



AMERICAN
BANKRUPTCY
INSTITUTE

Distressed Real Estate Symposium

Keynote Address

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Oxygen Investment Management | Seattle

Beyond the Vacancy

Driving Value in Distress Office Assets

Not to mention BIG changes in the work, worker and workplace

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“Never invest in a business you cannot understand.” - Warren Buffett

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Discuss

- 1) How We Got Here
- 2) Foundations of Value 
- 3) Growth Markets
- 4) Technology & Our Future
- 5) Closing Thoughts

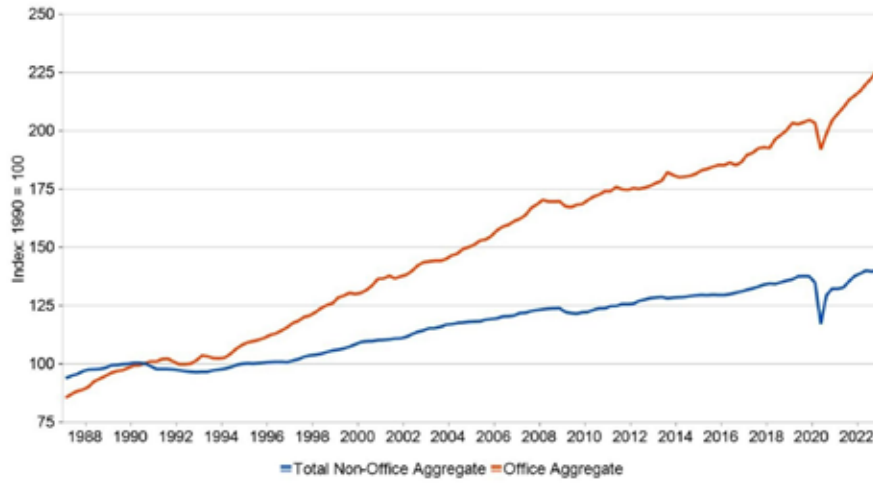
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Current Situation

- Strong Employment
- Low Utilization
- Chronic Oversupply
- Continued STRESS

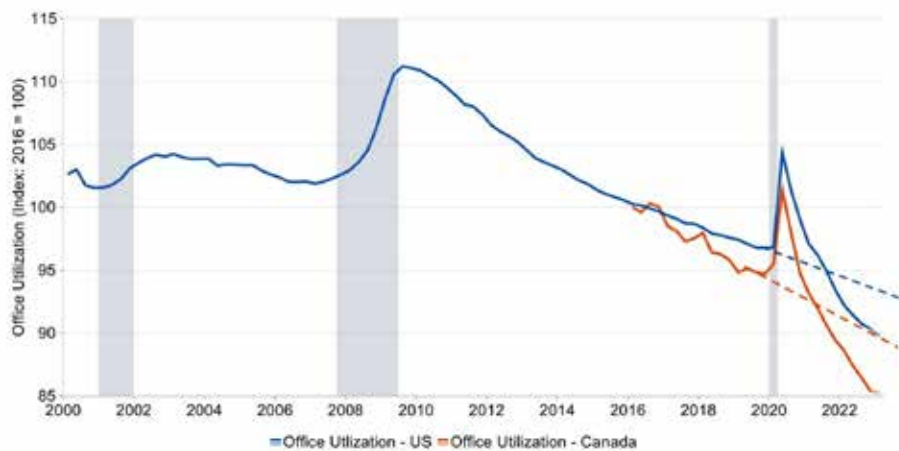
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Continued Growth in Office Employment



