THOUGHT LEADERSHIP SERIES

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STATE OF THE INDUSTRY
DISCUSSION WITH PETER LINNEMAN

By: Terry Montesi, CEO of Trademark Property Co.
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Dr. Linneman discusses the consumer, e-commerce and retail real estate driven by the rise of e-commerce with Trademark CEO Terry Montesi. Linneman is principal of Linneman Associates and chief economist of NAI Global. He was named one of the "25 Most Influential People in Commercial Real Estate" by Realtor Magazine.

Terry: The rate of change in the retail side of the business because of e-commerce is extraordinary. Where do you see this going?

Peter: If I gave you a punchline on it, it would be that internet sales are very real and they're very much growing. But they're growing from an incredibly small base. So what's missed in the headlines is what I would refer to as the Bill Gates phenomenon. Would you rather have 1% of Bill Gates' net worth, or 100% of mine, right? There is a sense in that, if traditional retail is only growing at 1 or 2%, that's huge compared to internet growing at 10%, because the base is so large. By the way, that's not to say it's not a very real phenomenon, and as you know, the problem in retail is it's a thin-margin business and anything you lose goes come from the bottom line, right?

Terry: I believe we shouldn't diminish the power and importance of e-commerce. Let's look at GAFO sales for a minute...General merchandise, apparel and accessories, furniture and furnishings, and O is other merchandise. For Trademark and your retail operator clients, it's what is bought at shopping centers. It's retail product, not services or food and beverage. It's other merchandise. Peter, guess what percentage of GAFO sales are now e-commerce?

Peter: I would guess 6-8%.

Terry: 28%

Terry: That is why e-commerce, even though it may be relatively small, has had a big impact on the shopping center industry.

Peter: That's a big category. That's exactly right. I know that, it's the same exact size as Amazon.

Terry: When you look at the consumer and their habits, and then you also do research on retail demand drivers, what will be the impact on retail investors behavior short and long term?

Peter: So let's start with demand. On the demand side, consumer confidence is slightly above average by historic standards. And while it's a BS number, it's a pretty consistent number, consumer confidence. I mean, what is it? But it's kind of like heat index or something like that, it picks up a reality, even though it's not a perfect indicator. Consumer confidence is slightly above average and it's been there for about two years. It's just kind of flat lining, slightly above average. I think that that's good for the longer push. You'd do a lot better in retail sales if consumer confidence was spiked way above average right now. You'd be putting a lot through your stores. But that can only last for so long, right? I think the fact that it's kind of holding it average is a good sign for sustained retail activity, as opposed to peaky, retail activity. And I think that's going to hold true for another couple of years.

Secondly, why do I think that is, we know that, even adjusting for inflation and population size, net wealth in the US, is at an all-time high in absolute terms, well above the previous peak. About 10% above the last cycle in real terms, adjusting for inflation. However, by any reasonable estimate, median wealth is still below the previous peak. Now, we don't have median data, but the Fed did a study of median household wealth 2 years ago. And at that point, the median was about 35% below its previous high, and the average was right about at the previous high, adjusting for inflation. If I told you it's up 15% or 20%, even if I told you 25% maybe you'd sign on to that. But not 35% in the last 2 years. So the median is still below, which I think is the reason why consumer confidence isn't higher. I'll keep unraveling the onion. But, median is below, let's say 15% at least, below its previous high. That is to say, gee, the previous high was pretty high. But we're not fully back to feeling that great. People still haven't recovered their wealth.

Let me put a stark face on what it means to say the mean per-household is well above norm, but the median isn't. The bottom third never had any wealth, so they couldn't lose any, right? Think of yourself coming out of college or a kid who's graduating high school and entering the world. They have no wealth, so they lost nothing. So the bottom third have no wealth to lose, so they're in the same situation, namely, they have no wealth. The top third, we know, is well above the previous high, because the mean is up. But what that says is that the middle third is still well below. And if you ask who puts through a lot of the goods in your stores, it's that middle third. I'm being overly extreme by saying a third, a third, a third, by just putting a face on it, right? It's a continuum. So you say, oh, that's why overall consumer confidence is around average, maybe a little better. We know that GDP per household, or net income per household, or net disposable income per household, all those things adjusted for inflation are above even at the median, but not way above the last time. You know that employment's pretty good out there, so you say, okay, that's consistent. But is employment unbelievable? Yeah, in a couple of markets it's unbelievable. But in general, it's good.

