lease those vacant spaces, to increase sales, which leads to higher productivity in our centers, which ultimately will lead to higher rents, NOI and income for our clients.

Matthews: In the office sector, we really partner with our tenants, which is more important today than ever before. Tenant behavior has changed. Companies' location choice is mostly driven by attracting the best employees and being where they want to work. I think it is critical to be a great partner with your tenant today, more so than it ever has been before, because those tenants are unsure what the future will be like. They need flexibility, and they need you to find ways to partner with them. Sometimes they are taken aback by our approach as a landlord because we do not necessarily behave like every other landlord. However, our approach affords us a great deal of flexibility with our tenants. It is pretty satisfying when you are working with tenants with a common goal,

and there could be mutual benefits. The decisions that we can make, quite frankly, afford us the ability to be more flexible because we do not have to worry about disposing of the asset at any point, at any given moment. We may employ an exit strategy when a unique opportunity arises. But for the most part, our strategy is long-term, strategic and with an eye toward sustainability.

How do you implement sustainability initiatives within your buildings?

Matthews: Sustainability has to make sense for our clients, both as a responsible management practice and as a driver of financial return. We knew large pension funds and institutional investors were grasping this, so some of our focus on sustainability was driven by our clients. The first thing we do to ensure our investments are sustainable is provide professional education for our staff. The vast majority of our asset managers are LEED Accredited Professionals. The people who work here are very knowledgeable and fluent as far as sustainability and have a deep, personal commitment to making environmentally conscious choices. Liquidity is a driver as well. You cannot exclude the world's largest pension funds from your buyer list, and they generally require LEED certified buildings or buildings that could be brought to LEED certified status. Just a month and a half ago, we received LEED Platinum certification on our 1900 16th Street office development in Denver. There are about 50 LEED Platinum multi-tenant buildings in the country but what makes this building unique is that it also has LEED Gold for Core & Shell, plus all 19 tenants in the building have LEED certified commercial interiors. It was not easy to get all of the tenants to buy into the concept, but ultimately all of the tenants went through the program. It is the only multi-tenanted office building in the world to have all three designations in hand.

St. Onge: From the top down, our 1,300 employees are engaged and



1900 Sixteenth Street, Denver, Colorado



Via6 Apartments, Seattle, Washington

focused on sustainability management and are quite socially responsible. Bentall Kennedy is a global leader in responsible property investing. Bentall Kennedy has created “Forever Green”, our branding for sustainability management. Our property management teams on both sides of the border regularly meet with our tenants to educate them on, or enroll them into, our programs. We have tremendous success in reducing and recycling waste and water and, generally, in reducing our carbon footprint.

Does having a sustainable building improve performance?

Matthews: Here is an example of why it is important. In 2007, we invested in an office development in Salt Lake City. When we broke ground, it was the first high-rise to be built there in the past 11 years. From the start, we said it must be LEED Silver or Gold, and the local development partner pushed back because sustainability had not quite taken hold in Salt Lake City and there were no LEED buildings in the market. The development was completed in the depths of the financial crisis, when tenants were very difficult to find. But when Goldman Sachs announced it would expand its operations in Salt Lake City, we knew LEED would be

important to them, and there were no other options in the market. We eventually came to an agreement and signed a 168,000-square-foot lease with them in a down cycle, in no small part due to the LEED Gold certification.

Betsy, are you noticing the residents for multi-family are as interested in sustainability as office or retail tenants?

Weingarten: I do think apartment residents are interested in sustainability and perceive it as a positive. Our recent new construction projects have either obtained or are working to obtain LEED certification, generally Silver or Gold. For existing communities, we look at specific projects that improve efficiency and are both good for the environment and save on utility expenses, such as LED lighting, low-flow showerheads, low-flow toilets and Energy Star appliances.

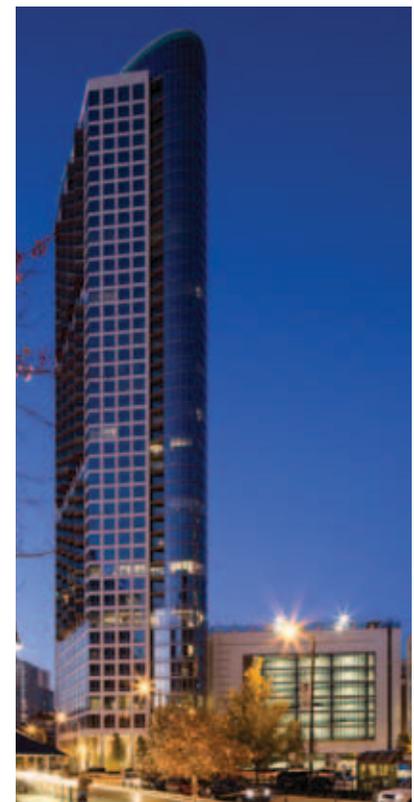
John, why is sustainability important in retail?

