

TEN WITH BEN

EPISODE 020

TRANSCRIPT



BEN AZULAY

Welcome to today's Ten with Ben podcast about real estate in the new world. Wow. Summer is winding down. It's hard to believe that it's almost over. Chicago public schools start school in the next four days, and lucky for us, there's still plenty to talk about in the real estate world. So, without further ado, I want to introduce you to today's guest, Brian Dovalovsky, a senior managing director at Bradford Allen, who also oversees asset management. Brian and I go way back, in fact, and I'm really excited to have you on the show. Welcome to the show, Brian.



BRIAN DOVALOVSKY

It's great to be here, Ben. You said that the summer's winding down, and with the Cubs' push for the playoffs and optimism with the Bears, I think it should be a fun rest of the summer.

BEN

Yeah. Listen, I hope so. I'm going to the Cubs game tonight, and I got Bears tickets in the next couple weeks, so I'm pretty excited about that. Anyhow, before we jump in and talk about what's keeping you busy these days, why don't you tell our listeners a little bit about how you got into real estate and just about yourself in general.

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BRIAN

Yep. So, personally, I think I am a lot like a lot of people out there who, during the pandemic, kind of reshaped how their lifestyle works. And for me, that meant spending more time outdoors. So, as a family, we've traveled across the country. I've seen about 12 national parks in the last three years, spent a lot of time – I've taken up cycling outside, and it just means taking advantage of the outdoors in the Chicago area. I've got a daughter who just graduated from college. She's working just down the street, a few blocks away from us after a successful internship last year.

BEN

That's nice.

BRIAN

And then in the fall, winter, and spring, we spend a lot of time traveling the country. My son runs track and cross country at the University of Illinois, and so we go and watch him run.

BEN

Nice. Awesome. And so, how'd you get into real estate? What got you into this line of business?

BRIAN

Yeah, so it was, I would say coincidence, but I count myself very fortunate about the twists and turns that I've had in my career. So, in college, I worked for a couple summers at real estate companies. Totally coincidental, did not plan that at all, but it got me introduced to the industry. I got excited about real estate and, I hooked on with one of those companies after graduation. So, I worked in property management with a firm called US Equities Realty, which has since been acquired by CBRE. But I did property management for 10 years, and that included everything and anything. I managed downtown office buildings; I had a portfolio of North Michigan Avenue Class A retail; I managed medical office buildings for what is now North Shore Health Evanston; bank branches; so, I really saw most asset types. No industrial at that point in time, but I saw most everything else.

BEN

So, to say you understand real estate and the making of deals and kind of what goes on behind

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the scenes from a property management standpoint, that would be an understatement.

BRIAN

I would say that I count myself fortunate that I have an operational background in addition to what I've built on the asset management side. So, I have a deep appreciation for property management, even though I don't do that directly right now.

BEN

Well, it seems like just yesterday that you and I actually were sitting at 200 South Michigan, where I was trying to lease up the building, and you were on the ownership side, and we were talking about deals. So, this, for me—this is a lot of fun. And, what I'm really curious about is what's keeping you busy these days? What do you do right now?

BRIAN

So, at Bradford Allen, I have a lot of fun on a day-to-day basis. I lead a very talented team of people with an entrepreneurial spirit. I oversee our asset management team. That includes asset managers, a construction manager, in-house architect, our property management group. So, all facets of asset management and the real estate cycle.

BEN

So, just so I understand, you essentially oversee assets that are owned by the Bradford Allen investment group, is that right?

BRIAN

Absolutely.

BEN

So, they're doing a deal in a building, and you're helping to oversee that and approve that, and then the TI that goes into that, and the construction.

BRIAN

Yeah.

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BEN

And then after they're in, making sure that the tenants are paying the rent?

BRIAN

Yeah. So, I think that's one of the advantages of working at Bradford Allen and, specifically, my role is that I see the entire process from beginning to end. I have a team member in each of the stages of that deal process.

BEN

Cool.

BRIAN

So, it's a continuous handoff from one person to, to the other, and it also means I'm a conduit to our ownership group, as well.

BEN

Yeah. Cool. And, what's your favorite part?

BRIAN

I would say it's that I bounce around.

BEN

Yeah.

BRIAN

That I'm never on one job, one project, one lease deal at a time.

BEN

So, you're never bored.

BRIAN

Never bored, and I'm never working with just one person. So, I kind of migrate between groups,

touch a lot of internal departments.