So what you've got is a consumer at the upper end – so if your market niche has been upper end, you've done very nicely. They've got their jobs, income and wealth early as the cycle unwound, and they feel good. If you're in the middle, it's still a struggle. It's not horrible, it's not 2009, but it's still a struggle. For every winner in the middle, there's a loser in the middle. And then when you put your internet on, it means you lost a store and there's not enough demand to replace them. The bottom third is just buying groceries, you know, they're just living.

And will continue to do so. So it's interesting, it's not the bottom third that disappeared, it was the middle third that kind of disappeared. And it's still the soft spot. It's why there's a lot of political dissatisfaction. I'm going to put a caricature on it. The bottom's still in public housing, and the top is doing quite fine, and the middle's going "what happened to me?" You know, they're not quite as well-off as they feel they should be.

On the other hand, you have good news regarding household debt service, yes, they have more student loans than they've ever had by far, but that's much longer term debt than the credit card debt that they replaced. And total debt in the household sector is up only slightly over its peak, and income, as I told you, is up. So, as a percent of income, debt is down, because of low interest rates. In fact, if you run a simulation kind of exercise and say, what if interest rates increased 200 basis points, debt service still stays pretty good. And the reason is, consumer credit card debt is a small part of debt, relative to the past. Student loans are a big part of debt. And a lot of that debt is fixed-rate, long-term debt. So even if interest rates went up a lot, you're not going to get a big interest rate shock on student loans.

So the household is in good shape, though a bit soft in the middle. Now, in Dallas, the middle is doing fine. But that means somewhere else, Philadelphia, the middle is still pretty soft. Not horrible, but still pretty soft. Those are the drivers, though. Income, jobs, wealth, confidence. All of them look pretty good, but none of them are overwhelming, especially when you peel back and look at the middle.

Terry: And you know, the retail sales have followed that. Luxury sales, all the stuff at the top has done well. The stuff at the very bottom has done pretty well. The high value stuff. And what we call the stuff in the middle, like The Gap, you know…

Peter: Is the struggle.

Terry: So, we're hearing that there's fewer buyers, and the lenders are tightening up a hair. They might be responding to the perceived time/place we are in the cycle. What do you have to say about that? Are they early? What do you see?

Peter: So, a couple of things. First of all, pure data. Outstanding commercial real estate mortgages continue to rise. We don't have this quarter's data yet, but I think it'll still be up. And so, outstanding commercial real estate debt, net of multi-family, still is increasing at about 8% a year. CMBS is not increasing. Life companies increasing a little. Banks are increasing. The challenge that banks present for borrowers is that they want to do 3-7 years, and the borrower wants to do 7-10 years. And borrowers want a fixed-rate product, and the lender wants to do a float and a swap. And as you know a float and a swap creates a fixed-rate, but it's a very different kind of fixed-rate than the traditional fixed-rate with your lender. So what's happened is as CMBS has pulled back, people have found there's still money, but it's 3-5 year money rather than 7-10. That makes you nervous, because you can't lock in today's low rates for as long. So that's causing a bit of a pull back.

Second, there is a very real pull back on construction lending by banks, because the capital requirement under Basel III goes into effect I believe in the middle of December in the U.S., and it greatly increases the reserve for development loans. And banks started to react to that about 4 or 5 months ago by pulling in their development lending. And so that is very real. Now, it's less relevant to retail than it is any other sector, because as you know, there's not that much retail development going on. So yes, there's a pull back, but it's not as notable as in office, and warehouse, and other areas, that kind of pull-back that's being driven by Basel III.

The third piece is that banks are in the last few months not only getting shorter term, but they are increasing their underwriting because it's only a 3-5 year loan. I want to make sure that there's not too many leases expiring when my loan's coming due, right? And that has also made it harder to borrow. But net, there still is more borrowing, and it's still quite cheap, but it's not quite the capital the borrowers want. And I think that's what's putting the damper on things.

Terry: Okay. So, most experts I've seen think we're in sort of the 6th or 7th inning of the cycle. But many say it could be of a 12 or 14 inning game because of how heavy-handed the Fed has been. And let's say, we've been in a 7+ year expansion even though it's been anemic. If we have a recession in the next 2 or 3 years, like a lot of people think is likely, what type of recession is it likely to be? To me it doesn't feel like it'd be a deep one, because we didn't have a very robust recovery. And what product types will be effected most, and how can we best prepare for it?

