

# General Session

## Why and How to Invest in Real Estate



**Paul J. Nasser**

Chief Financial Officer/Chief Operating Officer  
*Intercontinental Real Estate Corporation*

# TEXPERS Conference 2021

INTERCONTINENTAL

REAL ESTATE CORPORATION

Paul Nasser, CFO & COO

1. **Current Market Conditions &  
What Lies Ahead**
2. **Why and How to Invest in Real  
Estate**

## *“Current Market Conditions & What Lies Ahead”*



# Commercial Real Estate Outlook

- Market dislocations due to COVID-19 have hurt retail and hospitality the most among the property types
- Pricing discovery on a macro level challenges the commercial real estate market for the near and mid-term and continues to hold back transaction volume
- Levels of distress vary by market and property type and have been highly dependent on tenant credit quality
- Majority of distressed assets remain in workout with lenders and owners holding on for better times (for now)
- There is light at the end of the tunnel in the pandemic, but some owners and lenders will not be able to wait out the stress
- Some great buying opportunities will arise coming out of the pandemic

\*Any statements that are not historical facts are forward-looking statements that involve risks and uncertainties. Forward-looking statements are by their nature uncertain and actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. Therefore, reliance should not be placed on such forward-looking statements. The Fund nor the Manager assume responsibilities for the accuracy and completeness of these forward-looking statements or undertakes any objection to uphold or revise such forward-looking statements for any reason other than that hereof.

# Commercial Real Estate Vacancy Rates

	2020 Q4	Peak of Great Recession	Equilibrium Rate
Office	15.0%	16.8%	13 to 15%
Industrial	7.4%	14.6%	9 to 10%
Retail	9.4%	13.0%	9 to 10%
Multifamily	4.5%	7.4%	5 to 6%

*\*Equilibrium Rate is the rate which approximates a balanced leasing market in which neither landlords nor tenants hold more negotiating power. Vacancy below this rate generally implies a “landlord’s market” and vacancy above this rate implies a “tenant’s market”.*

Source: CBRE-EA

## Average Annual Rate of Growth

	Last 5 years	Next 5 years	Previous peak	Peak year
Office	1.9%	1.2%	11.7%	2000
Industrial	4.2%	3.8%	9.5%	2000
Retail	1.8%	0.6%	5.1%	1999
Multifamily	2.1%	2.7%	7.6%	2000

Source: CBRE-EA, CoStar, REIS

# Rent Growth Market Forecast

PROPERTY TYPE	FAVORED MARKETS
Office	Oakland, Raleigh, Riverside, Atlanta, Las Vegas, Miami, Nashville, Orlando, Sacramento, Jacksonville
Industrial	Phoenix, Long Island, Ventura, Atlanta, Baltimore, Dallas, Riverside, New York, Newark, Seattle
Retail	Raleigh, Atlanta, Austin, Denver, Fort Lauderdale, San Jose, Phoenix, Sacramento, Dallas, Houston
Multifamily	San Francisco, San Jose, New York, Oakland, Boston, Seattle, Austin, Washington, DC, Los Angeles, Chicago, Colorado Springs

