Despite Headwinds caused by the Covid-19 Pandemic, Many Industries Still Present Investment Opportunities in Real Estate

By Jennifer Banzaca

Many industries and sectors have been affected by the pandemic but despite how the current situation has so far changed the industry, the investment outlook is still positive.

During the Real Estate Investing in Interval & Listed CEFs panel at the Active Investment Company Alliance's (AICAlliance.org)'s Summer Summit on August 13th, Svitlana Gubriy, Head of Global REIT Funds at Aberdeen Standard Investments, said the pandemic will accelerate trends in online retail, logistics or supply chain management, and digital infrastructure.

Gubriy also predicted that some real estate asset subsectors will eventually fade while others will appear. She noted that 20 years ago there were no cellphone towers or data centers so the future real estate industry could look very different, opening new areas for investment opportunities.

Randy Anderson noted that the real estate industry has gotten "a little bit dinged up" due to misperceptions, but this has created opportunities.

The interval fund space has become increasingly popular and has experienced massive growth over the past five years and the number of options available to investors continues to increase, Ande rson added.

"Today, the most popular interval funds pursue alternative investment strategies that provide exposure to real estate, alternative credit, and insurance linked products, among others. Because of the diversity in strategy, the risk/return characteristics may vary significantly across interval fund offerings. Historically, the most popular interval funds have combined public and private securities, providing access to a differentiated set of investment opportunities when compared to mutual funds and ETFs. For this reason, many interval fund strategies may serve as a compliment to investors' existing portfolios."

However, when assessing potential investment opportunities in interval funds, Anderson advised, "Like any investment opportunity, we believe that it is important to assess the strategy, structure, and team."

Additionally, underlying strategies, repurchase intervals, and pricing frequency may vary significantly. Interval funds pursuing opportunities within the same sector may have vastly different risk profiles and all of those factors need to be assessed.

One area that should see more activity and investment is life science with the integration of technology in biology.

Another emerging trend is migration and contraction of certain markets.

"I think where there are cities with very dense markets and a heavy reliance on mass transit, such as New York, San Francisco and Chicago, those are the markets that are going to have the biggest pain and the slowest recovery," noted Sean Morris, Managing Director of Private Wealth Partners at CIM.

But other cities will be the benefactor of that migration and they'll grow and see a lot of prosperity above what national averages are, Morris added.

"Where you are seeing less of an impact are the 'drive to work' cities. A lot of these are in the southern states where a lot of people are migrating, such as Phoenix, Dallas, Austin, Nashville, Charlotte, Atlanta and south Florida. Those markets are experiencing growth in spite of what is happening."

Real estate investors also have to consider whether to invest in the public markets or on the private real estate markets.

Gubriy said one of the key advantages of public market is discount to NAV. It is also helpful for funds to be tactical and adjust positions quickly.

"For us because we're a closed-end fund, we have permanent capital, so we can be more strategic in those allocations," she added. "We don't need to think about inflows, outflows, redemptions and we can take position in the stocks that may take three, six, 12 months to recover. So this is another unique opportunity."

Interval funds do offer liquidity, however limited. So, these funds tend to have a mix of private and public exposure making it necessary for managers to balance the time horizon for investments.

Anderson said interval fund managers need to be liquid.

"You don't ever want to do be in a situation where you're dumping something at a fire sale to meet that next quarterly redemption."

Morris also cautioned that liquidity has been "sucked out of the marketplace" and that will have an impact on pricing going forward.

"When you look at how real estate is financed right now, an entire sector of mortgaged REITs now are focusing on stabilization of their book of business. Most of the debt funds that finance that way have to do the same, so their origination teams that would typically be out in the market lending on new deals are all focused on stabilization. At the same time, values have come down. There are a lot of assets that are hard to value today and there's been this liquidity sucked out of the market place that is going to have an impact on pricing going forward to get new deals," Morris observed.

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