Executive summary | December 14, 2023

Wipfli Real Estate Leaders Exchange

Host: Cory Bultinck | National real estate leader at Wipfli

Facilitator: Austin Evans | Profitable Ideas Exchange

Introduction

Fifteen leaders from the real estate industry met virtually to share leading practices and discuss topics of mutual interest based on an agenda created through a series of preinterviews.

Cory Bultinck, partner and national real estate leader at Wipfli, hosted the exchange and Austin Evans of Profitable Ideas Exchange facilitated. Josh Howes, PE and managing member at Blue Energy Group, and Christina Trapp, partner in Wipfli's outsourced CFO and controller services, joined to provide subject matter expertise. The focus of the discussion covered the following topics over the course of the hour:

- Energy efficiency incentives
- 2024 outlook
- Strengthening the bottom line

Energy efficiency incentives

Josh Howes of Blue Energy Group opened the meeting with a discussion on energy efficiency incentives.

- Howes explained how the 179D and 45L deductions can help developers optimize their tax savings and how to avoid potential pitfalls in the process.
- He also stated that the prospects for new construction are favorable, as tax credits can help reduce the expenses of energy-efficient projects. However, he cautioned that some adjustments may be needed in the design or execution phases to ensure compliance and eligibility.
- He concluded by recommending that each company conduct a cost-benefit analysis to determine if the incentives are worthwhile for their specific situation.

Energy efficiency incentives

Executives shared their experiences of using the energy efficiency incentives.

- One of them reported that installing solar energy systems on industrial rooftops had yielded significant tax savings and lower utility bills for the tenants.
- Another participant affirmed that applying the 179D deduction to all new construction and multifamily projects had resulted in positive tax outcomes.
- One member is considering applying such upgrades to hotel properties, especially in regions with high energy rates. Their main challenge is securing the funding for the initial investment required for these upgrades.

2024 outlook

With the year ending, the members shared their projections for 2024.

- Most group members agreed that their outlook for the first half of 2024 is not promising, and most expect to remain waiting on the sidelines for another six months. However, they view the second half of the year with cautious optimism and feel there may be more opportunities coming.

Executives expect to see continued high interest rates for the next six months that will keep projects sidelined.

- One executive revealed they had only completed one deal in the past year, as both buyers and sellers were hesitant and cautious.
- Another leader expressed that they were still recovering from the impact of the COVID-19 pandemic and that their tenants were struggling in the high-inflation environment. They added that while lower interest rates were desirable, they also needed to restore their operations and capital to reenter the market, which would take more time.
- Other executives are witnessing declining valuations and increasing vacancies.
- The six-month outlook appears bleak.

2024 outlook

Several participants mentioned that they have different strategies for pursuing deals in the current market.

- Some are actively looking for opportunities, while others plan to wait for the second half of the year. However, they also express a common worry about the possibility of facing fierce competition and inflated prices when the market conditions improve.
- The leaders who are more involved in closing deals assert that the buyer still has an advantage over the seller, depending on the deal size.

Strengthening the bottom line

The leaders explored various options to improve their profitability, considering rising costs.

- Some emphasized the need to diversify their revenue sources. They suggested several ideas, such as HVAC services, maintenance services, property management services, car wash services, compulsory renters insurance and RentPlus subscription plans.
- Some reported positive outcomes from these initiatives, while others expressed doubts about their value and efficiency.