Source: CBRE-EA

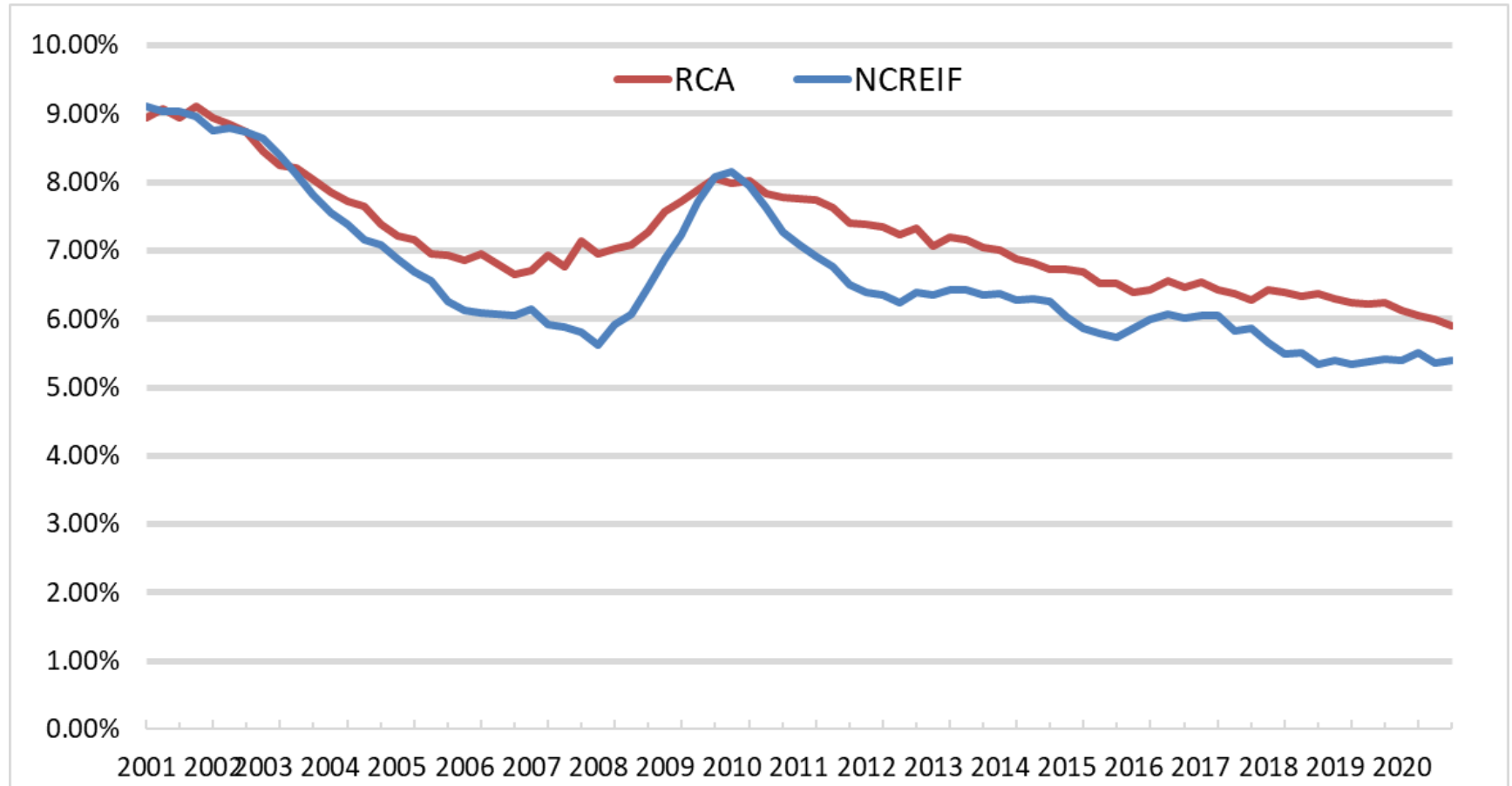
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# Today's Property Type Outlook

Property Type	Recommendation
Office	Neutral
Industrial	Buy
Multifamily	Buy
Retail	Neutral

