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Bluerock's Baffico on Narrowing a Big Discount Amid Changed Market Conditions

"In the Proper Sequence": Steve Baffico on Why BPRE Is Reinvesting Its Cash Before Buying Back Shares, and What It Will Take to Close a 40% Discount



Steve Baffico

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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed Steve Baffico, Executive Vice President and Head of Listed Products at [Bluerock](#). Baffico addresses the discount of a little over 40% on the Bluerock Private Real Estate Fund (BPRE) and walks through the asset rotation plan meant to close it: redeeming the fund's legacy fund-of-funds holdings and reinvesting in higher-income direct real estate. He explains why that reinvestment has to come before any buyback, calls higher rates "a temporary headwind," and discusses the fund's IQHQ position. His message to frustrated shareholders: "We hear you loud and clear."

TOPICS DISCUSSED

- Why BPRE trades at a discount of a little over 40% to NAV (\$12.28 against \$22.59 at the October 19 close), and why Bluerock still expects it to move toward NAV over time, as comparable funds do
- How the asset rotation plan works: Bluerock is redeeming its entire \$3.5 billion legacy fund-of-funds portfolio, spread across 34 institutional funds, and moving it into several hundred direct real estate investments
- Why about \$1.3 billion in legacy redemptions since the third quarter of last year came at a weighted average discount to NAV of just under 1.2%, which Baffico calls a strong sign the fund's marks are valid
- Why a 10-year Treasury near a 25-year high is "a temporary headwind" that slows redemptions but creates "an exceptional entry point" in real estate credit
- Why Bluerock is reinvesting its cash before buying back shares: legacy funds returned about 1.8% over 12 months, while the credit book pays an average contractual rate of 11.5%, against a 7.3% distribution rate on NAV
- How the life sciences downturn hit IQHQ, now about 21% of net assets, and why AI-driven capital flowing into biotech makes Bluerock cautiously optimistic about a recovery

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

EXPLORE THE DATA REFERENCED IN THIS INTERVIEW:

- Free CEF & BDC profile pages: cefddata.com
- 40+ CEF & BDC indexes: cefddata.com/index
- BPRE fund profile and data: cefddata.com/funds/bpre

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THE CONVERSATION**CHUCK JAFFE**

We're digging into the private real estate market and into a fund with one of the largest discounts you can find in the closed-end fund universe with Steve Baffico. He's head of listed products at Bluerock. Welcome to 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, an industry organization representing the entire closed-end fund business, from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The Navigator will point you in the right direction. And today, we're talking with Steve Baffico. He is executive vice president and head of listed products at Bluerock, which runs the Bluerock Private Real Estate Fund. It's the world's largest real estate-focused listed closed-end fund. It has a billion eight in assets, trading under the ticker symbol BPRE. For those who don't remember the story about this fund, and it's very important for our discussion here, BPRE was originally the Bluerock Total Income+ Real Estate Fund, and it launched in October of 2012. It rebranded and transitioned to a New York Stock Exchange-listed closed-end fund last December, December of '25. And while we're discussing the fund here, you can get more details on it and on the firm at Bluerock.com. You can also learn more generally about closed-end funds, interval funds, and business development companies at AICAlliance.org, the website for the Active Investment Company Alliance. Steve Baffico, welcome back to The Navigator.

STEVE BAFFICO

Chuck, great to be here. Thanks for having us back.

CHUCK JAFFE

I want to start with the fund before we get more broadly to private real estate. When we spoke last, which was in June, you were talking about how the fund needed to unwind its old positions and move on and continue moving on with its new focus. The fund itself currently, as I said, has one of the widest discounts in the industry. Tell us about whether the fund has completed the transition process and if it's that process, which, I'll point out, you had told shareholders would be reflected in big discounts before you ever launched it, if it's still that that's making the discount so big at this point.

STEVE BAFFICO

Sure. Chuck, let me start with the stock price, because I think that's probably the topic that's on everybody's mind. You referenced it in the open. The stock closed at \$12.28 yesterday. It's a discount of a little over 40% against our NAV, which closed yesterday at \$22.59, so a very, very wide discount today. I guess going back to when we asked shareholders for approval of the listing, we said we did expect the fund to trade at a discount for a period of time after the listing. And we also pointed out that comparable funds tend to trade near NAV over the medium to long term, and that we expect to get there over time. And so I would reiterate that, and to be clear, today we still expect to get there.