Peter: This is where I think you want to watch consumer confidence. If consumer confidence starts getting well above average for a while, the depth of the recession when it comes will be greater, because the more above average consumer confidence is, the more excess behavior you get. Right now, if we had a recession start tomorrow, I agree with you, I don't think it would be terribly severe because there's no excess in single family housing, there's not a real excess in multi-family, there's not a real excess in auto. So yeah, we could curtail, but we're not in a situation you've seen where we build everything we need for the next 3 years, and don't have to produce anything for the next 3 years. We haven't got that kind of excess. So, if a recession did occur tomorrow, it would be mild, which would probably be 1, 1.5% GDP over a year. And a million, million and a half jobs. Which, I'm not trying to say that doesn't hurt, but that would be quite mild.

What would happen in real estate is, it's so capital intensive that the minute anything bad happens, bank lending stops. When bank lending stops, you have to, if your loan's coming due, instead of going 65/35 debt to equity, you're suddenly looking at having to go 35/65 debt to equity, and on the short-term basis that much debt is very expensive. And jams down prices temporarily. So it's a capital-driven pricing change rather than economy driven. But I think it would be relatively mild because there just aren't big excesses right now.

Housing, the last cycle, is the prototype. Or you go back to commercial real estate in the 80's and early 90's. We built all the office buildings we needed in the late 80's, for the first half of the 90's. So we don't have that. So I think it would be relatively mild. How can you best position yourself? I think the way to best position yourself on investments, is spread.

Right now, you've got a situation where absolute cap rates are pretty low, but spreads over treasury are quite high. Not 2009 high, but high. I mean, this is not 2007 where the absolute cap rate was low and the spread was very low. This is a situation where the absolute cap rate is low, saying be cautious, but the spread of the cap rate is quite high, which says go like hell, right? So how can you take advantage of the cautious, but go like hell? I think the answer is, you want to lock in spread as much as you can. And so this is a time where, if you can borrow, 10 years, 7 years, you borrow and lock in that spread.

Remember, if you've got a high interest rate loan right now, there's two penalties. One is, I made a mistake 5 years ago, at 7 years ago, and locked in a rate that unfortunately was too high, that penalty I've got to pay no matter what. I mean, if I let my loan go or I prepay it, that mistake I have to pay for. The real prepayment penalty is the fact that there's a prepayment fee, or, not just the Make Whole. It's that they use treasury as the discount rate instead of the borrowing rate and things like that. So I think this is a time where if you can buy or build with spread, and you want to lock in the spread, and you want to make sure you can cover, even with a 10% or a 15% drop in income. And you want to make sure you don't mature in the next 5 years. That's the game. If you can do that, I think you feel pretty good. Things could go quite good, and even if they go 10-15% down and then recover over the following 5, 6 years. Because the spread's so big.

Terry: Got it. So what property types or sectors do you think are most compelling to invest in the next 3-5 years?

Peter: Well, retail is always a great if you've got a great project, because there's no speculative development to speak of. So, it's hard to answer retail because there's very little speculative development of retail. So as long as you're building retail that is needed, you'll do fine. It's just hard to find those opportunities right now. If you go beyond retail, multi-family is the sector I like most. Its good fundamentals on demand side, though weakening as the millennials age over the next 4-5 years. It's got okay supply fundamentals, although we're over-producing a little bit, but it starts from a position of short fall. And it's got the best capital market to play the spread we were just talking about because the GSE's are there.

If the GSE's were doing retail, it would make retail look a lot better. But the fact that the GSE's are doing lending actively in multi-family as well as banks and life companies, means that it's just a better sector to play long-term spread investing. You can just do it more easily. I have a 280 unit project in a small town in Ohio, and I just locked down a 10-year loan. You'd have a hard time getting a 10-year loan on a retail equivalent, right?

Terry: Or office, certainly.

Peter: Or office, right. So, only for that capital market reason as well as the fundamentals. The other thing that's been nice about multi-family is that, yes, it's the first to go down, but it tends to be the first to come back. You tend to know the most it goes down is about 10% historically. I think supply and demand are in pretty good shape, so even if it went down, it'd probably go down like 7 or 8%. And then you kind of come back as jobs come back. So I like multi-family. The thing I don't like about multi-family is any place where I can't get spread. So multi-family supply and demand fundamentals in Brooklyn may be okay, but at a 3 cap? There's no spread. So you've got to do multi-family in my view where you're getting quality product at north of a 5.25, something like that, you can get real spread.

