



Griffin's Anderson Sees Broad Opportunities, Solid Trends In Real Estate Friday, June 4, 2021

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Randy Anderson, chief executive officer at GC Asset Management and portfolio manager for the Griffin Capital Institutional Access Real Estate fund. Read the Q & A below as Randy says that the bad headlines the real estate market got during the coronavirus pandemic have not materialized as expected, at least with institutional real estate (high quality properties/investable markets), noting that the market has largely recovered and are now showing new opportunities ahead. That said,



Randy Anderson

he noted that there will be heightened volatility, which is countered particularly well by interval funds, which themselves have limited liquidity helping shareholders ride out the bumps.

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CHUCK JAFFE: Randy Anderson, chief executive officer at GC Asset Management is here, and we're talking real estate investing now on The NAVigator. Welcome to 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's brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for

excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it's pointing me in the direction of Randy Anderson, he's the chief executive officer at GC Asset Management, which is part of Griffin Capital and he's portfolio manager for the Griffin Institutional Access Real Estate fund, which if you're looking to follow at home is GRIFX. If you want to learn more about the firm and what it does, GriffinCapital.com is the website. If you're looking to learn more about closed-end funds, interval funds, business-development companies and more, go to AICAlliance.org, the website for the Active Investment Company Alliance. Randy Anderson, thanks for joining me on The NAVigator.

RANDY ANDERSON: Oh, I'm glad to do it, Chuck. I'm delighted to be The NAVigator. You guys provide some great insights and information in our space.

CHUCK JAFFE: And of course I gave out a five-letter ticker symbol, GRIFX for the fund, but for those who don't know, Griffin Institutional Access Real Estate is a closed-end fund, it functions as an interval fund. And we're going to cover that in a bit because that's kind of secondary. First it's real estate. Real estate has been one of the most discussed asset classes, because while technology got a lot of the headlines in Covid-19 times, the truth is real estate may be changing more than any place else as we evolve coming out of it. So where are you right now in terms of real estate and what a post-Covid recovery is going to look like?

RANDY ANDERSON: You know, it's really interesting in real estate. Real estate got a lot of bad headlines during the pandemic. Every day you'd wake up and you'd say, listen, everybody's going to just work from home. If you're going to work from home, then people are buying stocks to be riding your bicycle on Peloton or any of the online platforms like Teams or Zoom in order to continue that work-from-home environment. You also heard a whole bunch of information that nobody was going to pay their rent, nobody was going to go shopping again, and certainly nobody was going to go to hotels. To kind of level set all that out, the truth is that occupancy rates remained very strong, above their 20-year average throughout the downturn for institutional real estate. Institutional real estate is high-quality real estate in high-quality investable markets, if you will. Collections were certainly down in a couple asset types. We saw a few collection hits particularly in the retail sector and the hotel sector, which have largely recovered. The real estate market is actually in very, very good shape. And some sectors actually have benefitted from the pandemic and have moved forward, some sectors have now recovered, and there's other that are still a little bit unclear.

So what sectors are really hot and doing well? Well, first of all, industrial. Everybody, Chuck, as you know, have talked about the whole idea of the last mile of delivery. Instead of going out to your local Macy's and picking up your shirt, and I guess we weren't picking up shoes or pants, we were buying I guess shorts for a while we were doing our Zoom meetings, but people are having all those things delivered. By the time we even get done with this interview today, I'll probably have four or five more boxes sitting at our door. So industrial has just really been booming and we're seeing huge NOI growth and the returns on industrial were actually higher last year than they were the previous year. So it's benefitting and there's more demand to come. On the multi-family side, multi-family has historically always been the best performing asset during economic downturns because it's defensive, it's a substitute for housing. The truth is, going into the pandemic the supply and demand fundamentals were great. Right now there's more people in their prime renting years that are living at home since the Great Depression. Single family housing, I mean you see the housing prices, they're going through the roof and so we're seeing just a tremendous amount of absorption on the multi-family side. So multi-family did well and it's actually accelerating as we go into '21 and '22. And I would say the third category that did really well in the pandemic and continues to do well is life sciences, which is really the intersection of technology and biology. And if you can be the landlord to that growing part of the economy you've done really well. But challenges of course still remain on the retail side. Now some retail's thriving. I recently moved back to Orlando and you go up to the Mall at Millenia, it's the main mall in the area, and you can't find a place to park. People are spending money, they're buying, it's an experiential retail and people just can't wait to get out, so that's doing well. But you go to the second tier mall and you literally could drive your car through it because there's nobody there. So it's kind of a have and have not market. The supermarkets are working again. So here in Florida the Publix are the big supermarket. If you're in a Publix-anchored supermarket, you've got good inline tenants, some of them have good restaurants and good things that make for an experience, those are doing really well. But if you're just big-box retail where you can just get a commodity delivered to your house, that's here to stay and that's not going away. But there's going to be some opportunities in well-located retail, however it did suffer a lot during the pandemic and still has that technology headwind. I think the biggest question mark that people are having out there really is in the office sector, which is

