Sponsor Interview
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Institutional Real Estate Americas

Invesco Real Estate

Adjusting fund series' strategies for the COVID-19 marketplace

Jonathan A. Schein, senior vice president and managing director of global business development for Institutional Real Estate, Inc., spoke with **Max Swango,** managing director, global head of client portfolio management, and **Brooks Monroe,** managing director, client portfolio management, of Invesco Real Estate. Following is an excerpt of that conversation.

You each have a fairly long tenure with Invesco. Is that right?

Max Swango: Yes, I joined Invesco Real Estate in 1988 on the investments side and for the past 20 years have been running the investor side of the business, globally.

Brooks Monroe: And I have been at Invesco for 13 years. I am one of the managing directors on our North American client portfolio management team and previously worked in portfolio management, product management, research and valuations/underwriting.

How has the high-return space evolved during your careers at Invesco?

Swango: We have been investing in value-add/opportunistic opportunities for 28 years. For the first 13 years of that 28-year period, these investments were executed with separate-account clients, individually and through co-investments. Since 2005, the majority of our activity has been through our series of U.S. value-add/opportunistic funds. Over the past 28 years, we have invested about $20 billion in value-add/opportunistic opportunities. In the past five years, we have averaged $1.8 billion a year. Investing higher up the risk-return spectrum is fundamental to Invesco Real Estate.

There are very few firms in the world that have value-add/opportunistic fund strategies in the United States, Asia and Europe. We have 70 institutional clients who invest in more than one strategy with us. They are taking advantage of "doing more with fewer" managers. They expect excellent performance, with a fiduciary mindset, executed in a fully transparent way in all three major regions. We are fortunate to have a very global client base whose trust we have to earn every day.

What kind of transaction volume are we talking about?

Swango: In the United States only, our value-add/opportunistic business has invested $20 billion. As our firm has grown, we have been investing a little under $2 billion over the past 10 years.

We have a U.S. platform that has more than 800 properties with 170 million square feet of space. That brings a tremendous amount of proprietary knowledge. It also brings the ability to leverage tenant relationships. The tactical advantages from an ownership platform this large are invaluable.

What percent of all of Invesco's real estate funds is in the opportunistic, high-return space?

Swango: Investment activity is anywhere from one-third to one-half. Investing across the risk/return spectrum — core to opportunistic — equity and debt is a huge competitive advantage in sourcing and identifying best opportunities — and in attracting and retaining the absolute best real estate talent.

What markets are you investing in through the regional value-add/opportunistic investing platform?

Swango: With real estate professionals in eight offices in Europe and another eight offices throughout Asia, we are able to access the best opportunities throughout both regions.

How are you resourcing the deals you acquire?

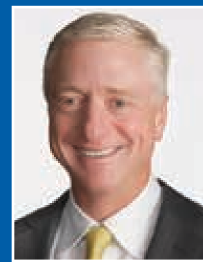
Swango: Invesco has $1.2 trillion of assets under management as of Sept. 30, 2020. The firm invested $50 million in Fund V. Believing strongly in the Fund series (and the current environment), the firm has committed $75 million to Fund VI, plus another $75 million as bridge capital ($150 million total) to fund investments prior to a first closing of LP capital. From a people-resources perspective, we have consistently grown our team, through the global financial crisis, the improving economy and now through the current crisis. Resources have come from inside and outside the firm.

How has this series evolved from inception?

Swango: We have three active funds in the series right now — Funds III, IV and V, which are all closed to new investors. Fund III is a 2011/2012 vintage fund. We were coming out of the GFC. It was a time when investors were largely trying to de-risk their portfolios. Billions of dollars of capital went into our core and core-plus investments. So Fund III looks more like a club of those investors who had the courage to step out at that time, and they are going to be rewarded. That fund is about to sell its last asset. It will have performance meaningfully in excess of its absolute return target.