Office is mostly a commodity. I mean there's what, 200 buildings in the United States that aren't commodity? Maybe 150 of which are in Manhattan? Something like that. And all the rest is just pure commodity. And the problem is, somebody always builds a newer commodity. So it's become a tough product to make money in, I think. Can you do it? Yes, but pretty much you have to do it cyclically. And this is feels like the wrong part of the cycle. And you say, well, what about the spread? The problem is that, first of all, I think you'd probably get a 5-7 year loan, which is not as long as you want to play the spread. And secondly, your office building could have a 30-40% drop in NOI. Whereas, if you went to apartments, if nationally the drop in apartments is 10%, you know? So office is so lumpy, that you could go in at a spread, but if you lose 2 tenants… So I don't feel that good about office. The only exception is if you're in the trophy business. And I think the foreign capital flows are helping the trophies going forward. There's a lot of foreign capital, a lot of institutional U.S. capital, they want those 150 buildings. They're sport franchises or Renoirs. They don't cash flow, but you just hope there's a richer person than you when you go to sell it. Maybe you break even, but that's 150 assets, the rest are commodity, tough business. Tough business. Warehouse, I feel, is passed.

Terry: Do you think it's slowing down right now for hotels?

Peter: It may not heading down, but it's hard to see it go up much. You've got a lot of construction. You've got historically high RevPARs, and pretty historically low cap rates, so how much better could it get, right? There's so much operating leverage there, that again, you could put a spread in, but the operating leverage, you could have a 40, 50% drop in NOI that just eats through. So, I don't feel real good about it.

Terry: What do you think about the possibility of prolonged slow growth, or secular stagnation, and if we were to have it, what kind of effects would it have on real estate investing.

Peter: I'm not a big believer in secular stagnation, but Larry Summers is a smart guy, and he has as good a chance at being right as I do. So, time will tell. If you said we have Japanese growth, which has been 0.16% per annum for 25 years, that's a tough environment. Because let's face it, real estate is about growth. and activity. If we had 1-2% growth, we could do okay, because what would happen is, supply would adjust.

So if we got 1.5% growth a year, I think we would do okay. In normal times, we need about 2-2.5% for new development. Why? The economy grows at about 2% and a half a percent of obsolescence. That's real quick, right? So, let's say we go to 1.5% growth, or 1% growth. Then let's say we only need 1.5% new product a year instead of 2.5. That means almost half of the development activity would have to disappear. So we would get half as much development as we're used to, by a drop of 1.5% of growth, if you follow. Because development's all about that growth, it is very vulnerable to stagnation. Existing properties would do okay. You wouldn't get big rent spikes, but it would do fine. In fact, if you told most existing owners, and said here's the bargain with the devil, you'll never get to develop anything, but no one else will ever develop anything, and you get 1% growth a year. You might take that bargain.

Terry: Thanks. The next one's important. Retail and mixed use is our business. With the rapid rate of change in the retail industry, and with the millennial generation, and the technology driven behavior, where do you see the best opportunities for retail and mixed use investing going forward?

Peter: The easiest to figure out are, follow what boomers are going to do, which is probably continue what they've been doing. Because we're now to an age as boomers, I'm not going to change a lot, I'm going to buy a new shirt, and I'm not old enough to never buy anything new again, right? So, my wife still buys as much as she ever did. So, the boomers, which are a big and rich group, are going to continue. The group that's a little harder are millennials. My bet is, you're going to have an explosion in Kids R Us, Baby R Us, finally got a grandchild. And we actually need furniture for a house instead of a 500 square foot apartment. As millennials evolve into the next phase of their life. Those kind of product lines. Baby clothes. I don't mean just the focus on the baby part, but millennials moving into the next part of their life. The one that's harder to figure out is cool stuff. The 16-24, something like that, group is much harder to figure out because they social network so much as opposed to physically network, that it's hard to know what it means for retail because retail has been part of networking for a long time. And I don't know what happens to that group. I know eventually they're going to have children, but I don't know what they're going to do as they go from 16-24 to 25-34. That's harder for me to get. But I think those people who are, say, 24-35 today, they're going to have children, it's going to be a dominant part of the retail experience over the next decade. And it's going to be a very dominant part of the grandparents' experience.

