



Aberdeen Manager Says Covid 'Put Real Estate In The Crosshairs'

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Chuck Jaffe, in The NAVigator podcast interviewed Bill Pekowitz, portfolio manager for the Aberdeen Global Premier Properties Fund. Read the Q & A below as Bill says that lockdowns



during the coronavirus pandemic hit brick-and-mortar retail, hotels, office space, and the urban apartment sectors, but boosted cell towers, warehouses, industrial data centers and more. Now, with economic recovery, he expects some troubled areas to rebound and suggests balancing real estate investments between those that are peaking with those that are recovering.

Bill Pekowitz

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CHUCK JAFFE: Covid-19 has dramatically changed the market for commercial, residential, and alternative real estate investments. Bill Pekowitz, portfolio manager for the Aberdeen Global Premier Properties Fund is here to talk about it now on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point

you in the right direction. Today it's pointing us in the direction of Bill Pekowitz, portfolio manager for the Aberdeen Global Premier Properties Fund, it's ticker symbol AWP and you can get more information at Aberdeen's closed-end fund center which is online at AberdeenStandard.US/CEFcenter. If you want to learn more about investing in closed-end funds check out AICAlliance.org, the website for the Active Investment Company Alliance. Bill Pekowitz, thanks for joining me on The NAVigator.

BILL PEKOWITZ: No problem, Chuck. Pleasure to be here.

CHUCK JAFFE: Coronavirus has of course affected the entire world, but there are not that many markets that seem to be as impacted long-term as real estate. How much has the real estate market been permanently changed?

BILL PEKOWITZ: In many ways the Covid pandemic really put real estate right in the crosshairs and hit the sector really hard in a number of ways. The lockdowns, they hurt brick-and-mortar retail and entertainment focused locations. Travel restrictions, stay-at-home measures, that hurt the hotels. Working from home trends, that's impacted how everyone is thinking about the office and the future of office. And then we've even seen things, that lack of urban amenities has really hurt demand for apartments in dense urban markets. And so all of these sectors suffered a big pullback last year in demand and are struggling with that. But I think it's important to mention that while there was the weakness in those segments of real estate, there were other parts of the real estate market that really were winners as trends moved in their favor. I think of things that are tied to e-commerce and fulfillment, so cell towers, data centers, industrial warehouses, all of those sectors really benefited from increased demand and increased importance in people's lives. So that sector's really benefited off of this and we think a lot of these trends will continue. And then on the other side, these sectors that were hurt, some of them we think will come back strongly and others we think it's going to be a longer-term issue where there is some impairment. It's early on in the recovery but we think there is still a lot of opportunities in real estate.

CHUCK JAFFE: Well it sounds like real estate like say the rest of the economy, is going through what could best be described as a K-shaped recovery. You've got those things that are on the rise, those things that are on the downswing, so how has this changed what you're investing in and where you see the opportunities right now?

BILL PEKOWITZ: Right now we have very low interest rates around the globe. We have a ton of monetary and fiscal stimulus that is coming into the sector, and all of these things are going to drive an economic recovery as the vaccines are rolled out. That kind of an environment of recovering economic growth, low interest rates, and a return to business activity has historically been very good times to be investing in real estate, and we think those trends are going to repeat themselves this cycle as we come out of it. Now when we're building the portfolio, we are being very selective in how we're going to build that portfolio, and we're taking a bit of a barbell approach to building that portfolio. So there's a number of sectors that we would say are at cheap valuations relative to their historical multiples or their historic underlying value of their real estate, but we think that there is differences in how those sectors will recover because of what has gone on and the pandemic. And so when we're building a portfolio, there's some sectors that we think are going to be early on winners in that reopening trade, so something like hotels, entertainment properties, healthcare related properties, especially on the senior housing side. These are sectors that were really hard hit during the downturn. We think as people get vaccinated, as they return back to a more normal type of life as much as that will happen, these are going to be sectors that we're going to see outsize growth and recovery there. And so early on we think those are going to be areas that you want to look at. We think there's even some select brick-and-mortar retail locations that we think can benefit off of that same thing. At the same time, we're including still those sectors like the industrial, like the data center, like the cell towers that I mentioned earlier, that we think there are structural demand drivers that still exist for those sectors, and those sectors are going to continue to benefit going forward. And so therefore you want to have those sectors also in your portfolio, so you have these things that you're playing on for more short-term kind of trading opportunities and then you have your longer-term underlying fundamental drivers which are then going to give you that stability on the dividend side and drive that cashflow growth that'll give us the income that we need in real estate.