Fund IV is a 2015 vintage fund. We more than doubled the fund size from $350 million to $760 million, hitting a hard cap. Forty percent of that fund is realized today at significantly outsized returns. We buy core assets that are flawed in some way, remedy those and sell them in the core markets. The remaining 60 percent of the fund is roughly one-third office and two-thirds multifamily. The multifamily is doing well. There is less visibility with office assets today, but the assets are high quality. We believe those assets will also perform well. That fund has two years left. Our expectation is that it will close out at the top end of its absolute-return target range.

> *The first conversations we had at the beginning of the pandemic were, "We are at 92 percent payment this month." Now the conversation is, "Yes, I know you are at 92 percent of rent, but are you making rent concessions?"*



Max Swango

Managing Director

Global Head of Client Portfolio Management

Max Swango is a managing director and global head of client portfolio management for Invesco Real Estate. For the last 20 years, he has run the investor side of IRE's business.

Swango began his investment career when he joined Invesco Real Estate in 1988. He spent the first 10 years with the firm in the Acquisitions group originating direct real estate investments that included both equity and debt across the risk/return spectrum. From 1995 to 1999, he oversaw the firm's West Coast investment activity from its San Francisco office.

And what about Fund V?

Swango: The last active fund in the series is Fund V, a 2018 vintage fund. Fund V has $900 million inside the fund plus a $250 million sidecar. It is 96 percent committed today. In terms of the strategy, we took meaningful positions in industrial/logistics, which is obviously performing well. We also took a position in affordable housing. There is a real need and strong demand for affordable housing.

One of the most interesting aspects of affordable housing is the public/private partnership opportunity. We have worked with local governments to increase our obligation to forms of rent restrictions. In return, the property receives partial or full property tax abatements. It is a win/win, in that it adds value to the asset and is addressing an important social policy need.

Do you think you'll have to extend that fund a little longer, depending on what happens with the market?

Swango: We do not have exposure to the most impacted sector, hotels, and very limited exposure to retail. We do have some office exposure that we have time to be patient with. Timelines may be moved out a year, but that still keeps our funds on schedule for timely realizations.

Brooks Monroe

Managing Director

Client Portfolio Manager

Brooks Monroe is a managing director and client portfolio manager of Invesco Real Estate. Monroe is responsible for developing and managing IRE's client and consultant relationships.

Monroe joined Invesco in 2007. He previously assisted in the management of Invesco's U.S. Core strategy, with a focus on the management and positioning of the existing asset portfolio, the evaluation of investment acquisitions, dispositions, and the financial management of the portfolio. In addition to portfolio management, he has also held various positions in IRE's Product Management, Research and Valuations/Underwriting groups.

Let's talk more about how you see the pandemic reshaping the real estate landscape.

Swango: We are operating transitional assets that have business plans and NOI growth expectations. Some assets will take longer to stabilize. For residential assets, we have been pleasantly surprised how occupancies have held up.

The first conversations we had at the beginning of the pandemic were, "We are at 92 percent payment this month." Now the conversation is, "Yes, I know you are at 92 percent of rent, but are you making rent concessions?"

Percentage of rent collected was super important in April and May. It is less meaningful as billed rents have come down. Revenue is down more than the "rent collection" data would imply. NOIs are down and will take a while to recover, but we expect they will recover. That recovery will vary significantly by sector, market, submarket and specific assets. Understanding which assets will outperform is as important — probably more important — than ever before.

You are launching a new fund. What is that like at this point?

Swango: We believe 2021 is going to be a good vintage year, similar to our third fund, which was post GFC. We are excited about investing capital in current opportunities and distress created in this environment. And we believe those opportunities will be around for several years.

CMBS delinquencies are on the rise. Rent rolls are stressed, and some tenants are delinquent on payments. That distress is going to continue to germinate over the next 12 to 18 months. We are really excited about the current opportunity set. And our overall strategy of acquiring and repurposing assets, and selling them to the core market, is sound. This timing creates a different — an interesting — entry point.

