Bert Crouch

Episode 227: Navigating Real Estate Market Dislocation with Invesco's Bert Crouch

GUEST Q & A

Stewart: Welcome to another edition of the insuranceAUM.com podcast. My name's Stewart Foley, I'll be your host. We have got a very popular topic for you today. It is real estate, which was one of the top five topics as voted on by the registrants of our recent symposium. And we're joined today by Bert Crouch, Head of North America at Invesco Real Estate. Bert, man, thanks for coming on. Thanks for taking the time and I'm waiting for a really good education on real estate today, so thanks for being on.

Bert: Yeah, Stewart, thanks for having us. It's always great to be a guest and team up with you and your podcast.

Stewart: The idea for us to do podcasts, Invesco was at the very forefront of that way back in March of 2020, when we first started, and we just crossed over something on the order of 75,000 downloads. So, it's great to have you on, and this is, I think, the ninth podcast that Invesco has done with us and we appreciate the partnership and look forward to the education today. So good stuff.

Bert: And congrats on all the success. That's fantastic.

Stewart: It's fun. I will tell you that as I said, everyone, it's your job to be professor for a day here. But I want to start this off the way we always do, which is where did you grow up, your hometown? And what was your first job, not the fancy one?

Bert: Yeah, so I'm actually a Dallasite, born and bred, before it was cool. I was reading in the Journal earlier this week that's being deemed the new Wall Street of the South. I'm not sure we're quite there yet, but it has come a long, long way. I lived in San Francisco a little bit in my professional career and in New York as well, but I've been in Dallas really since I had my first of three children. And then, on the work front, it was a little illegal back in the day, but I started at 14 years old working at Subway as a sandwich artiste, so a little young for the labor laws, but I snuck in there and I was promoted to assistant GM my first summer there. So, I was going into high school and I got to open the store. I loved it because I graduated to the register by the end of the summer, so baby steps, but fun to get a first legit paycheck.

Stewart: I can completely relate to that, because I started at McDonald's, and I'm 6'2" and I had on 30-inch inseam pants, so I had about 6 inches of white socks showing, and I was on the quarter pound grill at McDonald's. And then you move over to the regular meat grill, and then you ultimately move up to the front, in the counter, if you can be nice to the customers and get the money right. And then if you're fast, they put you in the drive-through, so I can relate to that progression. I never got close to management at McDonald's, but I can definitely relate.

So your career, you joined Invesco Real Estate in 2009, which is a minute or two ago. Give us the background on Invesco Real Estate, a snapshot of all what you do, and also, if you can, give us a little bit of history on the evolution since you joined there.

Bert: Yeah, so we're actually really excited about celebrating our 40th anniversary this year. So, we were established in the mid-80's, really before the institutionalization, Stewart, for commercial real estate investment management. So it was wild times back then. And when you fast-forward to today, we've got 21 offices, 16 countries, so 5 here domestically, 8 and 8 in EMEA and APAC respectively. Our firm has grown in large part organically, to almost $90 billion of assets under management, and domestically the US is our flagship, with just under $50 billion of AUM.

So, you're right. I joined in the middle of the global financial crisis. Again, going back to my earlier comment, whether it was mid-80's and creeping up on what was going to be SNL, or when I joined, which was really in the depths of the post-Lehman debacle, that was the global financial crisis I was hired into... And it's really a good segue, unintentionally, into what I think in part we're going to discuss today, which is all things real estate credit. The capital markets were completely dislocated, we were obviously in a recession. And my job was to come in, we were raising a new vehicle to buy distressed commercial real estate, and that's what we did. In 2010, 2011 and 2012 my job was marrying up our real estate just on the ground, bottom-up sticks and bricks expertise, with all things capital structure.

So that was loan modifications, extensions, workouts, foreclosures, deed in lieu, and then what ultimately became our credit business of today. We've since 2011 done $19 billion of originations. We figured out that as a non-bank lender we could be much more flexible and fill a much needed void in the market in floating rate bridge loans. And so, we started doing that for various clients, and then ultimately ramped it into what it is today. So, my role evolved through that, I was the portfolio manager for the opportunistic strategies, for our credit strategies, and then ultimately when the head of North America retired at the end of 2019, you'll love this, Stewart, you know how much God loves you when your first day as Head of North America's January 1st, 2020. I had no idea what was ahead of me there, so it's been a trial by fire since.