CHUCK JAFFE: One of the things that I noticed looking at your fund is Morningstar Data, unlike any fund I've ever seen in my long career. There are plenty of funds that are feast or famine, but if we look at AWP, the Aberdeen Global Premier Property Fund in terms of rank in its category by net asset value, it is truly feast or famine. It is like, "Hey, we're number on

in our category, or we're number 100 in our category. We're always top or bottom." Is there something going on in the construction of the portfolio or the way you look at real estate that says this is why we come into or out of favor? And is there reason to believe that the sweet spot is coming?

BILL PEKOWITZ: I think there's a couple factors there. I think one part is when we're constructing our portfolios we try to take fairly concentrated positioning, and we do that both through bottom-up company selection and then we'll overlay a global outlook and a top-down view as well. And so at times we might be, I would say early on seeing some of the trends. Because when we're building these portfolios we do like to take more of a longer-term view, say three to five-year view through the course of the entire real estate cycle. And so because of that there are some segments that may be out of favor and then come back into favor, but we think that the longer-term trend is the way to look at it instead of just shorter time horizons.

CHUCK JAFFE: Obviously we're seeing these changes in real estate and you've talked about a few of them. What are the long-term trends that you're looking for for the next few years coming out of coronavirus?

BILL PEKOWITZ: Real estate, we view it as it's constantly evolving and constantly changing. Because real estate does touch every aspect of our existence from where you live, where you work, where you play, how you get things, all of that at some point touches real estate. So over time there's definitely been this shift in what is considered real estate, and we think that trend kind of continues. If we go back just as recently as 2012 and we were to look at the real estate market, traditional real estate sectors, things like apartments, office, industrial warehouse, and retail was call it 60% of the U.S. REIT market and that was more than 80% of the global REIT market. If we look at that now at the end of 2020, that has shifted where those alternative sectors are now a little over 60% of the U.S. market cap are in the alternative sectors and 40% are in those traditional sectors. It's completely reversed itself. We think a lot of those trends continue and these sectors will continue to get that capital. Some of this is from the emergence of new technology and new ways of doing things, so that would be that cell tower, data center, industrial trade where those things have really been the winners at the expense of a retail landlord. If you think about that, if you're on your phone and you go to Amazon and you want to order something, so your

phone is now connected to the cell tower, the cell tower sends that signal of your purchase to Amazon's servers that are inside of a data center, that then send that information to the warehouse from where it's packed up and shipped to you. A large portion of that transaction has now gone through elements of real estate and REITs, versus in the past that would have been you got in your car, you drove to the mall, you bought something and you go home. But we also have seen, and I think we're going to continue to see growth in those areas, because you have things like going forward the rollout of 5G technology, and that's going to continue the cell carriers to continue to have to spend on their locations. And so that's really going to allow greater demand still for cell towers and data centers as cloud computing and remote working, all of those factors continue to benefit there, so we think those areas continue to grow. Other element of real estate and how it evolves, we could look at something that's been around for a long time but how it is structured has changed, I think of things like alternative housing. So single-family rentals as a product has existed for long, long time, but it was traditionally you or I owned a second home and we rented it out. And we had to do all of the maintenance, we had to do all that, but we were able to generate a little bit of income. But it was a very much a hit or miss type product, it wasn't commoditized, there wasn't consistency in it. But then look at what happened during the Financial Crisis, and all of a sudden there was a large number, portfolios of homes that had been foreclosed upon and institutional capital with the help of the public markets was able to acquire large portfolios of single-family homes. They were then able to make the operations of those homes very similar, and make it that they can then rent that product and give you a product that you know if you're renting a home from Invitation Homes or American Homes 4 Rent, in Atlanta it's going to be similar to what they have in Phoenix. And that business model, we've now seen they've been able to drive a lot of costs out of that business, the efficiencies are there, they can get strong occupancies, they can keep their CapEx at manageable levels, and that is an area then that's continuing to grow as well. And we think things like that continue to have some growth prospects. And those are just two examples over the last call it 10 years or so, so those sectors we think still have growth opportunities going forward. But there will probably be other things that are going to emerge in the next two years that right now would be considered maybe more alternative

in the commercial real estate world but they will also emerge and provide other investment opportunities as we go forward as well.

CHUCK JAFFE: Bill, this has been great. Thanks so much for joining me to talk about it.

BILL PEKOWITZ: Thank you Chuck, appreciate it.

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