KEYNOTE INTERVIEW

Why it pays to see a fuller picture

Exposure to public and private equity and debt grants perspective, say John Murray, managing director, global private real estate, PIMCO, and Francois Trausch, CEO and CIO, PIMCO Prime Real Estate

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Q What were your firm's key events in 2023?

Being a long-term investor in both real estate equity and debt gave us a very good perspective in 2023. We have been less active on the equity side but have seen good relative value in credit in both Europe and the US, with opportunities continuing to be chosen on a select, disciplined basis.

Given our broad capabilities and technical expertise, we have sought to provide solutions to clients across the capital stack via structuring in an effort to generate the best relative value. This has included the use of tools such as data analytics to help optimize outcomes.

We have also focused attention on helping manage assets through the downturn, looking to limit the valuation impact through, for example, upgrading and redeveloping buildings.

Q What has the operating environment been like?

There has been a lack of capital across all four quadrants of commercial real estate. On the financing side, we see this from many traditional sources, such as banks, commercial mortgage-backed securities lenders, debt funds and mortgage REITs.

Refinancings will also likely remain a dominant theme looking forward. As such, it has been a particularly attractive time to be a solutions provider given the broad pressures in the market.

Generally, we think it is very important to maintain strong relationships with partners to successfully navigate the environment, build a healthy pipeline and execute new loans. Our global network has given us good differentiation in this regard.

Q What key challenges did you have to overcome?

The dramatic rise and volatility in rates over the past two years has created one of the most dislocated environments since the global financial crisis. It represented a material challenge to all players in the real estate sector, particularly with regards to new investments and planned sales.

But it is a great testament to the strength of our business model, global teams and market capabilities that we have managed to overcome these and focus on growth and adding value where we can.

Q Who or what is responsible for your success?

Being an investor in both public and private equity and debt has provided a very helpful perspective, allowing us to utilize the expertise of our global teams across scenarios and clients.

Data quality and analytics have remained fundamental to delivering stakeholder value and insights. We complement our approach with many high-quality analytical tools when we assess corporate public and private debt. For example, we leverage our analytics to include the implied option-adjusted spreads embedded in various parts of the capital structure.

In Europe, continued support for all stakeholders in terms of sustainability has also been a differentiating factor for us. Far from becoming less important, we have seen strong demand for market-leading solutions – and our size and expertise helps give us a competitive advantage in this space.

Lastly, our highly active exposure in the markets where we lend gives us real-time information that informs our bottom-up credit views versus relying on borrower and broker information. This has helped navigate the volatility more effectively. ■