Terry: Okay. I was with a mutual friend of ours yesterday, and I asked his perspective, and he highlighted population growth. You know, the thing about the U.S. over most every country in the world, because of several factors, we have population growth, used to be 1%, now it's like .8 or whatever, but you just can't ignore it, but here's the thing, it doesn't grow the same. Texas may grow 3 times more because in migration and immigration, and natural growth. Address population growth and how we should be factoring that into our thoughts about the future.

Peter: The most worrisome thing about the election to me, is a fundamental sounding anti-immigrant, and I think immigrants are the lifeblood of the economy for generations, and yes, some of them can be a burden when they come in. I imagine my grandmother was a burden when she came in. Couldn't speak the language and so forth, but at least her grandson did okay, right? If we screw up immigration, we wouldn't screw it permanently, but we could screw it up for 5-10 years. The U.S. has done that in the past several times, of shutting the doors for 5-7 years or so. I hope we don't, but if we did, it would be a serious negative. And your point is correct, which is it's not a neutral negative. It's not going to affect Ames, Iowa very much, but it would affect San Antonio a lot, or New York City. I'm hopeful we won't screw it up, and that all the rhetoric will go, and we'll do something even maybe like the Canadian model which works pretty well. Our model works okay. But it's important. It's most of our growth. It's not just most of our body count growth, it's a lot of the innovative new ideas, and ultimately new energy will come along. So, we have a lot at risk, and this has not been a very good election cycle in that regard.

Terry: Back to population growth and its effect on real estate, and its importance as a demand driver for real estate, and for retail real estate.

Peter: It's interesting, I'm writing a piece as we speak, that demographics is not destiny. Because there is this view often that just bodies are destiny. They aren't, because supply also adjusts. If we had all the immigrants we've gotten over the last 30 years but we didn't add anymore new apartments or new houses or new retail, that would have been fabulous for the owners, right? But what really happened was that we got all these immigrants and we built property for all of them. So it drives demand, but what it really drives is supply. As a fundamental demand driver, it ends up really driving supply and new development. It doesn't drive value much. I mean, if you've got no immigrants, we'd look like Japan, where the values don't fall, they just sit there. Demand is the same, supply is the same. If somebody builds one building they shouldn't have, value goes down. If one building burns down, they go up. Remember, supply also adjusts. So it's an important driver of demand, but most of that demand drives new development rather than value.

Terry: So, secondary and tertiary markets, I've heard lately from a number of people that institutional capital folks are warming up to secondary and tertiary markets. Are you hearing anything?

Peter: Hearing the same thing. It's what you'd expect at this part in a capital cycle, which is the absolute yield is so low in some of the primaries, that, if I'm going to have Microsoft as my tenant for 12 years, do I care which market it's in? And if I can get a 6 cap in one market and an 8 cap in another and a 3 in another, I've got Microsoft on the lease in all of them. So, this point in the cycle, you always see the money start going into secondary and tertiary. And the problem is that it disappears then, in the down. So if you had 712 5th Avenue or the Four Seasons Hotel in New York in the downturn, you might be able to finance it. If you had the best office building in Terre Haute, Indiana, I don't think you could finance it in the down. So, yes, they are moving there, it's what you'd expect for this point in the cycle. And just as soon, they're going to bail out on you, so make sure you've got term.

Terry: Okay. Let's go to Houston. We operate properties there. We're looking at a ground up mixed use project there. Give us your view on Houston over the next 3 or 4 years.

Peter: So, energy is now in what appears to be a sustainable band of about $30-$50 a barrel. And I know that's a big band, but it appears that it's in that range, and when you look at extraction costs, and supply, availability through fracking and so forth, that band is sustainable. If it goes a lot below that, it doesn't make sense. There's too much demand, and above that it's too expensive.

Second, they've made their big adjustment from $100 a barrel to an equivalent on natural gas, a couple years ahead, from $100 a barrel to $30-$50 a barrel. They don't need to make that adjustment again as long as it stays in $30-$50, right? People forget that once it's made the adjustment, you then get steady state again.

