Barings Real Estate

Investing in properties designed to thrive in a post-COVID economy

Geoffrey Dohrmann, Institutional Real Estate, Inc.'s president and CEO, recently spoke with **John Ockerbloom,** managing director and co-head of U.S. real estate, equity and debt, and **Joe Gorin,** managing director and head of U.S. real estate equity acquisition & portfolio management, of Barings Real Estate.

Tell us about your background and how it led to your current roles.

John Ockerbloom: I joined Barings two years ago after a 20-year career in investment banking with a handful of different firms — Bank of America, Wachovia, Jefferies. While I was always in the real estate sector, I was focused on corporate and strategic transactions for real estate companies, spanning all manner of traditional property types and roles. I was a lawyer in private practice before getting into banking, working on real estate transactions in that capacity. So I have had a long career in real estate. I knew coming in that having a longstanding, highly accomplished investor by my side was critically important, and that leads us to Joe Gorin.

Joe Gorin: I have been a real estate investor going on 27 years. I started as one of the early employees at Cornerstone Properties — no relation to the MassMutual-owned Cornerstone, which eventually became Barings Real Estate. The Cornerstone team I joined formed out of a business that was originally owned by Deutsche Bank. We took Cornerstone public on the New York Stock Exchange, and lo and behold, we built it into a $4.5 billion company, which we ended up merging into Equity Office. Like John, I got the opportunity to gain experience across multiple functions, most notably in asset management and acquisitions. I joined Equity Office in the 1999 merger and was there until we sold to Blackstone in 2007. After a two-year stint with GE Capital, I jumped into the private equity side of the business and was a principal with Rockwood Capital for seven years, after which I joined Goldman Sachs to co-head their private equity real estate business from 2015 to 2020. I don't think there is a better place than Goldman to teach you about managing a business and thinking two to three steps ahead. Taking everything I have learned in the holistic experience of 27 years and applying it to Barings has been a great gift.

What did you see as the big opportunity with the Barings platform?

Ockerbloom: We have every tool we could hope for that we can bring to bear on behalf of investors. We have an outstanding balance sheet and support from our corporate parent, MassMutual. We have a 25-year history in the real estate investment management business. As of March 31, we have $11 billion of equity in the United States, more than $3.5 billion in equity in Europe, and a debt book of more than $31 billion, so we have a very significant footprint globally. We have incredibly strong access to data, and we have a great infrastructure to build upon. All of that made this an outstanding opportunity for me.

Gorin: Barings is part of a new evolution of real estate investor. We are young, we're exciting, and we are a vertically integrated real estate investment platform with experienced real estate professionals, and we can do almost anything, from ground-up development through adaptive reuse and income repositioning. We've developed life science, we've developed multi-phased projects such as the build out of Boston's Fan Pier district, we've done deals all around the United States.

COVID-19 has had a profound impact in the U.S. real estate market. Where do you see the greatest opportunities today?

Ockerbloom: We see outstanding opportunities in life science and specialized office. We think there will be a huge divergence of outcome in office, and that is intriguing to us as active managers. Our focus is on office in cities that are heavily influenced by science and technology and markets that are enjoying strong population growth and strong STEM employment growth. We favor offices that foster collaboration, that are well amenitized and that are tools for attraction and retention of talent. Beyond that, we continue to invest pretty heavily in residential, and we are spending time in hospitality, as well. There are great opportunities on a look-forward basis, but asset picking is going to be more at a premium in the forward period than it has been in the past two years.

Gorin: COVID-19 only accelerated a lot of emerging trends that were afoot ahead of the pandemic. In real estate there's been a push toward specialization in all product types, driven in a large part by innovation and convergences across the technology spectrum, whether it's the rethinking of bricks-and-mortar retail as a result of the impacts of ecommerce, or where and how to locate and densify industrial space, such as the introduction of multi-level industrial development in the core markets. With regard to office, there's a major shift away from commodity space and higher value creation around office that can be utilized by employers to attract and retain a growing skilled services workforce. Remote working has only magnified these trends, but our platform had already been laser focused on these new trends that are accelerating. The skilled workforce has also started to migrate into higher growth and exciting amenitized secondary markets throughout the Sun Belt and Pacific Northwest. This workforce is more innovative than any of its predecessors and has the ability to transform smaller secondary markets into more dynamic and economically important "emerging core markets," as I like to call them. It is no surprise we're now seeing critically important blue-chip companies follow these accelerating demographic trends as they expand into new and exciting markets.

What is attracting the skilled workforce to those markets?

Gorin: No. 1, affordability. Look how expensive San Francisco and Boston have become. Technology has made the world flat — you can live and work almost anywhere now. Dallas is booming, Raleigh is becoming a hub for tech innovation, Google is expanding in Boulder; there's a life sciences explosion in San Diego. Charlotte, where our headquarters is located, is attracting an innovative population of graduates from Duke and the strong schools located throughout the Carolinas. Ambitious and highly educated folks don't have to move to Boston or San Francisco to achieve professional fulfillment. They can live, work and play in markets like Charlotte and have a better quality of life. As the larger tech companies expand into these markets, it creates a build-up of innovation and the added potential of organic growth within these markets. We've also done some proprietary research that proves that markets that can attract an increasing larger percentage of STEM-related jobs tend to substantially outperform pricing benchmarks from a real estate value perspective. The key is to invest in those markets that are hitting the metrics for the first time.