BEN

Cool.

BRIAN

I get to work in—I would say—a generalist way across the company.

BEN

That's awesome. That's pretty cool. Yeah, I mean, that's actually the fun thing about brokerage, you know, that I'm working on. It's different every day, and you're touching different things, and there's different requirements, and you have to address all those. So, similar but different, where I think that's why a lot of people get into real estate at the front end, when they're thinking about it. Because it's like, "Oh, I'm gonna be doing something different, and I'm gonna be working with all these different companies." And it's just—it's kind of neat!

BRIAN

I think when it really resonates for me is when we have an intern in, and they're being exposed to the business for the first time, and they may come in thinking I'm going to be doing one task or one job for an entire summer or one project. Right? And, when you have a successful intern, usually that's when you give them a broader experience, and they walk away saying, "Oh, I didn't know it was that. It's more than I thought it was."

BEN

Yeah, no, for sure. For sure. Well, let's talk a little bit about the market. You know, it's crazy, but we're still talking about coming out of Covid, and you know, we're here in 2023. It's been three and a half years, and I think that everyone has gotten to a point where they understand this is a new market for a new world. What are you seeing, and how are you feeling about it?

BRIAN

Yeah. So, in the suburbs—where we have buildings and a lot of activity right now—I think we've noticed that the buildings that are underperforming have always underperformed.

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BEN

Yeah.

BRIAN

So, there's nothing really new there. What's new is that the conditions are even worse in those buildings. For the others, absolutely, there's competition, but that's where—and I'm sure we'll get into it—being ready and being able to adapt really, really comes into play. As far as the suburbs versus Chicago, we've definitely seen our share of tenants looking to flee the city; particularly, LaSalle Street tenants and small law firms. We've seen probably a dozen of those firms in the last several months.

BEN

Yeah. So, most of the buildings that you oversee are up in the northern suburbs?

BRIAN

Northern and western, but yeah.

BEN

Okay, and would you say that they've gone north and west, or just?

BRIAN

Certainly, more to the north, but we've seen it also come up in the west as well.

BEN

Okay.

BRIAN

Proximity to home, not needing to commute are key factors.

BEN

Sure. One of the things that I think we keep reading about is this idea of distressed properties right now—mortgages, the rates have gone up. Lending and loaning money for office space—that's a whole new dynamic. And I say new, I mean, it's been here now for a little while, but how do you

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navigate that? I mean, the buildings you work on are healthy, presumably.

BRIAN

They are, and I think that's a differentiator when you have buildings like that because you're open for business.

BEN

Yep.

BRIAN

You have the capital to fund deals.

BEN

Yep.

BRIAN

It's important to make sure the, the market and tenants know that.

BEN

Yeah. Do you tell your brokers to let everybody know we're open for business?

BRIAN

Absolutely. It's something we reinforce almost daily.

BEN

Yeah, because sometimes, I'll tell you, brokers don't even know. It's really hard sometimes to figure it out because we're reading every day about this building now and this building now, and sometimes you're going in, and you really want to know—from a brokerage standpoint—you want to make sure the TIs are going to be able to fund it, obviously, the commissions are paid, all these things. Sometimes there's some unknown, and so I've told people that I work with that are representing buildings, I said, "You should put flyers together. Send it out."

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BRIAN

Right.

BEN

Because that's really what's most important to us—that we're putting our tenants into buildings where they're going to have good experiences. And, if they're going in day one and all of a sudden, it's like, "Oops. We're bankrupt. We're having trouble." That's not going to work.

BRIAN

It's definitely something that real estate firms should be proactive about in getting that message out. I've worked with others who do the same thing, and you only need one deal at one of your buildings where you can't fund capital to really stigmatize it for the community.

BEN

Yeah. Then you're done. Well, I guess kind of along those lines, concession packages these days are insane.

BRIAN

Yeah.

BEN

Between the TIs and the abatement, and obviously we're pushing on the rent. I mean, from an ownership standpoint and where you're sitting, how do you digest that? How do you work through that?

BRIAN

It's hard, and I would say, first: "Ben, stop. Stop doing that on the tenant rep side. Stop pushing those higher concessions."

BEN

(laughs)

Right.

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BRIAN

But—you adapt, and there are some things that are controllable and some things that you can't control.

BEN

Yeah.

