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FIVE QUESTIONS

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Leading the way in a changing real estate market

RANDY GIRALDO
head of real estate, Europe

The real estate market has experienced its fair share of turbulence over the past decade or so, with technological development and macroeconomic turmoil causing huge shifts. Randy Giraldo, head of real estate for Europe at Nuveen, takes a look at the wider market and the changes that have taken place at his own organization over the past 20 years, including more diversified capital allocation and more specialized investment personnel.

What are the most significant changes you have seen happen in the private real estate industry over the past decade?

The most significant change has been an increase in the use of mobile devices and video conferencing technology, which drove the largest structural shift in sector demand that the modern real estate industry has seen.

This led to a significant amount of value destruction in the retail and office asset classes and a very large transfer of value to the industrial and residential sectors. Another effect has been the institutionalization of other niche sectors, such as self-storage, life sciences and data centers, to name a few. These sectors benefited from their own demand drivers, but also the spillover effect of capital flight from adversely impacted sectors.

Another change has been the increased specialization and segmentation of real estate capital. We have seen the rise of the 2.0 version of the non-traded REIT industry in the US and a significant increase in the amount of private real estate debt. In general, private capital has taken market share from public debt and equity.

In that context, how has your firm's approach to capital formation evolved over that period?

Our biggest change happened around 10 years ago when, after assessing the market in the US,

we decided the best way to outperform was to restructure our organization.

Before this, we were organized in a more traditional format of generalist acquisition and asset management personnel investing on behalf of diversified funds. We decided to segment our teams and funds by sector to aggressively recruit top talent. This strategy was driven by a belief that the market was going to increasingly demand this level of focus.

We have since globalized this change and implemented our sector model in Europe and Asia-Pacific, and we are pleased with the impact this has had on our performance and capital raising. It was a major structural shift and we have since seen the industry also moving in this direction.

Similarly, how has your firm's approach to dealmaking evolved?

Generally, our focused approach has increased our risk tolerance. That naturally comes with increased knowledge and access to information. We have increased our capabilities in value-add investing and now have a suite of products targeting higher yields complementing our core offerings globally.

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Our structure has increased the percentage of deals that are sourced off-market, and our hold periods have generally shortened. We also started to invest in more partnerships and operating platforms.

In general, real estate investors are increasingly looking to get straight to the source of value creation and it is our job to make sure our capabilities offer a compelling solution to investors.

And how has the composition of your team changed?

We have placed great emphasis on creating solid layers of tenure within our organization. Ten years ago, we were quite top heavy, though we now feel there is a clear succession plan throughout the organization. This took time, a dedicated recruitment process and maintaining our culture – which we are very proud of.

In Europe, we have added top talent in our value-add series and have filled some key leadership gaps in markets such as France and Germany. Our leadership team has an average tenure with the company of over 10 years, but also has lots of runway left.

What are the biggest risks for the industry today, and which risks should be monitored closely for the future?

While not our base case assumption, the biggest risk would be stagflation derived from de-globalization policies. We have to remember that real estate is the tail, not the dog, and is a highly interest-rate-dependent asset class. A stagflation scenario would hit major inputs to value growth and rates.

More broadly, any market forces hindering liquidity and capital flows to the sector would present a real risk. Recently, real estate has been something of a laggard relative to other investment sectors such as healthcare, technology, infrastructure and private credit.

Real estate owners can, at times, be an easy target from a political and regulatory perspective. Policies such as increases to real estate transfer taxes, imposing limitations on residential rent growth and overly complicated and onerous sustainability regulations create headwinds. Federal policies that promote isolationism and restrict foreign direct investment are all inhibitors to capital flows, and capital is the lifeblood of the real estate industry. ■