because this idea of work-from-home. And when people ask me if it's here to stay or not here to stay, I would tell you it's a little bit of both. You think about customer facing, client-facing workers, you've got to be in the office. You think about young or up and coming workers that are trying to grow in their career, trying to indoctrinate a culture, a feeling of the company, and even just to grow your career and networking. So say you're working in New York, back in the old days that was the right place to be. You get out of your Goldman Sachs job, you go meet somebody from Credit Suisse, you go meet somebody from Barclays, that's how you build networks, that's how you build connections, and how you build your career, you can't replicate that via Zoom meetings. So I listen to all the seniors coming out of high school, there's still record applications at NYU and Columbia, same for business schools on the other side of it, so the idea of New York and cities being dead and offices being dead is not true. On the same token, we are going to see some more flexibility in the workforce. Maybe we've got a three, kind of two-day where you're in the office three days, you're at home two days, or maybe four, maybe one. And certainly since office is such an expensive part of running a business, if you aren't customer facing and your job now has successfully able to be completed at home, a corporation can really reduce its cost of operations and increase the bottom line by having some of those workers work permanently from home. So from an office point of view I think it's going to be really bifurcated by the tenant type, the tenant mix, and I think the office market's going to struggle for a while to really gain its footing.

CHUCK JAFFE: Does an interval fund have a bit of an advantage when you're looking at those kinds of struggles and that kind of a market because you're not facing the daily need to face redemptions? Because you have the structure that allows you to play a little bit of a longer game, is this a market that favors this strategy?

RANDY ANDERSON: I would say yes for a couple of reasons. Number one, you don't have to worry about providing liquidity on a day-by-day basis, you can take a little bit longer view. So people tend to, when things are selling off, they tend to sell off themselves and that's actually the time to lean into the investments where you get your best investment opportunity. So while the stock and bond market were running last year and there was all this bad headlines on real estate, we saw REITs as a really attractive opportunity back in Q3 and Q4 of last year, and that was the time where we really started to lean into that market, buying assets in the public market sometimes at 20, 30, 40% discounts to their underlying

value, and not being forced to have to sell on a daily basis allows you to do that. But the interval fund structure's also helpful in this whole concept of work from home, which is really an active management issue. Before the pandemic was there anything wrong with owning an office building in New York and San Francisco? Well, most institutional investors would have said no. Those markets were tight, they were performing well, there was good rent growth, there really wasn't any excess supply. But what if you bought all those buildings there? What if you held a bunch of those direct assets? All of a sudden now you're worried that your rents aren't going to pick up, you're worried that you're going to have to put too many concessions on the market. What do you do? Well, if you hold a direct asset itself, you've got to put that asset for sale, you've got to incur all the marketing costs, and you've got to sell it into weakness. You never want to be selling into weakness. When you're in an interval fund structure, because we're a 40 Act vehicle, when we own interest in private assets, we hold them in private REIT structures or securities if you will. So what we did during that time period was we actually sold off \$550 million of private securities, many of which had assets of office and retail, and then we redeployed those in securities that were specific to our high conviction themes of multi-family, industrial, and life sciences, and also some real estate debt vehicles that were really defensive. I could do that because all's we had to do was sell our securities back to the underlying sponsor relative to selling the whole building, which would be really tough to do and execute in a market where for at least a while it was a low level of transaction volume and you certainly wouldn't want to be selling one of those assets during that time period.

CHUCK JAFFE: When it comes to real estate right now and generating yield in this environment where rates are changing and inflation is coming, what worries you?

RANDY ANDERSON: Everything worries me. We're definitely in the business of risk management, but real estate doesn't worry me. That's when real estate performs well as long as real estate supply and demand are in good balance. We've got strong demand because we've got strong GDP growth which creates jobs and demand for real estate. We're not seeing any new supply, construction costs are going through the rough, just take a little peek at lumber and you can see those things aren't really coming into play. So existing core real estate does really well when you have inflation, but inflation has to be coming because you have that strong economic growth, and that's what we're seeing today. Real estate tends to

be a very good hedge against inflation. Rents are a price and inflation allows those rent prices to grow, it keeps supply out of the market, and generally speaking real estate provides a very strong hedge against inflation and performs really well at the beginning of a cycle. Also you mentioned yields and looking for yield, right now you can't find it really anywhere, so there's a lot of demand for those existing real estate assets from a capital flow point of view. You go buy AG bonds, you're looking at a 1.5% yield out there and you've got six years of duration, that's not going to work out so well. That's going to end up being a negative real coupon with the very possibility of losing principal as rates rise and bond prices fall. On the same token you're seeing real estate really perform. In fact, if you look at what's happened to AG bond year-to-date, it's actually down and real estate's strongly up, and that's a trend to likely continue as rates rise, the economy grows, and we start to see inflation creeping in.

CHUCK JAFFE: Randy, great stuff. Thank you so much for joining me on The NAVigator.

RANDY ANDERSON: I really enjoyed it, Chuck. Thanks for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Randy Anderson, chief executive officer at GC Asset Management, portfolio manager of the Griffin Institutional Access Real Estate Fund, that's ticker GRIFX and you can go to GriffinCapital.com for more information. The NAVigator podcast is new every Friday, follow along on your favorite podcast app and come back next week to learn more about investing with closed-end funds. Until then, happy investing!

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