# History of Capitalization Rates



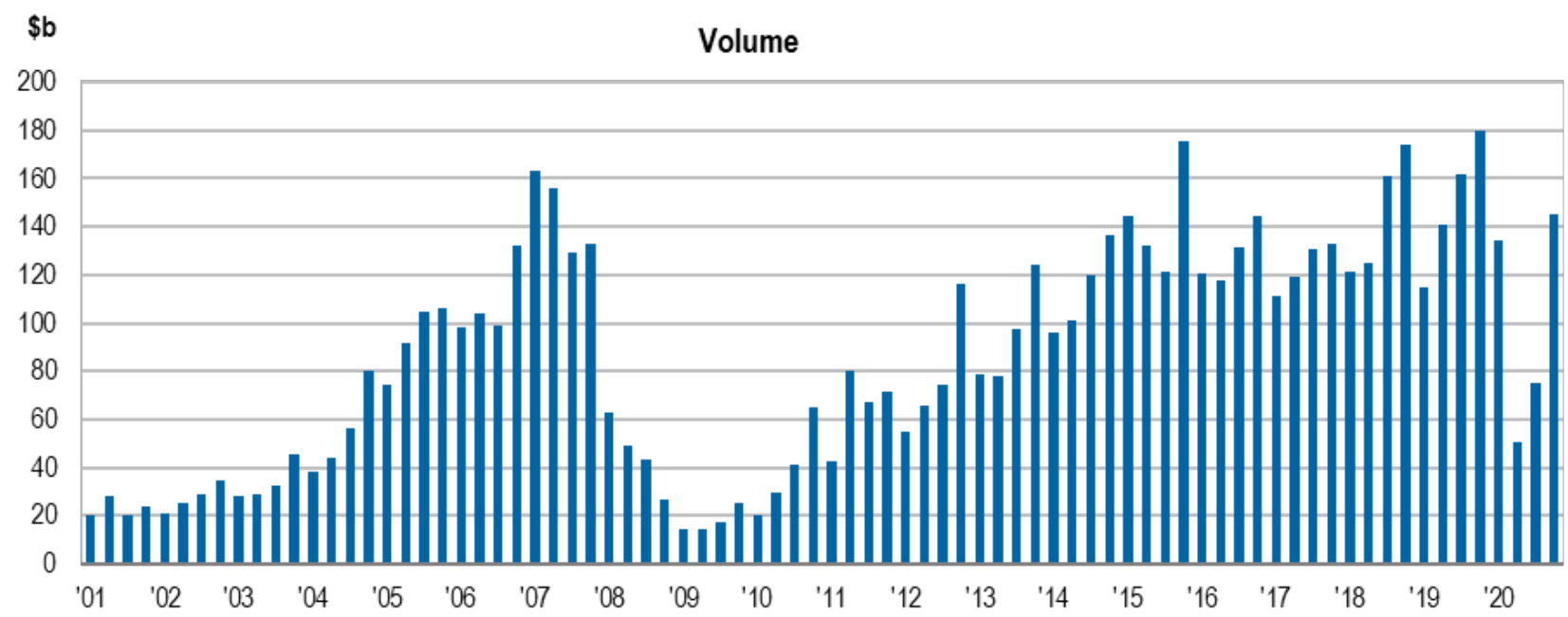
Sources: NCREIF, Real Capital Analytics

# Recent Cap Rate Movement

Property Type	Low Cap Rate Avg. Pre- Recession	Cap Rate Avg. at Peak of Recession (Q4 2009)	Q4 2020 Cap Rate Average	BPS Increase from Low to Peak (Q4 2009)	BPS Reduction from Peak to Q4 2020
Office	6.5% (Q2 '07)	8.9%	6.6%	+240 bps	(230 bps)
Industrial	6.8% (Q1 '07)	8.7%	6.0%	+190 bps	(270 bps)
Apartments	6.1% (Q4 '06)	7.0%	5.1%	+90 bps	(190 bps)
Retail	6.5% (Q2 '07)	8.2%	6.5%	+170 bps	(170 bps)
Total (All Property Types)	6.6% (Q4 '07)	7.9%	5.9%	+130 bps	(200 bps)