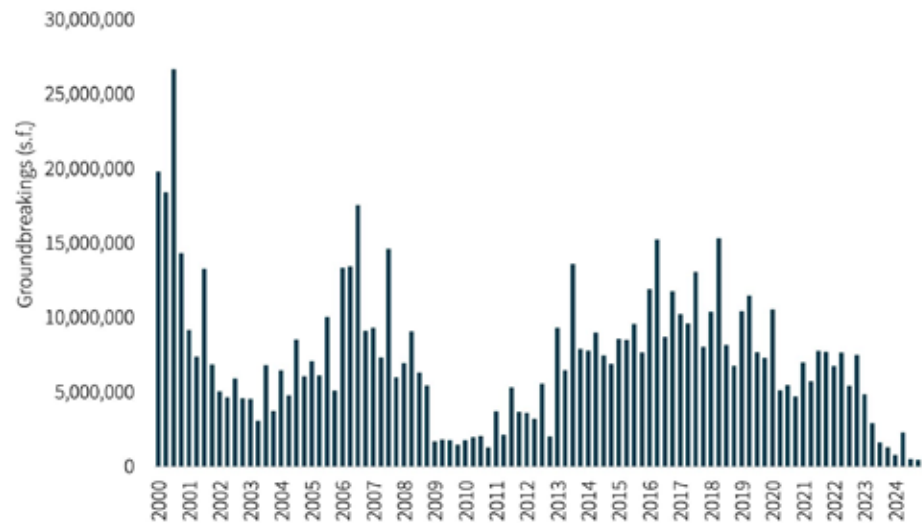
Source: CoStar, Macrobond June 2023

Office Utilization Rates Decline (Office Space per Employed Person)



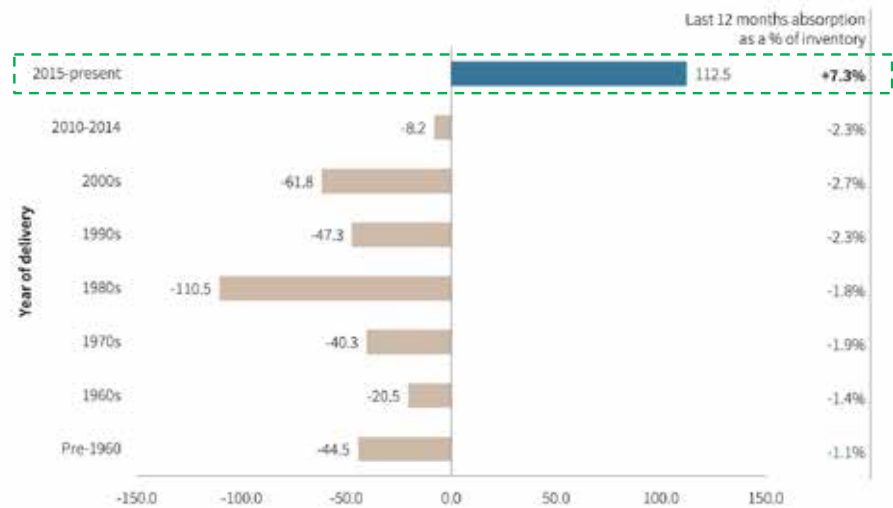
Source: CoStar, Macrobond June 2023

Chronic Oversupply (past 6 quarters are 10% lower than prior historical low)



Source: JLL Research

Obsolescence (net absorption by age - since COVID 19 m.s.f)



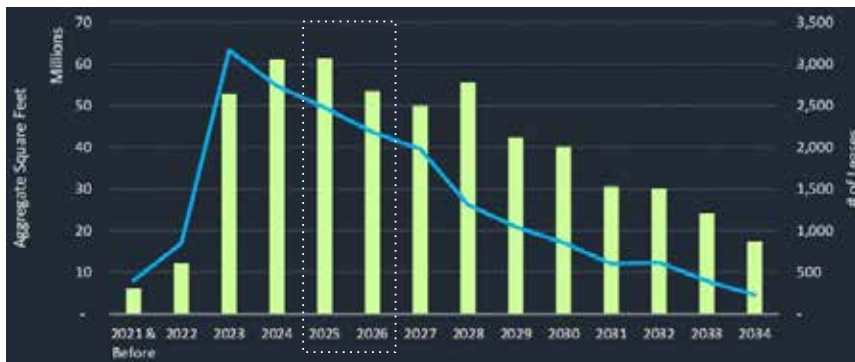
Source: JLL Research

Downsides Impact Absorption (positive in Q4 yet expected down in Q1)



Source: JLL Research

Looming Wall of Expirations (Lease Expirations in Office CMBS by Year)



Top Markets
Highest Ratio of Expiring
Space 2025:

1. Seattle 4.27%
2. SF 4.03%
3. NY 3.13%
4. LA 2.62%
5. DC 1.92%

Source: CREDIO

How'd we get here?

1. Historical Context
2. Capital Market Disconnects (Risk / Reward)

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Makings of Oversupply

Cheap Money and Lots of It!!!