BRIAN

We have an in-house architect, so we try to manage the scope going in of the work. We do a lot of turnkey deals ourselves. So again, we're controlling the cost where we can. Tenants seem to like that, as well—takes away the headaches for them. Certainly, we've found—and my team has found—that they've had to become as much of an expert as they can on the furniture industry.

BEN

Sure.

BRIAN

The secondhand—slightly used or secondhand—market for furniture is now a part of the turnkey package. It seems like that is now an expectation.

BEN

Yeah, for sure. I think the big thing is that even though that's part of the expectation, the bigger thing is to do whatever is easiest.

BRIAN

Right.

BEN

It used to be that you go in, you're like, "Oh, I can build this. I'll have it furnished. No problem. I've got this 12-month runway."

BRIAN

Right.

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BEN

Nowadays, what I'm finding—and I'm sure you're seeing it, too—is that people are looking at space that they want to get into in a month, two, even yesterday. And if it's not furnished, forget about even a furniture allowance. It's like, "No, I'm only looking at spaces ready to go." So, spec suites—I imagine that you've built a few.

BRIAN

We've built a few, and we've had to adapt on the go, too. Spaces that maybe hadn't been built out yet, and pre-leased spec spaces, which is back from our 200 South Michigan days, where we ran into that all the time. The moment we announced we were doing spec spaces, we would lease them up.

BEN

Right.

BRIAN

So, we've had to adapt in other situations where maybe that space isn't yet ready for that spec space that the tenant wants to move into, and we've had to find swing space.

BEN

Sure.

BRIAN

And then, not just swing space, but furnished swing space, right? So, yeah, it's all about being able to adapt on the fly, being nimble, and having the team in place that can execute every step of the way.

BEN

So, here's kind of a difficult question, but, if you had a crystal ball and you said, "All right, the next 18 months. Is it going to be the same, better, worse?" You know, where do you think the market—and, when I say worse, I just mean in general—is it going to be higher concession packages? Are we

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going to see more distressed properties? Where do you think the market's going to go in maybe 18 months or the next two years? What do you think is going to happen?

BRIAN

I like 18 months, partly because I'm hopeful that going into an election year, something has to change for the better. I'm assuming there's motivations to get things moving again. I'm not sure if that's the right amount of time, but there needs to be a time period that all these distress assets work themselves out. So, I don't know if that's 12 months or 18 months, but I think things will be better in 18 months just because of the election cycle.

BEN

Sure. Okay, I have actually one other question. In the buildings that you oversee, how do you feel like the occupancy is right now? I know the lease rates, but in terms of actually having people come in.

BRIAN

Yeah. So, occupancy in our Chicago suburban portfolio is strong, but I think we've been successful at that because—and, it may seem obvious, right—we spend a lot of time talking about the things that you just asked about. Knowing who our tenants are. Knowing what their business is like today versus before, and then confirming that. Putting eyes on spaces, seeing bodies in offices, monitoring parking lots and parking garages, and actually confirming that people are at the building each day. Looking at cafe sales, looking at amenity use through badges—anything that you can get to collect data points on helps. Then, I would say that our success in the suburbs has materially been impacted by knowing that and right-sizing tenants to the space they need. In a lot of cases, adding term onto those deals. Getting them further embedded into the building but putting them in a better financial spot.

BEN

Sure. Sure. I would think that one of the big reasons that tenants come to your buildings is just that hands-on approach, as you've said. I mean, all the different people that work with you and the ownership where it's like you go to some of the buildings, and they have these very institutional owners, and it's just very different.

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BRIAN

Yeah.

BEN

And, I imagine, they come in, you're there, the construction manager's there, everyone's there. It's like, all right, what can we do to make this work? And, I think that even that said—it has to be the easiest thing. That makes a big difference, too. People want to go into buildings where they feel wanted, right?

BRIAN

Yes, and it starts with the tours that our brokers conduct and goes to how easy and how quick it is to get a lease document out to them, negotiate that lease document, not get bogged down in too many of the details—just keep on moving the ball forward on the deals.

BEN

Yeah. Great. Well, Brian, this has been great. I really appreciate your time here today and for you joining the show. Good luck with leasing the buildings.

BRIAN

Thank you—and maybe we can do this in a year, and we can check back in on the state of the market.

BEN

(laughs)

Exactly. No, that sounds good. Well, that does it for us today. Thanks again for listening to this week's Ten with Ben, and if you have any questions, please feel free to reach me at (773) 562-5263, or by email at bazulay@bradfordallen.com. Until next time, stay safe.