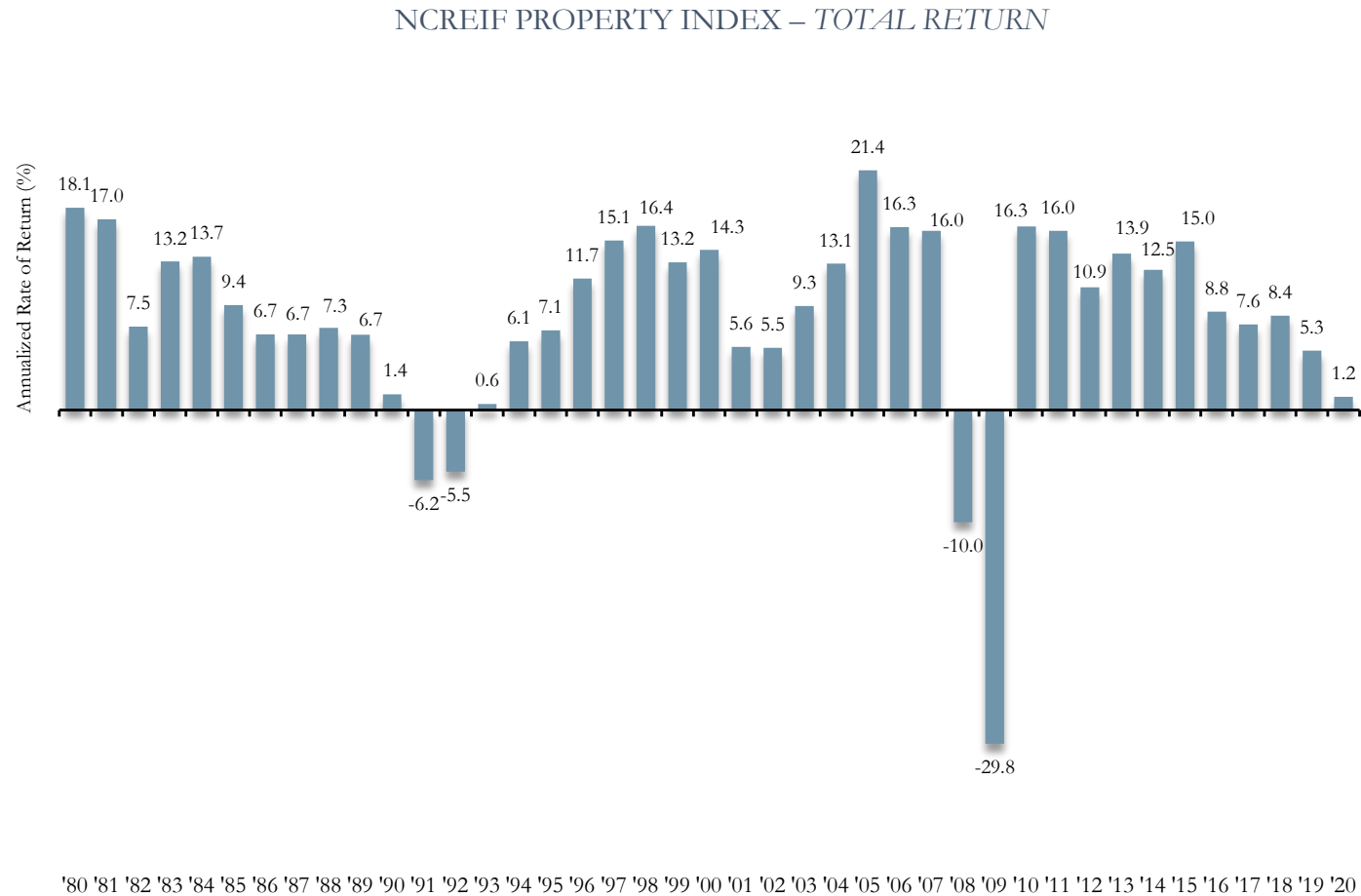
Source: Real Capital Analytics

# Quarterly Volume of Property Sales



Source: Real Capital Analytics

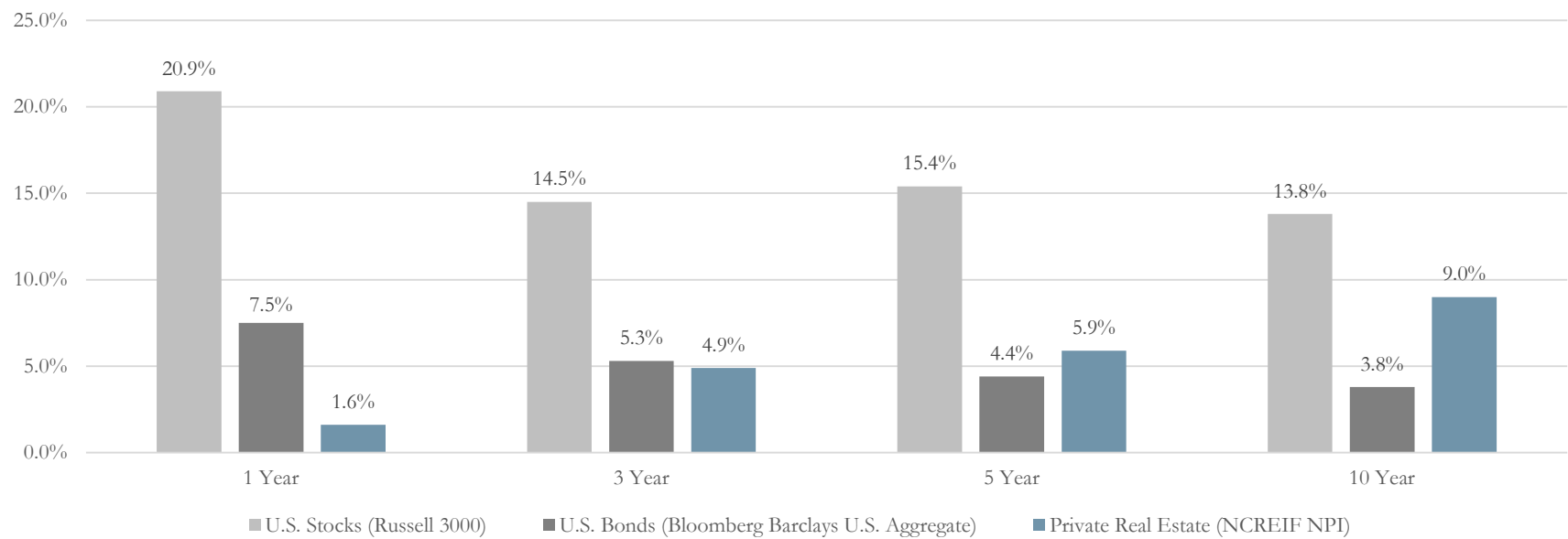
# Historical NCREIF Total Returns



Data as of 12/31/20

Source: NCREIF

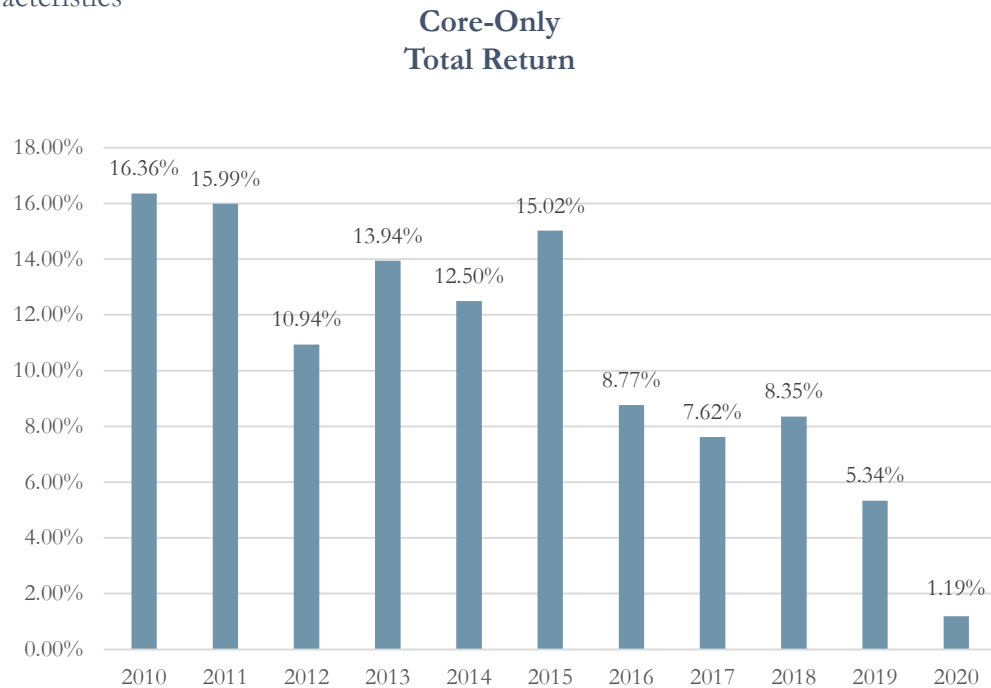
# U.S. Stocks vs. U.S. Bonds vs. Private Real Estate



Through 12/31/20  
Returns are annualized  
Source: DeMarche

# Core Real Estate Has Led the Way Out of the Recession, but.... What is most attractive today?

- “Flight to Quality” post recession (past 5+ years)
- Core real estate has enjoyed above average return over the past 3+ years (see below)
- As is typical out of a recession, Core-Plus has been slower to recover, but is now positioned to outperform for the near to mid-term
- Core-Plus funds positioned to invest new client commitments within one to two quarters providing exposure to today’s attractive market characteristics