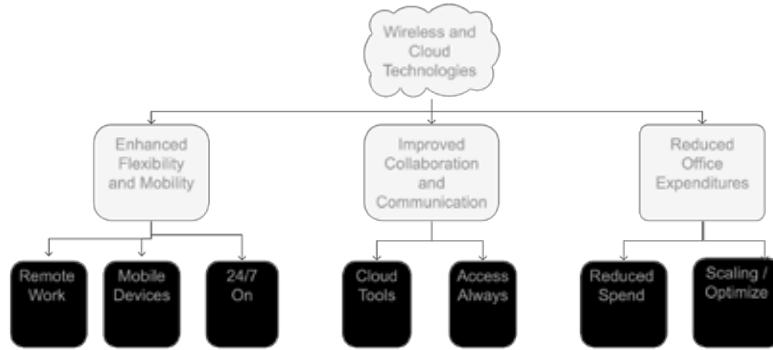
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Technology's Impact on The Office

Chronology

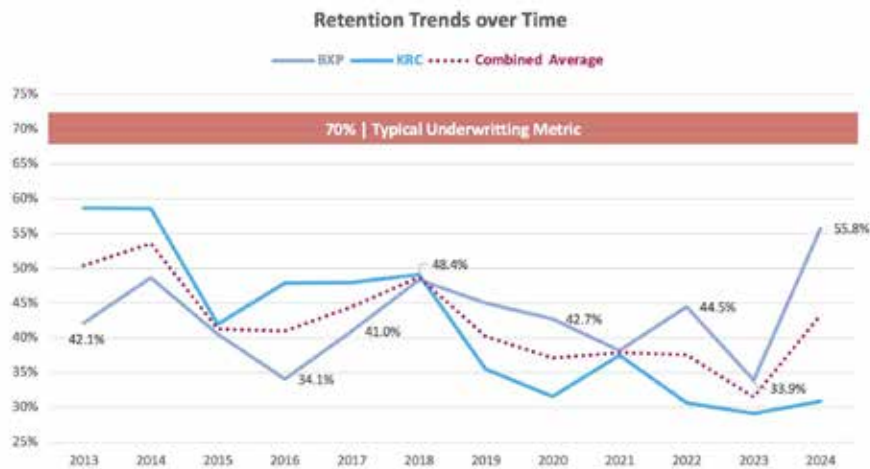
2007 iPhone
 2008 MacBook Air
 2010 iPad & Cloud Computing (Google, M365)
 2013 New WLAN Standard (gigabit speeds)

The Decline in Office Retention



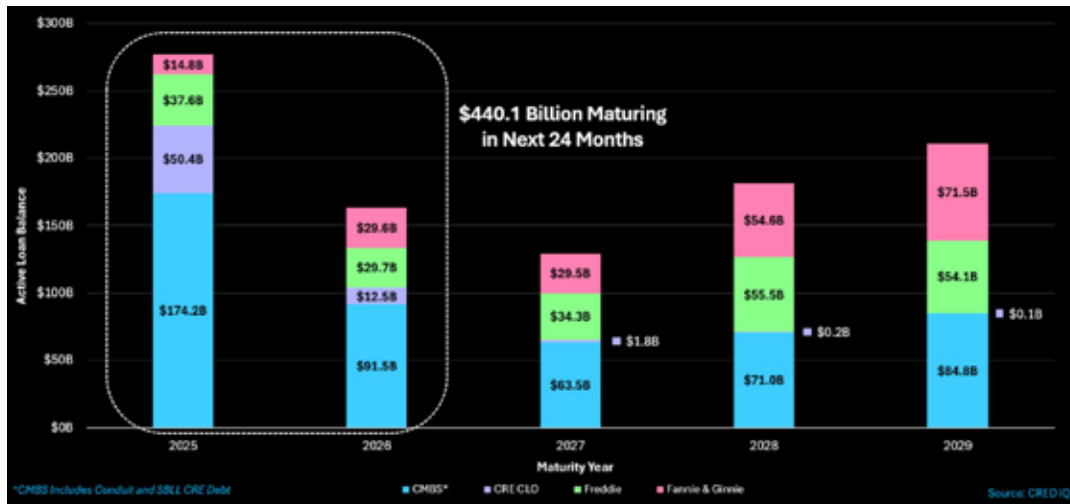
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Myth of Retention