Stewart: Wow. So you mentioned this term 'deed in lieu', and I don't know what that means, so could you unpack that? Just that one term please for us? Because we have a lot of people listening to the podcast like it's education for them, and so I think it's a good time for us to unpack that if you can.

Bert: Well, the great thing about the insurance industry and the investment experts that run it, in large part your audience, they're very well-versed in all things commercial mortgages, and that's all that is. It's a term related to that. So, if a loan is underperforming, or non-performing, so it's not paying its debt service, or it's matured and hasn't paid off on time, it would be in default. And when a loan's in default, there are a handful of options. You can get paid down, modify that loan, extend that loan, or you can exercise what are called your remedies, and that's your legal recourse against that borrower to, at a minimum, take back the property. And there's two ways to do that.

You could either foreclose, that would be, there's two ways to do that, judicial and non-judicial, that's state-specific foreclosure laws. The other way to go about that would be to do what's called take a deed in lieu, and what I didn't say, which was in brackets, deed in lieu of foreclosure. So, that would be basically an amicable situation, which is in large part happening today with office properties, where the owner of the office property is saying, "Look, I'm way underwater, man. There's no path here forward, and I'm not going to make you go through the time, effort, or expense to legally foreclose. I'm just going to give you the keys, if you will, back. And I will do with a deed, I'm going to hand you the deed of trust of that property in lieu of foreclosure."

Stewart: Thank you. That's super helpful. So, we had a panel at our symposium on real estate, and it appears that it's office and everything else. So can you give us an idea of where we are today with transactions activity and valuations? Is price discovery still going on? Are the media headlines representative of what is actually going on in the markets' real-time?

Bert: Yeah, a lot to unpack there. I'll try to take them in order, and just stop me and delve further where helpful or insightful, but transaction volume first question. Before the pandemic, so what I would call a normalized run rate of domestic transaction volume, defined as buying and sellings, arms length, institutional transactions, that was running about $500 billion. And the monetary, policy-fueled excess liquidity environment of 2021, 2022, that jumped all the way up to $700. And if you look at the run rate now, so what I'd call post capital markets dislocation, we're somewhere in the $300 billion-ish run rate. And I'm using rough numbers, just to give your audience context. So, if we were up, call it, 40% at the peak, we're now down about 60% from that, and about 40% from the run rate.

Stewart: Is that per year, and is it purchases? This is transactions of real estate top line.

Bert: That's right. The gross sale price, if you will, of an institutional quality asset. We're not getting into an owner user, or a smaller sub, call it $50 million or sub-$25 million asset. Everything above that would be included.

Stewart: And so, if I've got that right though, you're talking about from pre-pandemic to today, we're down about 40%. Is that right? From $500, we went up to $700, and back down to $300?

Bert: You got it.

Stewart: All the way around. Okay. All right, good.

Bert: Rough numbers, and again, we're just trying to provide context. There's a lot of nuance in that, breaking down property types, breaking down regions. Obviously, if I were to break down the Sun Belt that is very popular right now, or single family rental, or industrial, that would fare infinitely better than, let's say, something like Northwest US office. So, you would see dramatically different deltas in those percentages, probably wider than we've ever seen before, given how in favor or out of favor certain asset classes are. But the rough directional numbers that you gave are spot on.

And the only thing that I was going to add, just for your audience, because everyone likes to equate this back to, okay, but in the last downturn, in the last dislocation, how does this compare? And if you inflation adjust the $300 billion-ish run rate today, relative to the tech wreck, so 2001, or the global financial crisis in 2009, we're at a 2 or 3 times respectively, multiple of that. So, my simple takeaway, or punchline there, is while transaction volume is way off, it's still materially higher than it has been in previous downturns.

Stewart: That's helpful, really helpful.

Bert: So, we can talk valuations. You want to hit that next?

Stewart: Absolutely, yeah.

Bert: So, let's just keep it super simple. So two ways to look at valuations. One is spot valuations, which I would call transactional, or what we would call in real estate 'comp-driven'. So where you've got a comparable sale, what does that look like? And then appraisal based. And the latter is much more heavily scrutinized in the press, getting to your third question, are the sensationalist headlines right?

And the fundamental question is, do real estate investment fiduciary, do we have valuations right? And it's a tough question to answer. But let's start with the former. If you look at Green Street, or Real Capital Analytics, those are two popular indices, those have recently bottomed out peak to trough, so peak was March of 2022, so first quarter of 2022, that was... Sorry, peak valuation to trough, which was really in the last month or two, that's down about 22%.