One thing I would add is that we are aiming for an execution-driven value total return, where we are buying vacancy or marking-to-market rent rolls. We are also always finding interesting situations where we can exploit inefficiencies in the private markets.

So you are talking about existing investors that are going to go for re-ups. How is that looking with new investors?

Swango: Because people can't travel to do onsite due diligence, the tack we have taken for this fund is to get way out in front of it. We will put to work Invesco's very large investment and seed capital, while our LPs get through their commitment process. We are just starting discussions with LPs now, so we think that puts us at the end of first quarter before we have a first close. We are aiming to have a large first close that will be mostly from our existing investors, with an eventual $1.5 billion for that fund.

What are some of the property market investment themes you are thinking about for Fund VI?

Swango: The majority of this fund will pursue strategies around storage because the long-duration demand driver for logistics is undeniable. We want to continue to do a fair amount there, which will include developing new product. We think there may be an escalation in corporate sales as companies look to raise cash from their real estate assets. In the residential sector, we have broadened the net. Traditional multifamily has a place in the portfolio. As the millennial cohort ages and moves more suburban, and urban/suburban, we are moving to satisfy that demand. We will still do some urban investing in the multifamily sector, where we will provide affordable housing in high-cost markets, meeting the high tenant and investor demand for those assets.

Is the affordable-housing portion the hook for this fund, in terms of residential in these markets? Or are you going to look more broadly?

Swango: We are still going to buy and renovate or build new multifamily, but it is going to be much broader. Single-family rentals will be a part of this fund. We think we will see some interesting rescue-capital plays in select senior housing as well. So Fund VI will pursue all these different themes now in residential, as opposed to the narrower multifamily view.

What are some of the other strategies you are looking at?

Swango: We will definitely pull in on office. If you were to look at our exposure across the active funds — Funds III, IV, V and now VI — you would see a very consistent downward trend on our office exposure. That was the driver of performance in Fund III at 55 percent. Fund VI looks more like 10 percent to 25 percent office. But we will pursue to a much greater degree specialty sectors or nontraditional real estate. REITs today are something like 50/50 — 50 percent traditional four primary food groups and 50 percent specialty sectors. There are three or four really interesting specialty sectors as it relates to durable demand — single-family rentals, self-storage, data centers. While they won't be big exposures, collectively I think they will be a meaningful piece of this fund. It is interesting from a cycle perspective.

One of the things that helps is that we have a $28 billion core program. That allows us to have perfect information on what the core institutional universe wants to own long term. As core capital evolves, we can shift our strategy to marry up with that.

What are your competitive advantages, your differentiators?

Monroe: Our competitive advantage is our platform and scale. Take sourcing, for example. We have many boots on the ground in the markets where we want to invest. We have four regional offices: San Francisco and the Newport/Los Angeles areas, New York and Dallas. Across those offices, we have 85 transaction and asset managers, so we have a good pulse on both the tenant demand market and on the capital markets. We invest across the risk-return spectrum. One of the things that helps is that we have a $28 billion core program. That allows us to have perfect information on what the core institutional universe wants to own long term. As core capital evolves, we can shift our strategy to marry up with that.

Swango: We have a U.S. platform that has more than 800 properties with 170 million square feet of space. That brings a tremendous amount of proprietary knowledge. It also brings the ability to leverage tenant relationships. The tactical advantages from an ownership platform this large are invaluable.

Invesco Real Estate

Established in 1983, **Invesco Real Estate (IRE)** manages global investments in direct real estate, real estate securities including equity and debt, infrastructure securities, and master limited partnerships. Our real estate business is focused solely on investment management. With offices in 21 financial centers around the world, our team focuses on top-down fundamentals and bottom-up local market intelligence. Our global presence, combined with a centralized team, allows us to identify and manage the best investment opportunities in the most attractive markets.

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