Source: NFI-ODCE

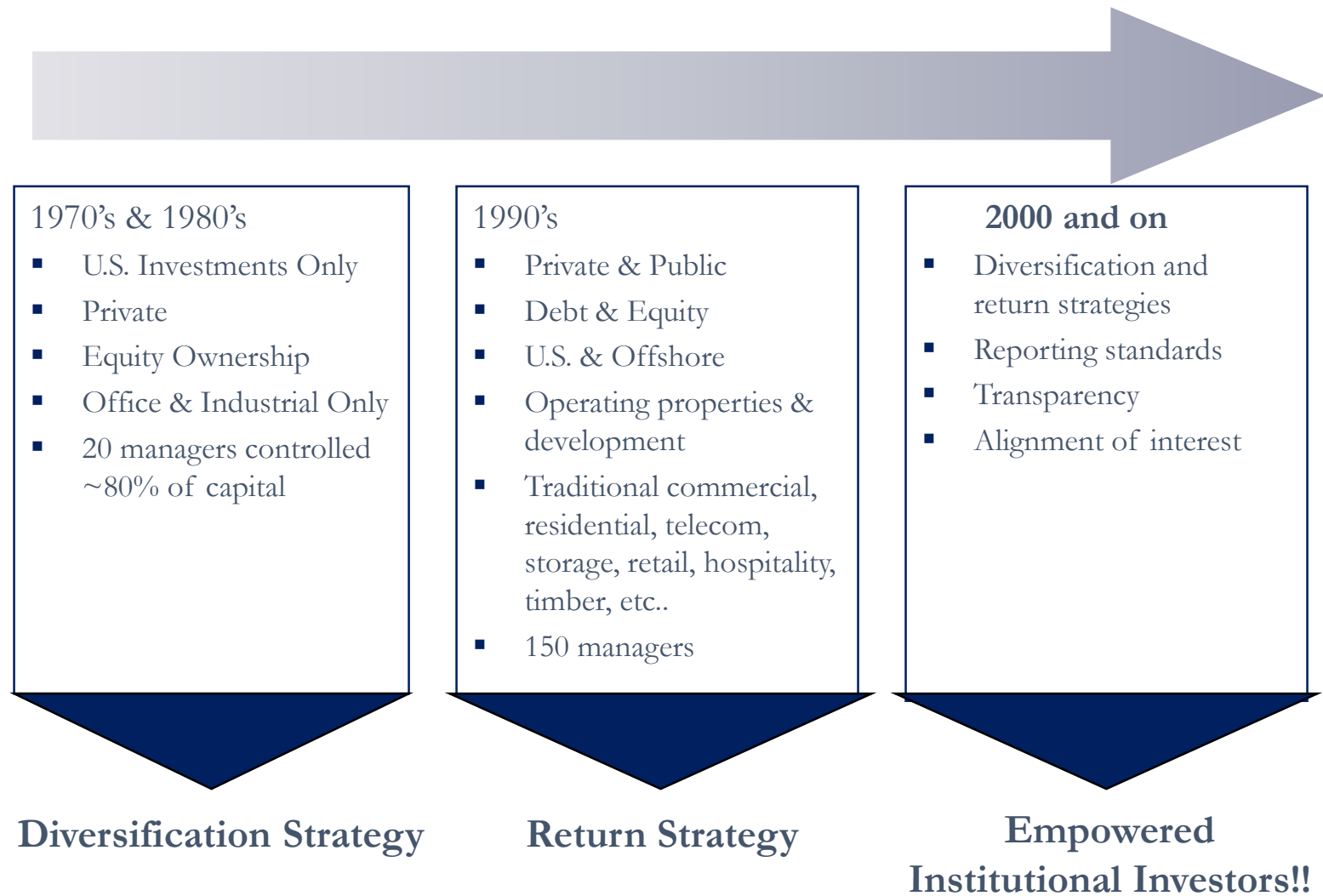
As of 12/31/20

## *“Why & How to Invest in Real Estate”*





# Changes in Pension Real Estate Investing



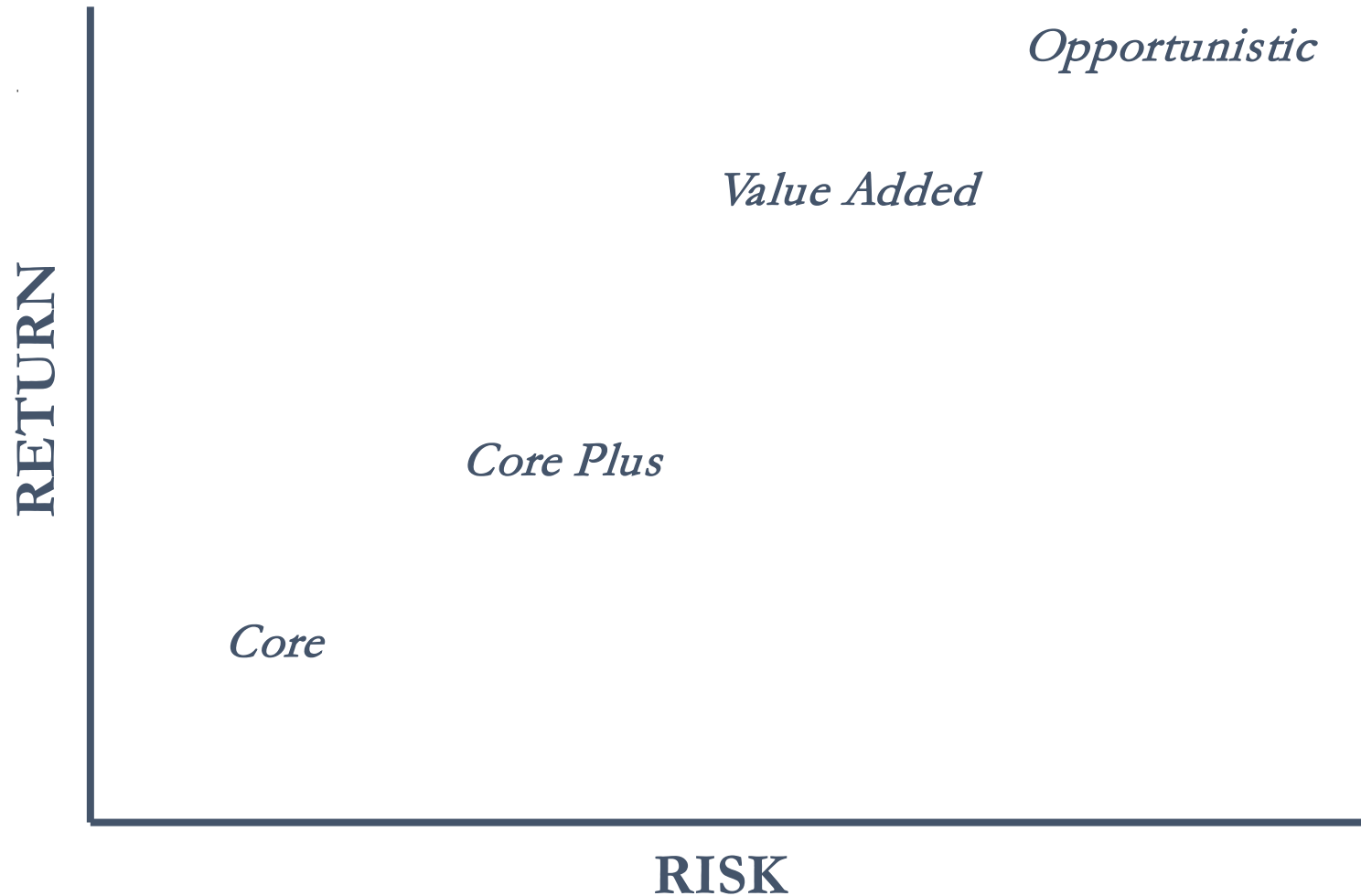
## General Concerns

- Lacks efficiency typical of traditional marketable securities
- Long term commitments
- Demands active due diligence
- Demands active management
- Lacks investible benchmark
- Lacks standardization of reporting
- Higher financial leverage
- Limited institutional history
- Illiquidity

## Benefits

- Illiquidity is attractive!
- Diversification reduces risk
- Manager specialization
- Extreme information advantages
- Induces appropriate long term behavior
- Value orientation
- Margin of safety
- Manager's side-by-side commitment
- Low correlation

# How to Invest in Real Estate-Spectrum of Risk and Return



# Core- Core Plus- Value Add

## *Canal Park, Cambridge, MA*



**Type:** Office, Core

**Size:** 426,651 sf

**Acquired:** May 9, 2016

**Purchase Price:** \$304,000,000

### **Investment Rational:**

- Opportunity to acquire three proven class A office buildings, that will provide stable and secure cash flow.
- The portfolio is leased to stable long term tenants, with contractual rent increases.
- Located in East Cambridge, directly across from the Charles River and Downtown Boston.

## *Alvista at The Bridge, Hayward, CA*



**Type:** Multifamily, Core Plus

**Size:** 544 units

**Acquired:** December 17, 2015

**Purchase Price:** \$156,000,000

### **Investment Rational:**

- Opportunity to acquire a Class B – East San Francisco Bay Area garden style apartment.
- Average occupancy rate from early 2012 to August 2015 is over 94% and projected to grow.
- Excellent proximity to regional transportation access points, major freeways, and retail.

