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Coretrust's Thomas Ricci on the Future of Office Real Estate

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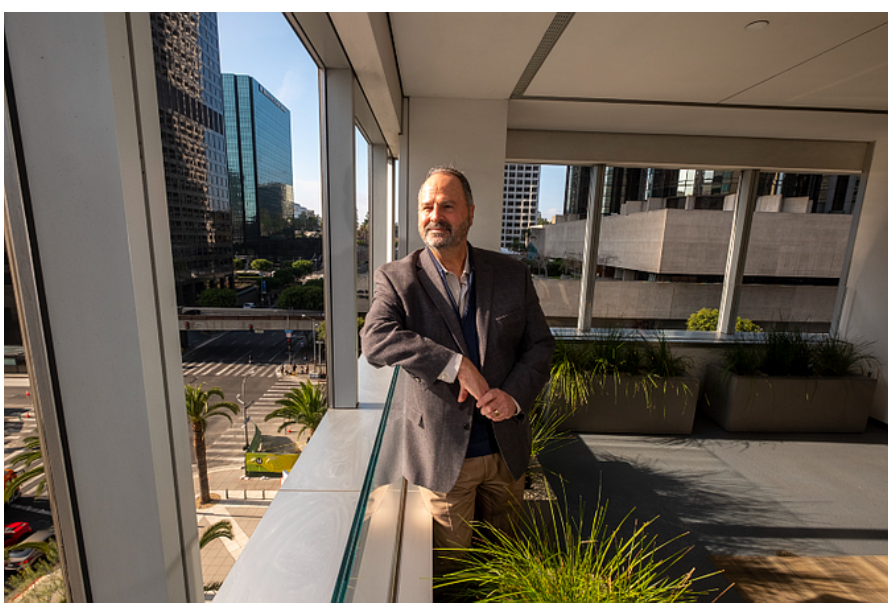

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Co-founder Thomas Ricci is branching out into real estate asset management for investors.

Real estate veteran Thomas Ricci is co-founder of Coretrust Capital Partners, which owns and operates large office properties such as 444 S. Flower St. downtown and Pasarroyo in Pasadena.

Over his decadeslong career, he has developed, entitled or redeveloped more than 30 million square feet of mixed-use property space. Before co-founding Coretrust, Ricci held leadership roles with Maguire Thomas Partners and Thomas Properties Group Inc.

Coretrust, which also owns properties in Philadelphia and Fairfax, Va., is focused on targeting office and Class A assets in major metro areas. The company completes value-add capital and operational improvements at properties as well as adds tenant amenities in some cases. Its repositioning strategy also includes improving a building's architecture, environmental systems and branding.

Ricci sat down with the Business Journal to discuss his career, what it took to start CoreTrust and the future of office space.

How did you get interested in real estate?

My education and formal training is as an architect. … I was drawn to that maybe because my father was in construction, in the concrete business. It was something that was more tangible, and I liked the artistic side of it, the design side of it. Upon graduation, I worked for about a year in the industry and then went into the military — into the Air Force. They were looking for architects and engineers, and this was back in 1981, so I became an officer in the Air Force and was designing and building hospitals and medical facilities and Air Force bases around the world.

Why work for a developer and not an architecture firm when you entered the private sector?

What I realized in the military as an architect was I was really more of a developer. We were hiring the architects and the engineers; we were hiring the general contractors. … I realized I enjoyed that role of being more of a conductor as opposed to the architect that's only contributing, say, one aspect of it. I really liked the total picture, the design, the construction, the funding, so when I went to go work for a private real estate entrepreneurial development company, Maguire Thomas Partners at the time, one of the largest in the country back then, they had this program with IBM; it was an amazing opportunity.

What happened when Maguire and Thomas split?

Rob Maguire and Jim Thomas decided to form separate companies, and it became Maguire Properties Inc., and Thomas Development Partners, which ultimately became Thomas Properties Group. It was an amicable split, and they each took certain assets out of the joint relationship.

