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With Higher Yields and Strong Growth Potential, Now is a Great Time to Invest in a Real Estate Interval Funds

By Jennifer Banzaca

The real estate sector was hit hard by the COVID-19 pandemic and forced lockdowns, but as the economy reopens the strong growth potential has the sector poised for a strong rebound year.

Tim Ryan, a Portfolio Manager and the Co-Head of U.S. REIT Investing for Goldman Sachs, said during the Real Estate Opportunities panel during the **Active Investment Company Alliance's (AICA) Interval Fund Boot Camp and Manager** Spotlight on March 31, that he's hard-pressed to think of a time where the setup for real estate broadly was as good as it is now.

"You've got yields for most real estate products that are in the 5-6% range, strong growth potential from a reopening, and attractive valuations. With interest rates rising because of reopening of the economy, the stronger growth, and the gradual increase in inflation, valuations versus those long rates are so attractive," Ryan added.

Real estate was hit hard during the COVID-19 pandemic. Lockdowns hurt brick-and-mortar retail and entertainment businesses while travel restrictions hurt the hospitality sector. And as people began working from home, businesses were forced to rethink their office needs while individuals started rethinking their home needs.

There were some areas of real estate that did well despite the headwinds last year, particularly multifamily, industrial and life sciences . While it's still early in the recovery and reopening, there are a lot of opportunities in real estate.

Dr. Randy Anderson, CEO of Griffin Capital Asset Management Company, agreed that right now real estate looks very attractive."

"Today represents a compelling entry point for investors seeking an investment in real estate and, in my opinion, perhaps the best its looked when compared to the past several years," Dr. Anderson noted accelerating inflation may make it very challenging to put additional supply into the market, potentially stimulating NOI growth. So, whether you're looking at private real estate or public real estate, it's hard to think about where you put that next dollar if you're not thinking about putting some of that next dollar into real estate."

Ben Rotenberg, Portfolio Manager of the Diversified Select Real Asset Fund at Principal Financial Group, agreed it is currently a very attractive time for real estate.

We definitely see valuations being attractive across a number of the areas, including multi-family, debt, life sciences, and cold storage. But outside of real estate we also see some interesting opportunities, such as in infrastructure, farmland, and transportation assets like airports and toll roads, which, like everything GDP sensitive, took a hit during the pandemic as growth slowed, but those assets are coming back."

And, with growing opportunities in real estate, interval funds investing in the sector are growing as well. According to research from Closed-End Fund Advisors, real estate interval funds account for about one-third of the $75 billion non-listed CEF market, with $12 billion in AUM.

With the volatility and uncertainty in the markets in 2020, a lot of capital sat on the sidelines to see how things would play out and where opportunities might arise. That idle money is starting to be deployed this year, Rotenberg said. "We're seeing people interested in real assets broadly and inflation protection as they think about the risks going forward. There will be an increase in activity and some of the money on the sidelines will be put to work as we get back toward normal."

Dr. Anderson noted that a lot of the dry powder is making its way into the real estate markets now. "We're seeing transaction volume pick up substantially across the board," he added.

Because the U.S market is so attractive right now, the panelists said they are not focusing on international opportunities at this time. Ryan said that while a large proportion of Goldman Sachs' exposure is in the U.S., there are some global assets in the portfolio.

"I would say the opportunities internationally are compelling and we're examining them. But, we think a lot of the opportunities in the U.S. today are just so compelling that the hurdle to go incrementally internationally is a little bit higher, and it's forcing us and driving us more towards being more U.S.-centric at this point," Ryan said.

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Continued on the next page

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