And what's happened of late that is important from a psychological standpoint is we saw the first uptick in valuations in each of those indexes. So, from March to April, we saw the RCA go up about 10 basis points, Green Street from April to May, about 70 basis. So, it's really important to feel like we've hit the bottom and now we might be bouncing off of it from a valuation standpoint. So, where I can buy an asset in the market today, there is a FOMO aspect of that, a fear of missing out, should I be leaning in today? Which I can get to later, to the extent we get into convictions.

On the other side of it, on the appraisal side, it just lags a little bit, because appraisals are based on comps, and comps are less available today than what they had been in the past, given the transaction volumes. So, they're focused on discounted cashflow models and other areas that are just harder to pinpoint and slimmer to move. And so those are down now approaching, they were down about 3% last quarter, so about a quarter lag to the spot indices, and are now down about 20%. The expectation is there's still some more room to run there, but it feels, Stewart, like we're getting close, and that is very important to most from an investment standpoint.

Stewart: Yeah. That makes total sense. And it's interesting that interest rates have had a big impact on real estate markets, but can you focus on what do the fundamentals look like across the different sectors?

Bert: Yeah, happy to. And I think there's a way to break this down categorically, three ways. One is the outperformers today. What are those asset classes and why? Ironically, and this might surprise your audience, retail is cover off the ball at the moment. 20 year low in vacancy, historically it runs about 9% vacant today at 6.5%, because the better part of the last decade when e-commerce really hit, we were over retail per capita here, especially relative to Europe, there was a rightsize of retailers footprints, the number of stores that they had, and the rent that they were paying. And that's played out. There has been no new development and that rightsizing has happened, and e-commerce has recognized the omnichannel is important. It's important to have that brick and mortar store in addition to that last mile delivery. So, we've seen retail really flourish.

Single family rental has held in incredibly well. Affordability has never been worse on buying, so people want to rent, and we're under supplied, so you see sub-4% vacancy there. Medical office, demographics, the US baby boomers are getting old, they need that care and they get it in the MOB, the medical office sector. So, those have had fairly inelastic demand, and or they're seeing tightening vacancy.

On the other end of the barbell, office. I don't need to tell you, other than to say your earlier question, are the headlines right? Look, office is talked about a lot, and in large part it's not that far off base. You've got five and a half billion square feet of inventory, 15% of that is best in class, the rest is somewhere in the middle to obsolete. We're seeing vacancy approaching 20%, and expenses rising, and the cost of tenant improvements rising as well. So, that's the other end of the spectrum.

And then everything else is somewhere in the middle. And in the middle I would use apartments as a good case in point. So, when you think about multifamily, right now, it's benefiting from the affordability point, the under-supply of housing in this country that I mentioned, but there was a lot of it that was launched for new development in 2021 and 2022. All of that's delivering now, there's an oversupply, and rents have come off. And there's this interim period where insurance expenses are up, labor expenses are up, taxes are up, debt service is up, and rents have plateaued or slightly downed. So, there is some stress in the system for apartments. That said, most expect with the new supply tailing off significantly, and the fundamental trends, my points about affordability and housing shortage playing out in late 2025 through 2026 and beyond, going really, really well. And when you put all that together, to end that comment, Stewart, and you compare it to the listed real assets market, so publicly traded real estate investment trusts, you can see that.

So the best-in-class assets, most in-demand: data centers, they're trading at a 10% premium to NAV, and they're trading at a five three cap rate. That's the best fundamentals we've seen. AI has just taken that to the moon and back. When you look at things like multi, apartments, that's trading at a slight discounted net asset value, but a cap rate... And a capitalization rate, for your audience, I think most people know this, it's just the inverse of a price to earnings ratio. So, just flip it. Public reach are trading at an average in the lowest sixes, and apartments are trading in the mid to high-fives, and that's wide of where they're trading in the private sector, going to your question about price discovery. So, you see a lot of trends that are consistent fundamentals to valuations, and there's no better place to look than the public markets first, and the private market second.

Stewart: So, speaking of sectors, it didn't seem like it was that long ago that there were four or five main property sectors, but that's expanded significantly, and you've touched on several in your comments so far. Can you walk us through that evolution and what specialty... You mentioned data centers, I've heard that kind of consistently, that that's an area of just straight up growth. And is there a way that you think an asset owner should be thinking about incorporating these alternative sectors into an existing real estate program?