And so obviously, that's the focus of all of our efforts every day at Bluerock. You referenced the asset rotation plan. We do have a strong plan in place to deliver that result, and we execute against that every day. Very simply, and I guess as a reminder to your audience, the plan is to redeem out of our existing legacy fund-of-fund investments entirely, so a three-and-a-half-billion-dollar portfolio, and to reinvest that capital into higher-income, high-return direct real estate investments that will grow income, that will raise our distribution to a market level, and it'll also grow NAV at the same time. And I think that's the one strategy with a very consistent track record of sustainably closing discounts, and that's really what we're trying to solve for. We're making good progress against that plan, but because we're dealing with physical real estate, which is relatively illiquid, the plan requires time to implement and ultimately to reflect through in the stock price.

Two things, I think, for your audience, factors driving that timeline. One, there are limitations with our legacy funds as to how much and how quickly we can get redemptions. So that sets the speed of the capital that we get back and are able to reinvest. And two, the reinvestment process is complex. So we're reallocating from investments in 34 legacy institutional funds today. It's an average of about \$100 million to each fund, and we're allocating that to a portfolio of ultimately several hundred direct investment properties, all of which need to be sourced and underwritten, with the work done properly to execute and deliver results. But look, we've done it before. We've repositioned and built

and scaled real estate entities with success. We're doing the same thing here, confident in executing it, and seeing some good early results, which we can talk about today.

I do think the other side of it is generating demand, or buying demand, on the stock. That does take a little bit longer. We need to execute our business plan here and let the market see some of those results in the scoreboard every day. That's the NAV stability, a covered market-rate distribution, ultimately the NAV growing, and obviously we're laser focused on getting that done as quickly as possible. So that's really where all of our efforts are pointed at the discount: converting those legacy fund positions at or as close to NAV as possible, rotating that capital into higher-returning real estate, building income, increasing those distributions, and ultimately taking out costs, which I'm sure we'll walk through a little bit later in the call.

CHUCK JAFFE

Let's talk about moving forward, which takes us more from the specific fund to the broader real estate market, because you can't be even remotely interested in personal finance and what's going on and not know that interest rates have gone way up, the 10-year highest we've seen in a quarter century. So that has to be impacting real estate markets. So that also then has to be impacting your fund. How does that play in? We've got this money to put to work. We're getting it out of one thing, but we've got to put it to work in the next.

STEVE BAFFICO

Certainly. Yeah, look, great question. Let's spend a minute on that, because I think that the macro is important and obviously what it suggests for the road ahead. And there's a bit of yin and yang there, right? You pointed out the 10-year Treasury is now at or near its highest level in 25 years, and so the immediate impact is, within real estate, transaction volume is below prior peak years. We continue to believe this is more of a transitory higher-rate environment, so it's driven more by exogenous factors, and so we think that that normalizes into '27, when we get some resolution in the Middle East and related factors. But we've certainly seen a slowdown in both volume and pace of real estate transactions broadly, not just with this portfolio, but within the institutional real estate sector, that has become more pronounced in the second half of the year, for sure.

So I think you look at it as a temporary headwind. It's not a death sentence by any means. It's just what the landscape's giving you right now. So, what's the impact of that kind of environment? It is a contributing factor in the pace of redemptions that our legacy funds are providing. So, we talked about it earlier. Some funds are meeting redemption requests well, some funds are quite slow, and some funds are not paying at all. So that's just what the landscape is for everyone. Really, neither a surprise nor unforeseen as we think about the strategic plan, but certainly something that you have to handicap in the calculus. Now, on the other hand, for a buyer with cash, and BPRE is certainly rich with cash, it's a darn good environment to invest at attractive prices and to create value. And I would argue that in real estate credit, in particular, with rates backing up, it's an exceptional entry

point. So that's the market opportunity that we're deploying into. Obviously, we have experience doing this successfully in past downturns, and I think we're confident as we go forward.

Let me just put some numbers around that for context, and I think regarding marks and valuations specifically for your audience. Since the third quarter of last year, we've received about \$1.3 billion of liquidity, or redemptions, from legacy funds. Now, that came at a weighted average discount to NAV of just under 1.2%. So, in other words, we've been able to convert our investment in legacy funds to cash within about 1% of our NAV. I think it's a really strong indicator on the validity of our marks. Getting those redemptions is hard work, but it's been a very important validating exercise, which upholds the integrity of the institutional real estate valuation process.

