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MARKET CYCLES

Watching the real estate cycle clock

Cohen & Steers’ **Jim Corl** tells Christopher Walker why investors entering the market now can look forward to a good run

Jim Corl has the clear view of a seasoned operator. “The two most interesting things about real estate are, number one, it generates a lot of income and, two, it’s very directional, meaning once it starts going up, it will go up for a long time,” says the head of the private real estate group at global investment manager Cohen & Steers. “Over the 30-plus years that encompass my career, there’s a pretty clear rhythmic pattern. Real estate goes up for eight, 10, 12 years and then it goes down for two. Then it goes up for eight, 10, 12 years and it goes down for two years, again and again.”

Corl, who rejoined Cohen & Steers in 2020, having previously been with the firm for 11 years, is also clear why the market fails to realise this obvious fact. “The problem with real estate is that wealth channel CIOs or heads of pension funds are generally not real estate people,” he says. “So, by the time they get comfortable, saying, ‘oh, real estate’s been performing nicely for five years, wow, that’s really good, I need to allocate more to real estate’, oftentimes you’re more than halfway through the cycle. They might catch a little bit of it. If only everyone looked at the real estate cycle clock and timed their investments according to that, they would have a much better experience.”

In the current situation, Corl thinks that myopia is exacerbated by another factor. “Institutional investors are really ticked off about the fact that the returns haven’t been that good,” he notes. “A lot of the capital raising was at the very end of the cycle, in 2021. It was peak capital raising at peak valuations. The 2021 vintage of opportunity funds are going to be awful,” he adds. “Investors are continuing to move away from those opportunity fund structures with bad performance and bad liquidity.”

Nonetheless, the real estate veteran is keen to push back on the suggestion that private credit liquidity pressures are spilling over into private real estate. “We’ve been on the lookout for that, but I have seen zero so far,” he stresses. “We went through a spate of redemptions in the non-traded real estate investment trust (REIT) area over the last couple of years, and now you’re seeing that in an even bigger, more dramatic way on the private credit side. So, for some, it might seem sensible to ask: aren’t all these evergreen real estate vehicles just a bad structure? But I would tell you that exactly zero people have posited that to me.” Gatekeepers, he says, “understand that the problems in private credit are unique to private credit. The crucial point is that private real estate is not being affected”.

Sector winners and losers

For Corl, the direction signals are definitely positive. “REITs can help tell you what private real estate is going to do,” he suggests. “REITs took off in late 2023 and delivered a 40% total return over the next 12 months. That was a decisive turning point. There is some gloom around principally because last cycle’s winners – apartments and warehouses – are going to be this cycle’s losers.”

He continues: “This cycle’s winners will be different. Retail and shopping centres are already the number one sector, which is why our investment thesis has been centred 100% on open-air, necessity-driven strip shopping centres. If you look at the NCREIF index and break it down by property type, what you’ll see since the beginning of ’24 is that shopping centres have been the top performing property type.”

Corl also has one surprising winner. "The biggest underperformer for a long time has been offices, but I think you're going to see them move out of the basement here relatively soon, probably over the next year or two. So there's some opportunity there."

Millennial offices

That optimism comes from a particular view of what lay behind the office downturn and what that means now for the sector. Corl says it was less about working from home following COVID-19 and more about "generational obsolescence".

"The median-age baby boomers born in 1954 retired during COVID. It's one of the untold stories that the demographic bulge in the workforce changed," he says. "If there's one thing to understand about offices, it's that the millennials don't want to go to work in their parents' office buildings. A huge plurality of US office buildings were built for the boomers, basically between the late '70s and the early '90s. And for today's office workers, they are just wrong – the wrong formats, the wrong architecture." He elaborates: "They have popcorn ceilings that are too low, the window line stinks and they have the hissing perimeter HVAC that's very unattractive. Locationally, they're in the far-out suburbs and office parks, far away from amenities. They're often even in cities or states where millennials no longer want to live."

For Corl, this means the days of the "old boomers' offices" are over. "Everything built in the '70s and the '80s, in the '90s and the 2000s up to 2015 is losing tenants, it's losing occupancy and the rents are weakening," he says. But this trend has a positive flipside, he suggests. "Basically, companies are leasing less office space, but they're paying more per square foot for their new office space because of this whole millennial effect. They need to make it attractive. They need to attract talent. So it's all about the millennials. Everything built from 2015 onwards is full and getting fuller and rents are going up."

Future outlook

Looking forward, Corl dismisses geopolitical concerns. "Oil may be high now, but in our view it will soon correct – it's not going to be a permanent affliction. America is energy self-sufficient anyway. I'm not worried about the war [in the Middle East] interrupting the recovery in real estate. It's not going to meaningfully impact the real estate cycle."

He sums up: "I am convinced it is the beginning of the cycle in real estate. It doesn't feel like the water's warm, because we're coming off a period of choppy performance. But that is actually the time you want to invest. The market's doing its thing of climbing the wall of worry. I think investors who put a shovel in the ground with a real estate position today can look forward to a good run." ●