Bert: Yeah, it was amazing seeing what the pandemic did to pull demand forward for what you called specialty sectors, or what others would call non-traditional. We were already moving, Stewart, in that direction, meaning adding more and more of the non-traditional sectors to our portfolios, given the capital flows as a result of the tailwinds and the fundamentals. But gosh, COVID just took that to a completely ‘nother level. So to put some context around it, 10 years ago for private institutional real estate, there were four major sectors, and this is somewhat obvious, but industrial, retail, multifamily and office. That was 97% of the index. Fast-forward to today, that's fallen to 86%. Or let me flip it to the inverse. Non-traditionals have gone from 3% to 14%. Now it sounds like a huge jump, because it is. But when you think about it relative to listed real assets, again, public reads, that's well over 50%, approaching 60%.

So, what we are seeing and experiencing real-time is not only, like I said, the fundamentals materially improving in non-traditionals, but in two of the majors. So, office was second, retail was first, there was an outflow of capital to those sectors institutionally, a focus on downsizing those relative to their overall portfolios. So, it's fundamentals and non-traditionals being good, but it's also needing to reallocate dollars away from sectors where they feel like the fundamentals are weakening and the capital demand is significantly lessening.

So, as we look forward, NPI, this is the major index that governs institutional real estate, it's NCRIEF, which is basically the fiduciary's index for our world; it recently expanded from having those four majors plus hotels, to having eight majors, and then under that 30 plus different sub-property types. So, I'll wrap this up and just say now not only do we want to invest in these sectors, do we have to invest in these sectors, given the deprioritization of office and to a lesser extent retail, but the third piece is we can now track it.

So, we are judged on performance. My primary objective when I wake up in the morning and go to bed at night is outperforming for our clients, whatever those KPIs are, whatever those key performance indicators are derived by them. And I can now track the alpha I generate, because NPI has expanded that index. So, when I'm looking at self storage, I'm looking at medical office, data center, senior living, student housing, I can go in there and dissect. I have now invested X percent in this, Y percent in that, and I'm overweight the index, and I'm generating a resulting alpha. That is super important to driving flows, which drives performance.

Stewart: That's super helpful. Let me ask you a little bit about insurers' holdings. So, insurers, particularly life and annuity carriers, hold a significant amount of commercial mortgage loans, something on the order of $700 billion. Can you give us an update on the state of the lending markets, and the opportunity for non-bank lenders like Invesco, in insurance companies? And just a little editorializing here, but it seems like it's particularly well-suited, given the nature of a lot of insurance companies' liability structures.

Bert: Yeah, I think that's right. So the dislocation, and this is a really nuanced time, at least in my 25-year career I've never seen... And what I mean by that is what normally would happen in a dislocation is you have a recession that drives it, and so the Fed would immediately, through monetary stimulus and then the government to a lesser extent through fiscal stimulus, would try to drive demand forward to take us out of a recession. And a big part of doing that would be to increase the money supply and drop interest rates. So, cost to capital lower, amount of money and the related velocity higher. And the irony here is we had a pandemic that drove that stimulus, that drove inflation, and then that was combated by trying to pull monetary policy in tighter rates higher, and that drove a dislocation in the broader capital markets, which drove spreads wider.

What's the punchline there? Why does your audience care? Because I've never in my career seen spreads wide. So, by spreads I mean when I'm originating a new loan, the spread at which I'm originating that over, and the majority of loans that I do are floating rate bridge loans, the majority from an asset liability matching standpoint of your audience is largely fixed, but neither here nor there. The spread is wider and the base rates are wider, whether it's the 10-year treasury, which has fallen significantly of late, or in my world, SOFR, which is the replacement for LIBOR, the secured overnight financing rate, either way you've got wide base rates and wide spreads. So, it's a best of both worlds environment. Answer your question earlier, where are the capital markets for commercial real estate? People don't realize how big of a market it is. It's $5.7 trillion.

So, when you think about equities and fixed income, you think about $8 to $13 trillion, depending on how you look at domestically, or total real estate values domestically or internationally, the commercial mortgage market is massive. And when you break that down further, to keep it super simple, half of it is held by banks, and the residual is life companies, commercial mortgage backed securities, so it's just tranched in securitized loans, and then non-bank lenders. When you think about non-bank lenders in our market share, 10 years ago we were probably less than 5%, in 2022 we had risen to 15%. I'd argue today we're at least 25%. At most, whether you're a money center bank, and definitely on the regional banks as defined by asset size of a $100 billion to $250, they are overweight commercial mortgages.

