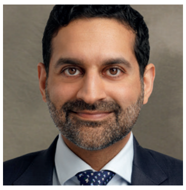
Evolving to outperform



Performance and growth across the real estate industry has been driven by continued evolution across asset types, geographies and capital sources, writes Nadeem Meghji**, global co-head of Blackstone Real Estate**

Over the past decade, real estate has weathered a series of shocks – from a global pandemic that led to widespread lockdowns to a historic rise in interest rates and sustained challenges in office.

Collectively, these headwinds impacted performance for virtually all institutions invested in the sector. Yet, despite these challenges, if you look at the last decade in its entirety, many real estate investors have performed quite well.

The key has been recognizing and investing behind the transformative advances in technology and shifting demographic trends that have shaped virtually every real estate sector and geography. We call this thematic investing.

The rise of artificial intelligence and cloud computing, population migration and expectations for faster e-commerce deliveries are fundamentally redefining how people live, work and shop. These forces have not only driven the rapid expansion of established sectors like logistics, but also spurred the emergence of previously niche sectors, such as data centers, which were still in their infancy just a decade ago.

Simultaneously, across rental housing, investor interest has broadened beyond traditional apartments to more specialized subsectors, such as student housing, affordable housing and single-family rentals, which emerged as an institutional asset class coming out of the global financial crisis.

At the same time, being thematic does not mean being dogmatic in a world that is constantly changing. Leveraging real-time data is critical to spotting trends early. The burgeoning recovery of high-quality office in top markets and the strength of grocery-anchored retail in dense geographies are good recent examples of this.

Pivotal moment in the cycle

The global opportunity set also continues to evolve. A decade ago, when Blackstone president and chief operating officer Jon Gray wrote a similar piece, he emphasized the globalization of investment opportunities – a trend that only accelerated.

In Europe, we believe overly negative sentiment around commercial real estate combined with healthy fundamentals and declining interest rates continues to create attractive opportunities, particularly from sellers in need of liquidity.

Meanwhile, India is the fastest-growing economy in the world and in two of our highest conviction sectors, data centers and warehouses, we see tremendous white space.

Finally, Japan is experiencing a mini renaissance, presenting compelling opportunities to acquire high-quality, but often undermanaged real estate assets.

Even against this more global investment backdrop, the US remains the largest and most liquid market with significant untapped opportunities. It is also the global capital for technology and innovation. Despite its challenges, overlooking the US would likely be a significant misstep in delivering strong, long-term performance.

It is hard to reflect on the last decade without also acknowledging the democratization of the industry. Increasingly, individuals and insurance capital are allocating to private real estate through non-traded REITs and other perpetual funds, further enhancing access to the sector while increasing liquidity.

We have also seen an explosion in real estate private credit as banks have pulled back in recent years and the new 'farm-to-table' model directly matches borrowers and investors, eliminating intermediaries and improving returns for end investors.

Today, we find ourselves at a pivotal moment in the cycle. Values have reset lower, new supply in sectors like apartments and warehouses are at 10-year lows and the recovery has only just started. In a world where it is difficult to underwrite cap rate compression, there is an even greater premium on selecting sectors with secular tailwinds.

We also should closely watch AI, which is going to have profound effects on the economy, the way we live and, over time, virtually every sector in commercial real estate. Indeed, now is a great time to acquire high-quality hard assets at a discount to physical replacement cost. Consequently, I expect our 30th anniversary commentary will reflect on this period as a compelling vintage for long-term investors. ■