At that time, myself and one of my other partners, Randy Scott, who I had been working with since 1987, joined Jim Thomas in the split. So, we never really left the company. …

Our third partner at Coretrust Capital Partners is John Sischo, and John joined us in the '97, '98 time frame at Thomas Properties Group initially as our chief investment officer. …

From '98 to 2004, we were privately held and had worked on a number of interesting projects at that time.

We developed a joint venture partnership relationship with CalSTRS initially where we jointly invested with them and acquired assets for them and we developed the first large-scale high-rise LEED platinum building in the world.

In 2004, we went public and continued to grow the company. … Then, the Great Recession hit, and the world pretty much changed.

We were able to stay in business through that difficult period of time and didn't lose any of the assets, but there was a reshuffle in the real estate industry. One of the investors, partners that we had acquired some of the assets with at the time was Lehman Brothers Inc., and of course, you know what happened to them, which created a very difficult time for us in dealing with the assets we owned in conjunction with them.

Why start Coretrust?

We were implementing a succession plan. Jim Thomas was approximately 20 years older than the three partners: John Sischo,

Randy Scott and myself. Jim ultimately decided … (on) merging the firm with another firm. That happened in December of 2013. Although the three of us didn't want that to happen, it's ultimately what did happen.
It was at that point that we decided that we would stick together and start Coretrust Capital Partners. … We raised our first fund of about $290 million from seven pension funds in 2015 and started acquiring assets in 2016.

What do you do with the properties you acquire?

We have been implementing our capital improvement program as well as taking on ownership and operation of the assets and a very hands-on approach in terms of property management, leasing, construction project management; all things we had previously done. We're now at the point where the property improvement … (is) well in excess of $100 million.

Why buy versus build from the ground up?

We can take a building that's in a great location, that was built with materials you can't afford to build with anymore, and modernize them and make them better than new compared with new buildings because of the cost of materials and labor.

Coretrust has properties in downtown and Pasadena. What interested you about these properties?

The price point for both upon acquisition was attractive to us. We knew that we could do things to the properties and upgrade them. They were not competing at best-in-class status when we acquired them.

What areas are you interested in outside of L.A. and what factors do you look at when looking at new markets?

The simple answer is, follow the money. The markets that we're underwriting — and we've been underwriting constantly whether we can raise a Fund 2 or not — we also have direct relationships with investors. (We) do a direct investment or a commingled fund, (such as in) Seattle, Portland, San Francisco, Southern California, Dallas, Houston, Austin, looking at Phoenix, and I would say looking at Denver, looking at Salt Lake, Charlotte, moving to the East Coast: Philadelphia; Northern Virginia; Washington, D.C. We look at and we underwrite Atlanta, Nashville.

Probably not New York City unless we were brought there with an investor only because it's such a large market to try to break into, maybe the same thing with Boston and Chicago. Florida is interesting. … There's so many different markets in Florida that there's not one that institutional investors say, "Oh, we've got to be there."

Another thing that drives our decision is, it's great to buy an asset, but you also have to have an exit strategy. … Pension funds and insurance companies and advisers and high-net-worth individuals and families, they want to know that they can get in, and they can get out.

In addition to the assets we own and operate, we are also asset managing for institutional investors, offshore pension funds who we don't co-invest with them, but we act as their adviser in the states in terms of assets they may be looking to put money into. … That's a business that we're looking to grow as well in addition to raising capital and investing on behalf of investors.

What does the future of office real estate look like?

We're going to see tenants initially rethink the densities that they were forcing their employees to work in. And that may require them to take more square footage, and they're also going to plan for more of their employees to work remotely, which may require them to take less square footage or to work in more satellite locations. It might be the same amount of square footage but spread over different locations.

We're starting to see more and more companies stress a desire for their employees to return to the workplace.

Our thesis has been, "Let's create the best possible environment for our tenants to operate in, let's amenitize it in a way that's top notch compared to other properties we are competing with, and focus on leading-edge technology in terms of health and wellness and safety."

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