And whether it's the OCC, the Office of the Comptroller of the Currency, the FDIC you know, or just Wall Street, if you're publicly traded, you want to decrease that. So, at most we see bank lenders wanting to keep their exposure to real estate flat, that's best case. Most want to take it down, because they're dealing with stress in their portfolio and/or they're getting flagged from their credit officer, their regulator or their public investors. That's created a real opportunity for us. It's honestly the best I've seen in my career.

Stewart: That whole logic flow makes good sense to me. It just does, all the way around. So, can you talk a little bit, and it was super helpful too, to get the comparison of the size of this market versus stocks and bonds. It's a comparison I've never heard before, and I think it helps me get it straight in my own head too, so how in your mind does real estate credit compare to other credit slash fixed income alternatives?

Bert: The short answer is ‘well’, but let me break that down real quick. So when you think about free money today, so money market is going to be in the low fives. You're going to have BBB corporates probably in the mid-fives and up. Spreads have come way in there, and then seeing treasuries come down into the low fours is driving that tighter and tighter by the day. You're going to have high yield, if you will, in the eight-ish percent total return range. And then BBB commercial mortgage backed securities, probably, depending on how you look at loss adjusting those yields, high single digits to 10%. And REIT unsecureds, that's going to be in the mid-fives. So, that's a good lay of the land. You're going to have free money at fives, the widest it's going to be 10%, but I'd say most in that 5.5% to 8% range.

And so then you think, "Okay, so what are we doing to drive value, and how does it fit into a portfolio?" The average we've done, Invesco Real Estate, my group's done about a billion of loans so far this year, and it's a backup the truck from our perspective, because we're creating a solution for our best borrowers, they're in desperate need of financing. We look at credit in a credit over yield mantra, and that should be very consistent with how your audience looks at it. We don't believe in stretching for yielding credit. There's no upside. You have got to stem volatility and minimize losses in every way possible. And so, when we do that we're making 65% as is loan to value loans today, arms length values, meaning most of those have the valuations are down anywhere from 10% to 25%, and then we're lending at a 35% discount, or cushion to that. Three year floating rate at SOFR, which is mid-fives right now, percent, 300 over.

So, that's an unlevered eight and a half. And then what we're able to do is use warehouse financing on top of that, to the extent that that strategy makes sense for a particular client or strategy, and generate a low double-digits cash on cash floating rate. So, why is that attractive?

Well, one, it's inflation-adjusted by definition because it's SOFR based.

Two, we feel like from a NAV perspective, net asset value, your equity, there's minimal volatility because it's a floating rate instrument, and we're at a 35% discount to today's values.

Third, when you put those two things together, the Sharpe ratio is very high, minimal volatility, nominal loss is consistently high return, so it fits very well risk adjusted.

And then fourth, when you think about efficient frontier, and you're stepping back and looking at it and say, "All right, well, but I already have alts in my portfolio, I have real estate equity." The correlation is 0.11 to real estate equity. You say, "I have direct lending, private credit in my portfolio." That's the highest correlation of 0.21. The rest are basically 0.0 or 0.1. So, very limited correlation to other asset classes, so it fits pretty well. And most are underallocated to the asset class. So we love the cash on cash, we love the optionality. Let's say the market improves markedly, and these loans start to pay off, well you would just cycle that capital if you wanted into real estate equity. Or another more total return asset class, but if inflation stays sticky, you stick with it. Or what we would typically recommend is you do a complimentary strategy with a little bit of both.

Stewart: Interesting. So, given your global real estate footprint, how do the real estate markets overseas, Europe, UK, Asia, compare to the US market, and are there important nuances, or cyclical factors to consider there?

Bert: Yeah. So again, it's a big question, I'll try to answer it as to the point as I can. So, when you think about just overall size, the US is the biggest by far, that's no surprise to your audience. But it's actually more overweight than even logic would dictate it. Call it, of the overall global value of real estate, and again, that number is $13 plus trillion, the US is 45%-ish of that. If you look at transaction volume, we're over 50% on a normalized basis.