What do you mean by specialized?

Gorin: Life sciences is the easiest example. You can't replicate it anywhere else because the office requires higher levels of recycled air and exhaust outflow, critical floor loads to house machinery and protect against vibrations from sound and movement, larger elevator cores and cabs to move supplies and machinery. There is also another area of specialization in office, which relates to the importance of office as a critical means to foster collaboration and, ultimately, innovation. A large portion of tech or, for that matter, any company looking to attract and retain a highly skilled and innovative workforce values office as a "specialized" tool to brand its culture and compete for talent. COVID-19 hasn't hastened the end of the office building, but it certainly has forced us to emphasize what is "special" about office. There will be more losers than winners but, in my view, those offices that offer uniquely attractive office environments via creative and adaptive designs will be the big winners coming out of the pandemic. Whatever we do in office these days needs to have specialized elements that attract innovative and dynamic companies. As examples of our real-time efforts, we're developing an office tower in downtown Raleigh, one of the fastest-growing tech markets, that is 50 percent pre-leased to a cloud-computing company, and has all the features and efficiencies of new construction. We're converting a class A office building in downtown San Diego to life sciences. The last deal we just closed on will be either a large tech or life sciences conversion in South San Francisco, and in the path of growth of the burgeoning San Francisco region's life sciences cluster.

Barings has also had experience in the hospitality sector, right?

Ockerbloom: We actually just raised a pocket of capital to invest in hotel building on our long history of specialization in the sector. We have approved our first deal in that vehicle, and we have a strong pipeline of opportunities in front of us. The pandemic obviously had a massive impact on the hotel sector, and assets struggled from a performance standpoint, particularly in the early stages of the pandemic. Our portfolio and our pipeline are focused on leisure-oriented hospitality, and that has enjoyed a very strong recovery.

How about deal sourcing? Joe, you are responsible now for the acquisition side of the business.

Gorin: I don't know if deal sourcing is going to change. Real estate is still a relationship business. You have to know where to hunt and what to hunt for and have creativity and vision, but after that, it amounts to relationships. The institutional backdrop of Barings with MassMutual brings a lot to bear, and we are uniquely combined with our debt business, so we are able to foster deep relationships. Fostering these relationships wins jump balls and even provides the off-market opportunity.

What else does MassMutual bring to the table that translates to an opportunity for your third-party clients?

Ockerbloom: The size and scope of what we manage for MassMutual benefits our clients in tangible and intangible ways, allowing alignment with our clients, whether through seed investment in new funds or in individual asset transactions. The sheer scale of our work with MassMutual allows us to maintain considerable resources we utilize for the benefit of third-party clients. This includes internal teams dedicated to research, engineering, insurance and risks — which are considerable. They provide breadth of coverage for our entire client universe.

Investors really are creating greater demands on their investment managers to meet certain requirements with respect to ESG.

Ockerbloom: Barings has long been committed to ESG. Our GRESB ratings for the vehicles rated by GRESB are extremely high. We expect ESG to be a growing influence on how we invest, primarily because it is important to our investors, and ultimately we are conduits for our investors. Considering climate change or sea-level rise, there are assets that will be affected over long periods of time, and that's how we have to think. We want to be focused on ESG considerations that produce results rather than those that merely check a box. The good news is that there is great synergy between sound ESG and good investing. In fact, we see the two of these as practically indistinguishable. The most important thing with ESG is a sense of common responsibility. It is everyone's responsibility, starting with Joe and me, because ultimately being a sound ESG investor is just being a sound real estate investor.

Gorin: We need to think outside the box — not just on the E, but what are we doing on the social side of the business? What are we doing on governance? How are we prioritizing diversity across teams at all levels of the business? We have ESG mandates that begin at the earliest phase of a transaction. And it's not just within our organization; we also need to demand that our criteria is followed by our counterparts — including property management representatives, development contractors, outside consultants and the list goes on. We are challenging every single person who is attached to every decision that is made within our portfolio to think about ESG to ensure that it becomes a part of our collective vernacular. It can't just be a bunch of checklists.

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COMPANY OVERVIEW

Barings Real Estate (BRE) offers a broad range of global investment opportunities across the private debt and equity investment markets. BRE invests in all major property sectors and offers an expansive range of financing solutions to real estate borrowers. Barings Real Estate is a part of Barings LLC, a registered investment adviser. Barings is a $382 billion (as of June 30, 2021) global investment manager sourcing differentiated opportunities and building long-term portfolios across public and private fixed-income, real estate and specialist equity markets. With investment professionals based in North America, Europe and Asia Pacific, the firm, a subsidiary of MassMutual, aims to serve its clients, communities and employees, and is committed to sustainable practices and responsible investment.