## *The Key @ 12<sup>th</sup> Oakland, CA*



**Type:** Office-Development, Value Add

**Size:** 351,383 sf

**Acquired:** March 14, 2017

**Total Project Cost:** \$208,417,900

### **Investment Rational:**

- Opportunity to jointly develop, with Ellis Partners, a Class A, trophy office tower in Downtown Oakland, CA.
- San Francisco Bay Area has the 2<sup>nd</sup> largest economy in the West, where the office market benefits from a broad base of employment drivers.
- Located in the heart of Oakland's City Center district.

## Matrix of Decisions

- Private Equity vs. Public REITs
  - *if private: direct vs. commingled (“pooled”) vs. “REITs”*
  - *if public “REITs” focused strategy vs. diversified fund strategy*
- Open vs. Closed
  - *liquidity and term*
- Geographic focus
  - *Regional vs. national vs. international*
- Property type
  - *focus vs. diversified*
- Leverage

No answers, many choices



Discuss with consultants and fellow trustees

## Issues to Consider

### Public REITs

#### +’s

- Liquid
- 90% dividend

### ▪ Private REITs

#### +’s

- Diversification
- Income

### Vehicles

#### Direct (“separate account”)

- Controls
- Buy/sell discretion
- Staff burden
- Property type
- Geographic focus
- Partner / J.V. approach

#### Commingled (“pooled”)

- Manager discretion
- Partner / J.V. approach
- Term
- Alignment of interest
- Multiple properties
- Small dollars buys a lot of real estate (low minimums)

## Issues to Consider

- Own your own building?
- Local mandate
  - job creation
  - politics (housing stock, urban renewal, create tax base)
- Hard assets
  - visible, bricks and mortar you can touch, pride



## Closing Advice

- Manager selection is everything
- Determine strategy
- Scrub track record
- Measure alignment of interest

## Why “Now”

- Market recovery opportunity
- Space markets continue to improve, providing healthy income growth
- Attractive basis
- Reasonable and achievable underwriting assumptions

\*Past performance is not a guarantee of future results.

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## Paul Nasser

### Chief Financial Officer & Chief Operating Office

Paul J. Nasser is responsible for managing the firm's resources across investment and operating disciplines. As Chief Financial Officer and Chief Operating Officer of Intercontinental, he is a member of the Executive Committee, Investment Committee, Valuation Committee, and oversees Performance Reporting, Investor Relations, Accounting, Finance, Marketing, Human Resources, Technology and Administration.

Prior to joining Intercontinental in 2000, Paul Nasser was Senior Vice President and Team Leader in Fleet's Real Estate Finance Group handling a real estate portfolio of over \$1 billion. In this capacity, Mr. Nasser managed construction and acquisition loans, private placements, mezzanine debt, retail real estate, REITs and residential real estate development. Before joining Fleet in 1991, he held various senior management positions in the banking industry.

Active in many civic and charitable organizations, Mr. Nasser is on the Board of Directors of the Massachusetts Chapter of the National Association of Industrial and Office Properties (NAIOP); is on the Board of Directors for the Greater Boston Board of Real Estate Finance Association (REFA); and Mr. Nasser serves as the Vice Chairman for St. John's Preparatory School, Danvers, MA. Mr. Nasser holds memberships with the Treasurer's Club of Boston, National Council of Real Estate Investment Fiduciaries (NCREIF), National Association of Real Estate Investment Managers (NAREIM); and the Pension Real Estate Advisory (PREA). Mr. Nasser was the former Chairman of the Advisory Board for St. John the Evangelist School, former Chairman and President of the National Association of Industrial and Office Properties Massachusetts Chapter, former President of the Greater Boston Board of Real Estate Finance Association (REFA), former member of the National Board of Directors of the National Association of Industrial and Office Properties (NAIOP), and former member of the Board of Directors of Junior Achievement of Eastern Massachusetts. In 2015, Mr. Nasser was named the CFO of the Year for Midsize Private Companies by the Boston Business Journal. Mr. Nasser is a guest lecturer at the University of New Hampshire, Boston University and Roger Williams University.

Mr. Nasser received his BA in Urban Planning from the University of Rhode Island in 1983 and his MBA from Suffolk University in 1998



# Questions?





# Networking Lunch

*Promptly return at 1 p.m.*