Houston still probably has another soft year or so because there's still bits of adjustment occurring. I like Houston, however. And the reason is, Houston's been the best growing market, of the major metropolitan areas, over the last 10 years, the last 20 years, last 30 years. Why? Low taxes, affordable housing, which is important for business. They have no worse schools than any other urban area. By the way, 40, 50 years ago, you could have said the schools in Houston and Dallas were much worse than in, say, some of the northern cities. They have a sense of entrepreneurship, and relatively low taxes, so Houston's going to grow.

The amazing thing about Houston if you think about it is, oil went from $100 a barrel to let's say $40 as an average over the last year or so and Houston still had 3/10ths of a percent of job growth. That says that the non-energy part of Houston, medical and all the other stuff that are not related in any way, are vibrant. So you had essentially in Houston a very vibrant energy sector for a while, and a vibrant everything else. Then you went to a vibrant everything else, and a greatly recessionary energy. Now you're going to get a kind of not boom, not bust energy, but still a vibrant everything else. So, actually, I feel pretty good. In a 3-7 year horizon, I feel very good about Houston on a demand side.

Terry: Great. I'm going to close by just asking you, what else that is on your mind, or research y'all have that you think would be of value to a group like ours that does what we do, that we haven't talked about yet.

Peter: So, we haven't' talked about it, but the thing I went through with a client the other day, the math of buy versus build. You know, let's say you could buy at a 5, your quality stuff, and you're trying to build, right?

Terry: Everywhere from 5-7.

Peter: And you're trying to build 150 above it. Right? Something like that. Some 150 basis points higher.

Terry: or 200.

Peter: The thing I pointed out to this client, who's a die-hard developer, is if you do the math, you just need to pause, especially at moments like this when you're thinking should I buy and lock in a spread? Which you can do if you buy. If you bought tomorrow, you could lock in the spread we talked about. If you build, and you start building tomorrow, you won't be able to lock in the spread for 2 or 3 years. And you don't know if it's still going to be there. And so when you think about development, just write down the following: If you went and bought at a 5, I'm just making this real simple, that means next year you get 5, the year after that you get 5, let's have no growth just to make it simple. So for the next 10 years you get 5 a year, so at the end of 3 years, you have 15, at the end of 10 years you have 50. Right? Just cash. Real cash. Now let's develop. And let's ignore negative. You have 0 in the first year, 0 in the second year, 0 in the third year. And then you get, say, 7 for the next 7 years. Right? So you're doing 200 higher than the buy. Fair enough? When you think about that, at the end of 10 years, you've got 50. This is with no growth, I know it's very simplistic, but it makes the point. At the end of 10 years you have 50 from acquiring, and 49 from developing. 7 years of 7. Okay? And you go, wow. That means all the benefit of the spread is…

Terry: From reversion.

Peter: You got it. Now you say, well I'm going to sell it in year 3. That's a theoretical exercise. I'm doing a cash exercise, right? By the way, that's with a 200 spread. If you did it at 150 spread, it's not until year 13 that it crosses over. That is to say, it's not until 10 years after the product is delivered that the cash you receive from development is equal to the cash you got from acquiring. Now, in a way, you always knew that because of the 0, 0, 0. But, you start out, it's you know, when you start the race 15 ahead, that's a big lead that you've got to make up. And you're only making up on the 15 head start that you gave acquisition in our little example, you're only making it up 150 to 200 a year, 1.5 to 2 a year. Now, normally you say, that's fine. But when you're back to this spread thought, you know, of, can I lock in the spread, I know I'm getting the 5 next year. And I'm pretty sure I'll get the 5 the following. And then after that, everything's a guess on both the 5 and the 7, but if I can get lock the spread, I can at least have more certainty.

So the thing I'm saying is risk management suggests, when you do this just simplistic that I'm doing – and by the way, if you lever it, it doesn't really change, if you put growth on it, it really doesn't change the story, because it's all about getting a head start. Acquisition gets a 3 year head start. That's all that it's about. And then you make it up a little bit at a time. If you're in a risk management mode, and I think a low cap rate with a high spread says, caution ahead, go like mad. It's like a yellow light and a green light both flashing, right? That sounds like a risk management point of view, and that says to me, the math we just did, anything that analytically from a business point of view of tenant quality, location, etc, this is an acquire phase, and lock in the spreads.

Terry: Got it. Well, that was very helpful. I appreciate your time.