Okay, back to that billion dollars for a moment, because I think it's not just about what it earns, but also what it takes to get those incremental returns. Keep in mind the way the fund historically invested: roughly 10 positions per billion dollars allocated to other managers' funds, give or take about \$100 million each. That's 10 decisions per billion, right? After that, fund managers did the work. They chose the property, signed the leases, made the loans, et cetera. Now we take that same billion-dollar example, but invested in the direct real estate portfolio that we're building. So ultimately, you're looking at a portfolio of what will be several hundred direct investments at an average size of, call it, \$25 million apiece once we're fully invested. And so for every investment that closes, you're probably looking at a 5% to 10% hit rate, meaning we're looking at 10 deals for every one that ultimately closes, and you have to source and underwrite and negotiate every one of those as you go through the assessment process. When a deal is ultimately executed, we obviously monitor it very closely until it's repaid. In things like net lease and shallow-bay industrial, the individual property is actually smaller, and that same billion dollars could be 100 to 200 buildings, each with its own leases and tenants.

So my point, Chuck, is the asset rotation here isn't simply moving money from one account to the other. We take on the work of 30 outside managers as they used to do it for us, and that's really where the value is created. The higher income, the higher total return comes from that work.

CHUCK JAFFE

But it does raise a question. I mean, you've got a mountain of cash. I believe you used the word mountain. You've got a massive discount. You've got investors who would not mind a share buyback, like, hey, throw some of that cash in our direction. So why not a share buyback?

STEVE BAFFICO

I think, again, a fair question. And so let's think about the math on the incremental return potential of that asset rotation. So, staying with our example, over the last 12 months, our legacy funds returned about 1.8%. So again, on a billion dollars, that's \$18 million. In comparison, the credit book that we're building in the direct strategy pays an average contractual rate of 11.5%. So again, simple math on a billion dollars, that's 115 million bucks. Our distribution rate today is 7.3% on NAV. So

every dollar that we move from a 1.8% return profile to 11.5% earns well above what we ultimately pay out, and that's the strategy, I think, that covers the distribution and over time grows the NAV. The realized investments to date on the credit side have also been quite robust, about a 21% total return since we started a year ago. So again, we're delivering returns above our targets.

That said, some investors ask the obvious question: Why hasn't the fund done a buyback in the market at this discount level? And I think the short answer is in what I just described. That capital coming back from legacy funds, the redemptions that we're requesting, that is the capital that needs to be reinvested to generate the income that covers the distribution and, I think, durably grows the NAV. And without reinvesting that capital, the fund will not be able to close the discount. So a buyback by the fund today, no argument, arithmetically could provide a one-time lift to NAV per share. But I think if you do your homework, Chuck, and you do on this show, trade history empirically tells you that open-market buybacks do not close the discount in any sustainable way in a transitional portfolio, which BPRE clearly is at the moment. And I think it ultimately undermines our ability to execute the value creation strategy and deliver discount narrowing on an extended basis.

Now, that does not mean that open-market buybacks can't be useful. I think, in fact, an open-market buyback may be very additive once the fund is no longer in a transitional state, meaning scale is achieved in the reinvestment strategy, and you've got a covered market-rate distribution and a growing NAV. But I think to be effective in closing a discount, it just needs to be in the proper sequence. Open-market buybacks made up front, I think, eliminate the reinvestments that can grow value, whether that's income distributions or total return, and essentially work against the strategy intended to fix the discount long term.

CHUCK JAFFE

Quickly here, Steve, I want to talk about one position, because it'll give investors and listeners a chance to sort of understand some of what's going on. One of the investments that's part of BPRE is IQHQ, which is a life sciences real estate development company, and it has had some significant struggles of late. So how do you view that? And how does holding a struggling position at a time when you are transitioning the portfolio and all the rest, how does that play into what's going on?

STEVE BAFFICO

Great question. It's a really important part of the portfolio, and certainly the outcome is important for us. Maybe just some very quick historical context to put it in perspective, because I think this is a life sciences issue and less specifically an IQHQ issue. From 2011 to 2021, for a decade, life sciences was really among the best-performing real estate sectors. You could look at Alexandria Real Estate Equities, ticker ARE, a large pure-play publicly traded life sciences REIT. It's a good proxy for the space over that period of time. Great performance, large institutional participation in the private sector: Brookfield, Blackstone, Ventas, Healthpeak. The sector performed quite well up through '21, and then it really rolled over completely. Very significant headwinds, resulting in lab vacancies

spiking from 5% to 25%, and an extended downturn for the sector that probably bottomed out in late '25. So every investor in this space has taken a major hit for several years in life sciences.