Source: Real View Analytics

\$961 Billion Maturing in 5 years (24% is Office Assets)



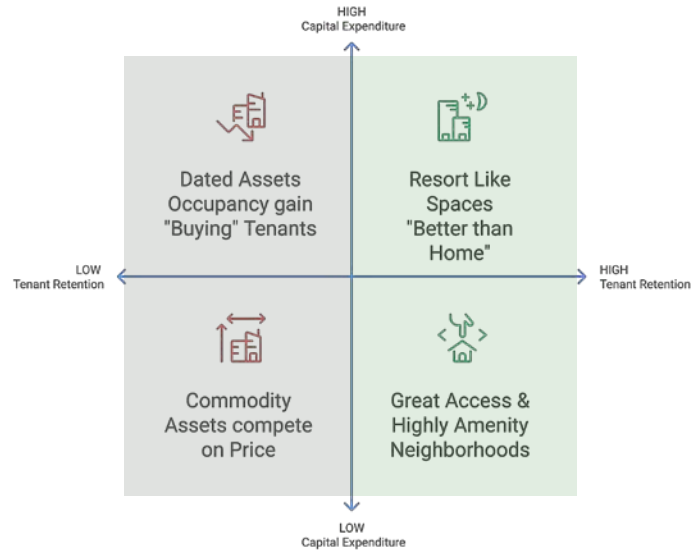
Source:

Foundations of Value

1. **Location:** Foundation of Value
2. **Design:** Solves Workplace Problems
3. **Energy:** Places of Desire and High Labor Markets

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Office Investment Dynamics



The Reality of Office Investments

Zero Coupon Bond

- Hard to Make Money During the Hold
- Extremely High CapEx, 20-40% of Cash Flow (Brings down economic cap rate ~150-200bp)

Retention is HARD in Low Barrier Markets

- Best Office REITS average 50% since 2013.
- Newer Assets Stronger absorption

Product Repositioning

- Premiums required to make economics work on Older Assets
- Transforming obsolescence - not easy and must start with Great Location (i.e. basis play)