So, more than our fair share of value and transaction volume, and that's really a result of a number of things. The US markets are more sophisticated structurally, capital markets, and accordingly, if you look at fundamentals and the various options, in the US, meaning the asset classes, we've already touched on that, it's a deeper bench and a more stable currency. So, you see a lot of that international capital wants to be invested domestically, strong fundamentals, more inelastic economy and a deeper bench of options. Not to, again, mention the US dollar exposure, we have benefited from that for the better part of 50 plus years in real estate.

Your question on the cyclicality of it and asset classes, it's funny, when we think about apartments in the US, that is a fairly new asset class, globally. It's accepted in Germany, it's ramping in the UK, in Denmark, but in large part otherwise it's still fairly new. When you get into things like manufactured housing, medical office and even data centers, these are areas that are burgeoning, whereas in the US it's fairly deep. And the same is true for the capital markets. Securitization is not nearly as structured and sophisticated outside of the US, nor is, again, your audience, whether it's life company lending, or non-bank lending, neither has the depth and breadth of capabilities that we do here. So, what does that mean? US, I told you banks are 50%, in Europe, it's usually, depending on the market, 75% to 90%. And I'd say the same thing is generally true in Asia-Pac.

Stewart: That's super helpful. So, risk is top of mind for insurers when it comes to real estate. You could say that that's the case for any asset class for that matter. In your opinion, what are the biggest risks in the private real estate market right now, and how are you managing them?

Bert: Yeah, look, and I hate to state the obvious side of the gate, but the biggest risk out there is always the one you can't see, per the Black Swan Theory. So you and I, whatever I tell you here will be wrong, whether it's 6, 9, 12 months from now, something will surprise us. But that aside, I would tell you where I struggle the most is hearing colleagues in the industry, in our peer set, say they're hoping for a soft or no landing scenario. And I would argue the opposite. I think it's one of the bigger risks. If inflation stays semi-sticky, the economy remains... In this I'm talking domestically, remains generally strong. So starting with employment, if you think about the Fed, Federal Reserve's dual mandate, inflation and employment, if inflation's semi-sticky and concerning, the last thing that the Fed chair wants is inflation to pop up again after he cuts rates.

So, you would see rates stay high, the curves stay flat, and that's going to be really tough on real estate and the related fundamentals. It's going to keep lenders on the sidelines, it's going to make leverage and financing not accretive, the vast majority of investors domestically are levered buyers, and it's going to keep that uncertainty high and valuations challenged. So, I would tell you that the real estate market needs one of two things, either demand to take off, or more likely there to be a larger... And again, it doesn't have to be a significant recession, but something that drives rates, not back to 0% or 1% where they've been for the better part of a decade and a half, but to a more normalized range. If you look at the forward curve for the Fed Funds Rate, that would be in the high 2% range.

If we could just get back there, and the market feel comfortable with inflation and growth, nothing outsized on either front, that would be really good for real estate, because you would see that sentiment change. I told you valuations have largely bottomed out. The stock market just hit a new all time high earlier today, so denominator effect is strong. Meaning with the equity market up, that's where the majority of investors' wealth is. They are underweight real estate, so they want to allocate, and if they can do that with leverage that is accretive, that would drive real estate values.

Stewart: Very cool. So, looking ahead, investors seem to be coming back to the market in certain strategies. Where are you seeing the most interest? And how do you see these trends evolving over the next couple of months?

Bert: Yeah, our top idea, top conviction, as I said earlier, is real estate credit. It's best of both worlds environment right now, it's where we're seeing the most interest. Because you don't have to be right to be right. And all I mean by that is you don't have to predict the bottom in values, you don't have to predict whether we're going to be in a recession tomorrow or never, you don't have to predict inflation, whether it goes up, down or the Fed's forward curve, because you benefit in any of those scenarios. So, it inflation adjusts, it's all current income, and it's insulated from capital loss and NAV volatility, net asset value volatility. So, that's our top idea right now, we're leaning in hard, given that there's 26% less active lenders, so we can pick the collateral quality, the institutional borrowers are there, and the structure is right.

So, that's number one. Number two I would tell you is we, from a core plus standpoint, a lot of people want to lean into deep distress and opportunistic, and we like that strategy, but it's harder to scale, it's inherently more volatile, and we just haven't seen the level of stress distress, at least in property sectors and regions that we're leaning into from a fundamental standpoint.