Having said that, we do see some interesting green shoots emerging in life sciences today. Supply-demand fundamentals are normalizing significantly. It's definitely market by market. Some are better than others, but I think this is an important leading indicator. The other thing, Chuck, I would convey to your viewers, a really important factor to highlight, is the robust capital formation activity in life sciences as a sector: IPOs, follow-on issuance, M&A activity this year not seen for several years combined. So as AI scales, we expect that the biotech industry will really be an outsized beneficiary, and I think what that means is cutting-edge drug development will be aided greatly by the compute power of AI. So, hence, you're seeing a lot of new capital coming into the sector. Why is that important? Well, that new capital is typically earmarked immediately for R&D purposes, and that increase in research and development activity drives increased demand for lab space, which creates growth in lease demand. So it's not a linear recovery in life sciences, and it'll take some additional time. But we're cautiously optimistic at this point, given what we're seeing.

Now, IQHQ, how does that dovetail? In 2019, we invested alongside a number of other major institutional investors in IQHQ. It was less than 10% of the portfolio at the time, had some strong returns initially, and then really got caught in the sustained downturn in life sciences. So it has not been a winner. We moved in 2025 to protect the investment and put some additional capital in a higher part of the cap structure, so that's the credit investment that's in the cap stack today, which we underwrote to substantially below replacement costs.

Now, today, IQHQ, as you referenced, is about 21% of net assets across three positions. One, our original equity investment. That's been written down over 90% from peak value, and it's probably less than 3% of our holding. The remainder of the equity is a result of penny warrants we received for providing the preferred and debt financing. We've also taken some strategic steps. We've brought in third-party capital to the tune of \$270 million. We've changed the management team at the project level. They've really been excellent in supporting the build-out and sale and the lease-up strategy. So it's an investment that has faced its challenges. It has not been a winner, but like the rest of the life sciences sector, we have taken decisive action here to protect the investment. And I think it's not a linear recovery, but we do believe the long-term arc of the recovery in the sector has already begun to take shape.

CHUCK JAFFE

Steve, ultimately you've talked about the progress you've made, and we know that you are confident that you can get the rest of the way there. So let's cut to the chase as we wrap this one up. Investors judge this stuff on the basis of share price. You talked at the very beginning about where the share price was. We should remind our audience: Steve gave prices of where BPPE had closed, quote unquote, yesterday, which was Monday, October the 19th. This is being heard at a slightly later date.

But because share price is what ultimately matters to a lot of folks, what's Bluerock doing about the share price?

STEVE BAFFICO

Look, we understand the frustration with the stock price and the discount. We share it. We're owners of the stock, and so we feel the pain at these levels. And so, simply put, we hear you loud and clear. And I just want to reinforce our commitment to closing the discount. Hopefully the update today on our progress is evidence of that. And I think, look, at the end of the day, it's our duty, Chuck, as the manager, to build long-term shareholder value in BPRE. You have to do that by executing on an investment program that's strong and durable on our investors' behalf, but also acknowledge, look, building long-term value in a public market structure, where patience and expectations and timelines are invariably shorter, that's also part of the landscape.

So I hope one of the takeaways today is just a better understanding of how we approach that balance: stay focused on long-term value creation, and manage short-term expectations and the pressures that come with the territory of being a public company. So we have conviction in the plan. I think it's the right plan. It's backed by evidence. And we just have to continue to execute well and, as I said earlier, see that reflected through in the scoreboard and the NAV performance, and we expect we'll end in a good place.

CHUCK JAFFE

Steve, we really appreciate the candor and the look at it. We know we'll be watching it to see what happens, and that you'll come back to talk to us more down the line. But thank you for the time today on The Navigator.

STEVE BAFFICO

Pleasure, Chuck.

The Navigator is a joint production of the Active Investment Company Alliance and MoneyLife with Chuck Jaffe. And yeah, that's me. You can find out about my hour-long weekday show by going to [MoneyLifeShow.com](https://www.MoneyLifeShow.com) or just search for it wherever you find your favorite podcasts. Now, to learn more about closed-end funds, interval funds, and business development companies, go to [AICAlliance.org](https://www.AICAlliance.org). It's the website for the Active Investment Company Alliance. Thanks to my guest, Steve Baffico. He's head of listed products and executive vice president at Bluerock, which runs the Bluerock Private Real Estate Fund, BPRE. Learn more about the firm and the fund at [Bluerock.com](https://www.Bluerock.com). The Navigator Podcast has something new for you every Friday, so plan to join us again next week for more closed-end fund fun. And until then, happy investing, everybody.

Steve Baffico is head of listed products and executive vice president at Bluerock, which runs the Bluerock Private Real Estate Fund, BPRE. Learn more about the fund and the firm at [Bluerock.com](https://www.Bluerock.com). Visit [AICAlliance.org](https://www.AICAlliance.org) for more on BDCs, closed-end funds, and interval funds.

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