Podcast #2 - How Can DC Plan Sponsors Access Commercial Real Estate?

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 back to the special edition DCREC briefing. I'm your host Todd Schnick. I am joined again by my friend David Skinner. Former co-president and current executive board member of DCREC. Good morning David, how are you?

DAVID: Todd I'm doing great. Thanks for having me back for the nest series of questions.

TODD: Yeah, no I appreciate you making time to do it. So last time, David, we talked about why Defined Contribution plans should be using commercial real estate, and then we talked about the benefits on investing in commercial real estate. On today's show we're going to dive into this a little bit deeper. So let me tee off this conversation by asking, so how can a Defined Contribution plan sponsor access, actually access, commercial real estate?

DAVID: Todd that's a good questions. And a question we're frequently asked by plan sponsors. Especially those who are not familiar with commercial real estate. And commercial real estate can be accessed through both the private and public markets via different platforms. Including direct property investments, unlisted property funds, and listed real estate securities including rates.

How real estate can be incorporated into a diversified investment portfolio really depends on each investors risk tolerance, their time horizon for investing, as well as their liquidity needs. Both types, listed and unlisted real estate offer more term diversification benefits. Both offer a little different outcome generate benefits. So listed real estate security like rates are generally used in portfolios where investors have longer investment time horizons, a higher tolerance for volatility, and a need of the higher absolute returns.

Whereas private real estates, through direct property ownership, can be used by investors who are seeking to reduce volatility returns within their own investment portfolio. And really help increase the overall diversification of that portfolio.

TODD: We talked last week about how important it is. So okay, I'm better understanding how a plan sponsor can access real estate. But let's go a step further David and help me understand how a Defined Contribution plan sponsor can incorporate real estate into their plan.

DAVID: Right, well let's start off with listed real estate securities first. It can be added as a stand-alone to the plan menu. It can also be included in an outcome driven structure such as global growth structures, real asset, or inflation strategies, as well as within target day funds and missed day funds.

An investment in direct real estate, where your money is actually buying the properties themselves, it's a great way to add diversification for a target date, risk space fund, inflation protection strategy, or real asset fund.

Additionally in case you're using a blended strategy between the two structures, can be made for investments to take advantage of combining the complimentary attributes of direct real estate and listed real estate securities to diversify the real estate allocations.

For examples, some target day fund managers, may choose to have a higher allocation to listed real estate securities, or lease, at the front end of their guide path, but leaving total return prospects of long term enabled participants to have enough time to recover short term market corrections and high volatility.

Conversely, those same target day managers may choose to allocate more to private real estate as plan participants move further down the guide path and closer to retirement. To dampen, volatility and enhance downside protection.

In summary, we believe all plan sponsors should consider adding commercial real estate to their retirement plan savings for all the reasons mentioned above. How they implement this investment structure will really be depended on the investors risk tolerance, their time horizon, and liquidity needs. But overall both structures could fit into the plan, and should fit in, based on what's important and the outcomes that a plan sponsor is seeking.

TODD: All right, good stuff. And David, as I suspect, as our DCREC briefing continues to evolve, we'll go deeper into all of these subject. So that's all the time 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'm a Todd Schnick, we'll see you next time on the DCREC Briefing.