High Growth Market

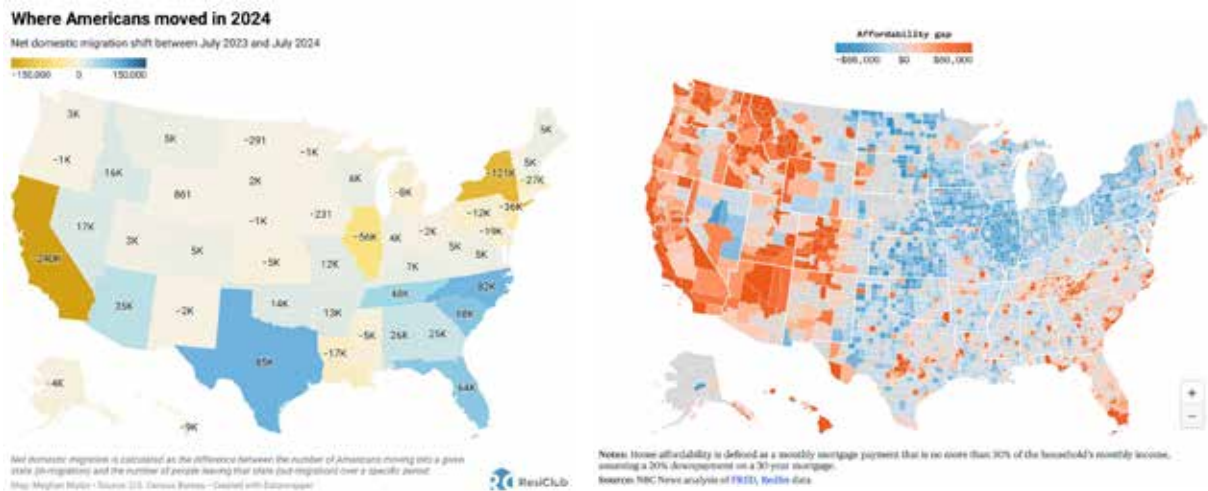
- Sell the Dream

Growth Markets

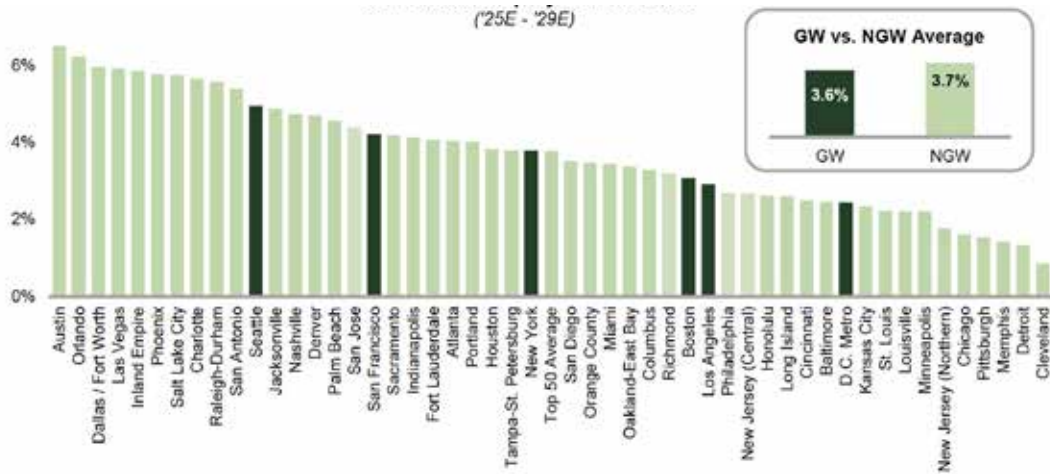
- 1. Housing Affordability Connection
- 2. Migration Patterns of Desire
- 3. Urban Safety Concerns