St. Onge: Consumers have a choice when they decide on where to shop. If for example, both Shopping Center “A” and Shopping Center “B” have a very similar tenant mix and a similar feel to them, I believe that the

customer will choose to shop at the center that is the most socially conscious of the two. If we are attempting to do all the right things to make our community a better place in which to live and work, I believe that that may be enough to steer a customer to choose our location over a competitor.

If I can buy anything I want online, then why should I go to a shopping center?

St. Onge: Going to a shopping center is an experience that will stimulate the senses. We believe people will always want to be entertained, and to touch, taste or smell what they are buying. The shopping center is a gathering place, an integral part of the community. The increase of online retailing has had an impact on the “bricks and mortar” business. While retailers tell us that the Internet is just another avenue in which they can deliver their product to the consumer, we believe that, over time, retailers will reduce store count and, in some categories, reduce store sizes while, in other categories, their footprint will increase.



Hubbard Place, Chicago, Illinois



Amazon, Haslet (near Fort Worth), Texas

One thing is certain: the question of the impact on the shopping center by online retailing is definitely the toughest question that we must address. Shopping centers must continue to evolve in order to continue to be a meaningful place in the community.

Yes, how is ecommerce changing the industrial industry?

Ahrens: As John said, ecommerce is having a major impact on retail that certainly has a large impact on the industrial sector. In the past, warehouses were considered to be boxes for storing inventory and shipping items as needed to restock retail stores. Now, the logistics of same-day order fulfillment and just-in-time inventory has completely changed how goods are shipped, transported, stored and distributed. True ecommerce-type tenants also have unique requirements for the number of car parking spaces needed for employees, separation of truck traffic from car traffic, more trailer parking and increased clear height. On the speculative development side, the hard question is whether you build a warehouse with the extra bells and whistles an ecommerce tenant needs. Besides requiring more land and less building coverage, the hard costs can easily be an extra \$1.50 per square foot. That may not sound like much until you multiply that amount across a million-square-foot building.

Where do you see Bentall Kennedy in the next 12 to 24 months?

Matthews: During the next 12 to 24 months, I see Bentall Kennedy growing. It has been a very long road to get to where we are today. We are at a point in our business plan right now where we have diversified our client base and we have filled the talent slots in the structure that we have now. The specialization of asset management at Bentall Kennedy is one significant change among many. We are as prepared as we possibly could be for that growth, and I am just so pleased to see it come to fruition.

Weingarten: So much depends on market conditions. For multi-family, our goal is to grow the business we manage on behalf of our separate account clients, but we also need to make sure the timing is right for apartment investment. Where will we be in 12 to 24 months? I suspect we will be larger, but in terms of magnitude, it is really going to depend on market conditions.

Ahrens: For a company as large as Bentall Kennedy is, we are not yet a well-known brand name in the United States. Certainly we are more active now; people are seeing us out in the market, and we are taking a higher profile. I see our relationships here in the United States growing, and that is going to tie back into our Canadian operation. We have a huge engine in Canada that has been in existence for over 100 years. One of the opportunities for the company is to take advantage of that strength to continue growing the business in the U.S. Our clients have certainly bought into the story of Bentall Kennedy and the company's performance. We have assembled an excellent U.S. team under the leadership of our CEO Mike McKee and COO Amy Price, and we have quality people throughout the organization. That is a great formula for success. ❖

CORPORATE OVERVIEW

Bentall Kennedy is one of North America's largest real estate investment advisors and one of its foremost providers of real estate services. Bentall Kennedy serves the interests of close to 500 investors and their 134 million square feet of office, retail, industrial, and multi-residential properties valued at over \$32 billion throughout Canada and the United States.

Bentall Kennedy is a member of UN PRI and is a recognized global leader in Responsible Property Investing. Bentall Kennedy is privately owned by senior management and two of North America's largest institutional investors, British Columbia Investment Management Corporation (bcIMC) and the California Public Employees' Retirement System (CalPERS). Bentall Kennedy includes Bentall Kennedy (Canada) Limited Partnership and Bentall Kennedy (U.S.) Limited Partnership.

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