But on the core plus side, there's a dearth of capital there right now and we think that risk is mis-priced. If you look back to 2001 or 2009, if you leaned in right about the time where values troughed, which again is plus or minus now, we could argue whether that's 3, 6, 9 months, we don't have to be right, we're long-term investors and convicted in the space. If you did that in 2001, 2009, you generated respectively a 15% and 14% five-year, unlevered return. So, that's an area that if you're like us and you have a portfolio of, let's call it 335 properties, a 100 different markets in 140 million square feet, you're using data, strategic analytics to understand those fundamentals where you want to invest, and you're able to lean in when others are leaning out, I would tell you that's attractive. So, we were saying right now, number one conviction, lean in floating rate, core plus credit, with a tight second being core plus equity. Pick your spots, and be ready to lean in further as the market continues to improve.

Stewart: I have gotten a great education today. I really appreciate it, Bert. I've got a couple of fun ones for you out the door, if you're willing. One is, you've been doing this for a minute, what advice would you give a 25-year-old Bert Crouch about the real estate market, the investment market, the asset management business, or whatever? There's other people, there's young people who listen to these podcasts, and I love the opportunity to give them some great advice, so what can you share with them?

Bert: Yeah, I'd say two things. Embrace the cycle and embrace the change. So, cycles are coming now more consistently and more quickly than ever. So if you look back, 2001 to 2009, you've got 8 years. 2009 to the pandemic, you've got 11. Suddenly you've got the pandemic, then you've got monetary stim... I've never seen a whipsaw 2020 to 2021, and then the dislocation that we're feeling now that feels like it's gone on even longer than the 18 to 24 months, depending on how you define it, that it's happened and we don't know when it's going to end.

So, I would tell you, when I sit down with younger investment professionals, that's the first... When I say, "Gosh, I'm anxious about where we are and where we're going." I try to flip it and say, "Use this as an opportunity to really learn and embrace that." Because the lessons learned, as an organization, not just myself, we keep track of that very, very closely, it's the old history doesn't repeat itself, it rhymes, so do mistakes. And the one thing that you can never do in my profession, as a fiduciary driven daily by out-performance, is make the same mistake twice.

And so, even though these cycles are happening more volatilely, more quickly, at the end of the day, there's inherent messages and lessons that you can take out them. So, as the industry's evolving and change is happening, embrace that and learn from it.

Stewart: I love it. All right, so here's the second one. We got a lunch table of up to four people, including you. So you can bring three people, you can have just one. Who would you most like to have lunch with, alive or dead?
Bert: Oh yeah. So, I got to expand it to four, because I've actually thought about this more than I'm willing to admit.
Stewart: All right, this is good. I'm happy about it.

Bert: My dad and I debate this all the time. I love it. And I've got my kids involved.

Stewart: Oh, that's great. Oh, great.

Bert: It's great. I love the, "And deceased." Because that just really opens it wide up. But I would say John Lennon, Margaret Thatcher, Abe Lincoln, and Willie Mays.

Stewart: Wow, you have thought this through.

Bert: Yes, I have. Again, I'm constantly subbing people in and out-

Stewart: Of course.

Bert: ... and thinking about Willie Mays is a sub in, I've learned more about him in the last 48 hours and, man, to say that what he accomplished in life and in his career is just wild. It's so impressive on so many levels. And you try to take personal and politics out of it to an extent, and just look at what they were trying to drive, whether it's, again, Margaret Thatcher, Abe Lincoln, or John Lennon, there's a lot that you can disagree with, but when you think about what fundamentally drove them and you think about sitting around a table and that... I always try to think about the interplay between them.

Stewart: Oh yeah.

Bert: Times, regions, background. It would be fascinating. Fly on the wall, I can't imagine what you'd learn over dinner and a cocktail.

Stewart: Yeah, I think showing Abe Lincoln your smartphone would be amazing. You go, "Hey, Google Abe Lincoln, check this out."

Bert: Fair enough.

Stewart: Right?

Bert: Fair enough.

Stewart: It's very cool. So, we've been joined today by Bert Crouch, who's the Head of North America at Invesco Real Estate. Bert, thanks for taking the time. I've gotten a great education and it's been great to get to know you.

Bert: Hey, thanks so much, Stewart. Really enjoyed it.

Stewart: Thanks for listening. If you have ideas for podcasts, please shoot me a note at stewart@insuranceaum.com. Please rate us, like us, and review us on Apple Podcast, Spotify, Google Play, Amazon, wherever you listen to your favorite shows. My name's Stewart Foley, see you again next time. Thank you for listening.