Podcast #1: Why Commercial Real Estate - David Skinner

Welcome to this very special edition DCREC Podcast Series. Sponsored by The Defined Contribution Real Estate Council. An organization passionate about providing American workers a financially secure retirement by investing in commercial real estate. And now here is today's host, Todd Schnick.

TODD: Good morning and welcome to this special edition DCREC briefing. I'm your host Todd Schnick. I'm joined this morning by David Skinner, a former co-president and executive board member with DCREC. Good morning David, how are you?

DAIVD: Good morning Todd, thanks for your time today. And on behalf of all the members of DCREC, I'm happy to join you.

TODD: I'm looking forward to this conversation Dave. Let's get right to it. So the purpose of this DCREC briefing David is to lead a discussion about how Defined Contribution plans can use and invest in commercial real estate. Now David, you and I both know not everyone understands why, and probably have not even considered this as an option. So let's get into it. Help us understand why commercial real estate.

DAVID: Well with an investable universe of $31 trillion, commercial real estate is the third largest asset plan behind stocks and bonds. And adds a significant size in investment opportunities both domestically and globally.

You look over the last 50 years, and probably beyond, the key institutional market including state and municipal pension plans, corporate pension plans, union pension plans, endowments and foundations, and various other retirement funds have viewed commercial real estate as a fundamental asset class from inclusion in the retirement savings plan.

Over time Todd, investing in commercial real estate has produces compelling risk adjust returns when compared to other asset classes. As well as great diversification benefits within a larger portfolio. Also if you stop and take a look at it, and just think about your own personal lives, commercial real estate surrounds us in our everyday life. Whether it's the apartments we live in, the office buildings we work in, even the malls we shop in. These are great examples of commercial real estate that work every day for every individual.

We share the belief with the institutional market participants that this large and distinct asset class should be incorporated in every diverse portfolio in the defined contribution market place.

TODD: You know David, you got me thinking there. And when I think about commercial real estate, I'm thinking of your traditional, corporate office campus right. Where you have all these mirrored buildings that look pretty with pretty lakes and landscapes and all that. But commercial real estate isn't just that. I mean, I myself live in a mid-rise apartment building. And just this morning I walked to the local grocery store. And you don't think of that as commercial real estate, you're right, ti's all around us.

DAVID: Just imagine if you're a participant in a DC plan, and your plan's investing in commercial real estate, there's a good chance that you might be investing in the building you live in, or the malls that you shop in. How neat is that for a participant to be able to walk with a colleague and say, "Hey I own a piece of this building."

Again, it's in our everyday lives and it's, again, the largest invest pool asset class behind stock and bonds. And it's something that we absolutely believe should be considered for most multi-asset class portfolios.

TODD: Well that makes an awful lot of sense. Now let's shift to the benefits. So what are the benefits of investing in commercial real estate?

DAVID: Well I'd like to say that one of the benefits is that, you know, you could be walking into a building and say you own it. But that's not really why you want to incorporate it into a portfolio. Commercial real estate investment provide a unique combination of investment attributes Todd. Including diversification, strong list of adjusted returns, strong income returns, lower volatility returns, and inflation characteristics.

So for example, commercial real estate has a low correlation to traditional stock and bond. Which contributes to portfolio diversification and can enhance risk adjustment returns and reduce exposure to the stock market volatility. The asset class also fits in nicely between stocks and bonds as it can deliver strong return like characteristic like stocks. But also offers stable, current income from contractual leases. Which are more characteristics of the bond market. So it kind of fits very nicely into a diverse portfolio of stocks and bonds.

When it comes to inflation Todd, commercial real estate generally moves in conjunction with inflation. As many of the leases and rents contain increase during their term, they move to the market rates as rates go up and inflation hits. Also market values for commercial properties generally track the cost to rebuild the same property. Therefore rising construction or labor cost, for example, help preserve the values of the properties. Both help provide a measure of inflation protection.

In summary, we believe commercial real estate is a fundamental asset class offering benefits such as increase diversification, low volatility, and strong income returns that everyone, not just large institution pension plans, should consider including within the retirement and savings plan.

Little food for thought as you go to the grocery store to shop the next time.

TODD: It's hard to argue about the diversification, lower volatility, and strong income return, that's obviously very much, as you said, food for thought.

All right well that's all the time that we have for this morning, this has been the DCREC briefing. On behalf of my guest David Skinner, a former co-president, and current executive board member of DCREC. I am Todd Schnick, we’ll see you next time on the DCREC briefing.