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Movement And Affordability

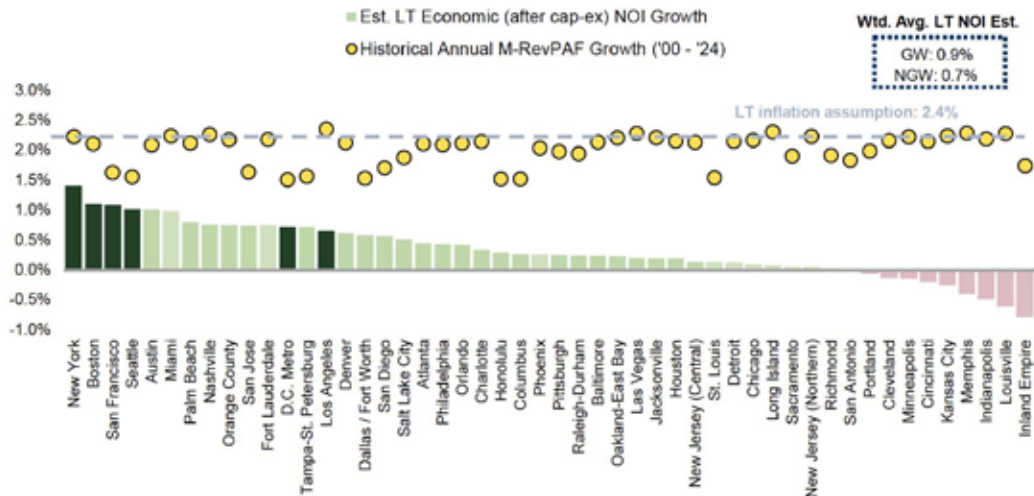


Cumulative Employment Growth



Source: Green Street

Historical vs Est. Long-Term NOI Growth

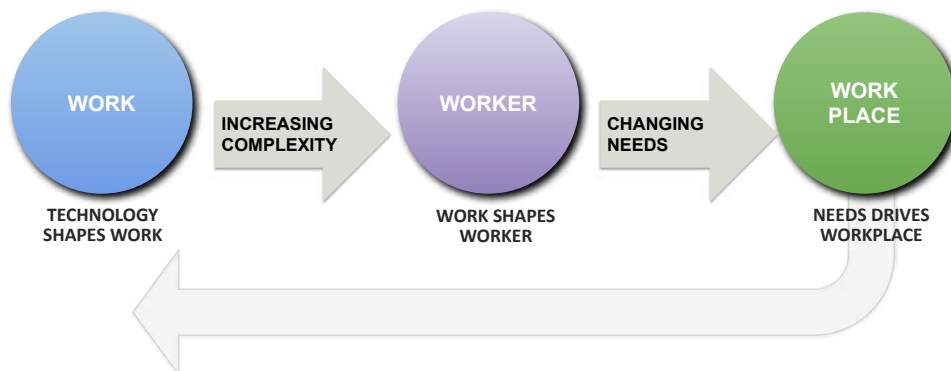


Source: Green Street

Impact of Technology

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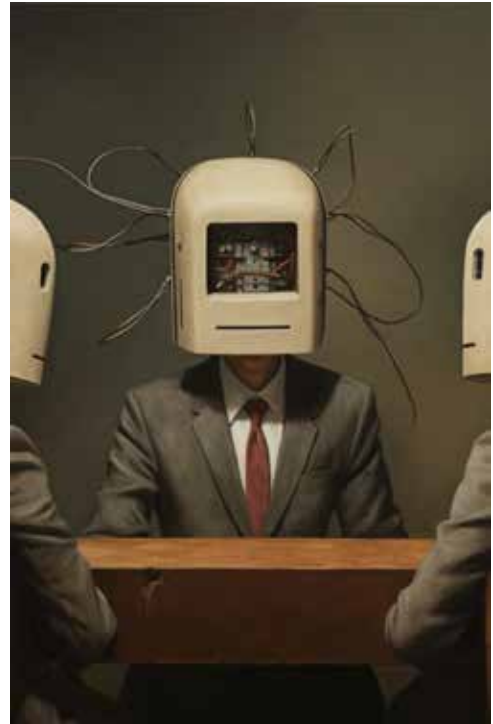
Redefinition of Work



AI Increases Pace of Change

Capable AI (*performs like humans in diversity of tasks*)...
COMPLETELY reshaping Work

1. **Different Workplace Needs** size & location will change – Work can be done anywhere but people want to be “Somewhere”.
2. **Space Experimentation** - new types of spaces explored (e.g. collaboration, innovation fabrication).
3. **Focus on Inspiration** – Skills become less relevant VERSUS ability to experiment, relearn, adapt, and change.



AI Impact: Mapping Office Markets

Top & Bottom: 15 US Office Markets at Crossroads of Technology and Vacancy



*Final score may be different than individual "Factor Scores" due to analyst adjustments.
Source: Oxford Economics, Unionstats.com, Green Street

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Transformations in the Worker & Workplace



**PHYGITAL
WORK**

Locationally flexible,
adaptable with
technology.



**VISUAL
APPRENTICESHIP**

Proximity of leaders to
talent and talent to
leaders will keep pace.



**RISE OF
SUPERWORKER**

Empowered, supported
by AI; Higher value
output through AI.



**AGENTS IN
OPERATIONS**

Both Software and
Hardware integrated
into the Work.

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“We tend to overestimate the effect of a technology in short run
and underestimate the effect in the long run.”

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Closing Thoughts...

- 1) Next 5-7 Years will be transformational in Cities
- 2) Systemic Changes in Demand; **work, workforce, workplace**
- 3) Conversions more viable in high vacancy, high growth markets
- 4) Office will segment to be investable

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Faculty

Lisa Picard is a founding partner of Oxygen Investment Management in Seattle and has nearly 30 years of experience in developing, operating and repositioning major urban properties. As the former CEO of Blackstone's EQ Office, she acquired executional experience repositioning and divesting its \$17B portfolio, navigating 17 different real estate markets. Ms. Picard focuses on investing in opportunistic office and multifamily assets with hidden potential, using a modern tech stack to leverage a firm's expertise and operate at scale. She also is collaborating with Jamestown to develop innovative strategies for monetizing activation in real estate. Ms. Picard has led 200+ employee organizations and managed multifaceted portfolios. She joined EQ/Blackstone in late 2016 as its COO and quickly became its CEO in 2017. Prior to joining EQ, Ms. Picard worked as a real estate executive for Skanska, developing office and residential properties while also guiding investments for the company in Sweden, Norway and Denmark. At Canyon Ranch Spa and Resorts, she drove the expansion of the experiential hotel brand in developing a multi-towered residential hotel spa destination in Miami. Ms. Picard received her B.S. in urban and regional planning in 1991 from California State Polytechnic University, and two Master's degrees, in economics and urban design and finance and investment, in 1995 from the Massachusetts Institute of Technology.