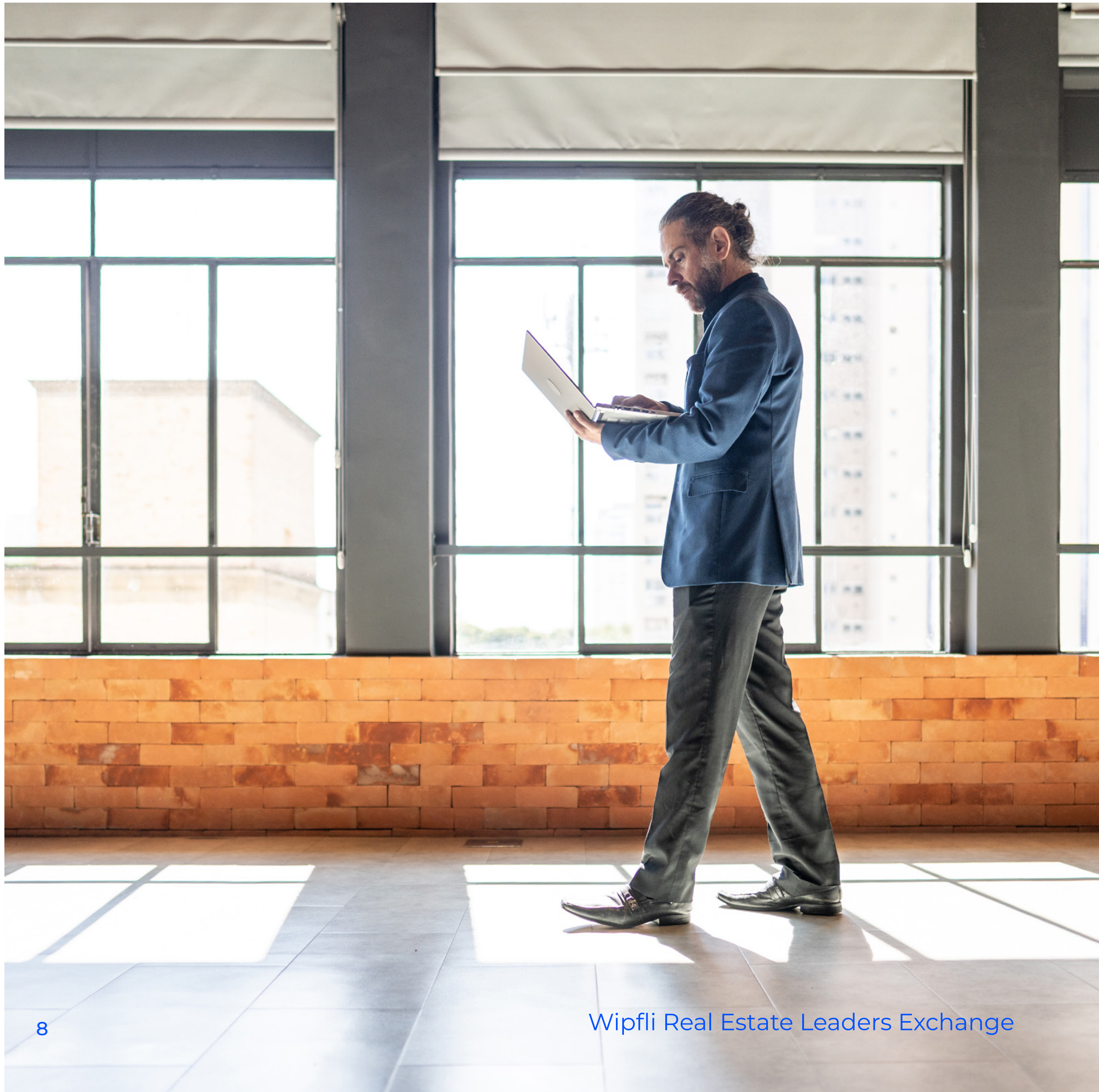
In addition to creating new revenue streams, some firms are trying to strengthen their bottom line through cost cutting.

- One method of doing this is to outsource more services. Wipfli's Christina Trapp noted that replacing internal staff with external providers can generate substantial savings, particularly in areas like HR, accounting and finance.
- Given the fundamental nature of these core functions, outsourcing is not an easy decision and requires careful deliberation.

Strengthening the bottom line

Members have also been using technology and AI tools to optimize their costs.

- AI is still evolving, and adopting new technology is challenging for many companies. However, exploring these new tools can result in savings and increased efficiency.
- Members agreed that there were many attractive opportunities ahead.



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