



2024 PREA Affinity Group Program

PREA's Affinity Group Program is designed to maintain a small-group dynamic, even as the Association's membership grows, and allows members to discuss topics of shared interest. Open to a maximum of 40 individuals from member firms by invitation, each affinity group is devoted to a specific topic, such as innovation, international investment, and capital markets. Affinity groups meet during PREA's Spring and Fall Conferences. Members sign on for a two-year term. PREA members interested in additional program details should contact [Amy Laffargue](#), Director of Meetings and Events.

- [Alternative Real Estate Investment](#)
- Capital Markets—[Blue Flight](#) and [Red Flight](#)
- [Defined Contribution Plans](#)
- [Development](#)
- [Innovation](#)
- [International Real Estate Investment](#)
- [Reporting & Valuation](#)
- [Research](#)



Alternative Real Estate Investment

Inna Khidekel, *Bridge Investment Group*

Shawn Veldhouse, *New York State Common Retirement Fund*

The Alternative Real Estate Investment Affinity Group is dedicated to investment strategies and vehicles that fall outside traditional parameters. Originally formed to focus on non-core property sectors, the group now considers real estate that is facing disruption by technology, demographic shifts, a post-pandemic world, liquidity, and other factors. In addition, the group focuses broadly on emerging trends relevant to the real estate investment management industry, such as asset allocation, public-private partnerships, property-type repurposing, the availability of debt, and changing dynamics between GPs and LPs.

Our sessions are designed to be highly interactive and are typically structured as a deep dive into a single topic. Discussions are led by our investor and manager members as well as invited outside guests, including accomplished investors, managers, developers, and real estate researchers. Recent sessions covered topics below:

■ **Topsy-Turvy: Banks Have Stopped Making Loans and Are Selling Them:** Rapidly rising interest rates and declining values resulted in banks having too much CRE on their balance sheets, forcing several bank failures and creating a liquidity crunch across the US banking sector. We discussed the implications of the 2023 banking crisis and its impact on regional and global financial institutions. Our panel covered the sale and underwriting of performing and nonperforming loans, including the role of the FDIC and the risks associated with note purchases. The group discussed expectations on when and how orderly lending would resume to bring back market liquidity and normalized transaction activity.

■ **Taking a Piece of the Action: Investing in GP Stakes:** Although the traditional approach for investors has been to invest as Limited Partners, opportunities exist to align with proven organizations to provide capital to fortify operations, bolster balance sheets, retain top-tier talent, or scale up platforms in exchange for “GP economics.” By assuming some operational risk, investors can enhance access to deal flow and find attractive returns by participating in sponsor fees, promotes, and enterprise value. Our panel discussed the sourcing, underwriting, monetization, and risk factors of various GP-side investment strategies, including co-investments, entity-level investments, and diversified GP-stake vehicles.

■ **The Evolution of the Workplace and Its Impact on the Office Sector:** Changes occurring from the digitization of work and the intense competition to recruit and retain talent have landlords and tenants looking at office space differently. Historically a core real estate sector, office has now become opportunistic and characterized by “haves” and “have-nots,” with divergent outcomes in leasing demand and long-term viability. The panel, consisting of an owner/operator, a researcher, and an architect, discussed the characteristics of assets that will entice workers back to the office, including the latest trends in architectural build-outs, tenant layouts, and amenities. For office assets considered to be “obsolete,” we discussed to what extent alternative uses are viable.



Capital Markets—Blue Flight

The Capital Markets Affinity Groups consist of two flights, Capital Markets Blue and Red. Both groups focus on relevant domestic and global issues impacting investment activity and capital markets. Using a combination of speaker presentations and group and breakout discussions, the groups' goal is to promote an active and educational dialogue about pertinent topics impacting the real estate capital markets.

Blue Flight:

Bruce Cohen, *Temerity Strategic Partners*

Shawn Lese, *Nuveen Real Estate*

Fall 2023: Given the absence of investment activity for much of 2023, which was dramatically impacted by rising interest rates, greater economic uncertainty, and challenges with legacy assets, the Blue Flight challenged its members to commit capital. The group was broken into five tables of ten members each and presented with three alternative strategies from which to choose.

Presentations were made by firms focused on necessity-based, open-air retail; self-storage; and single-family rentals and build to rent. Each group presented the essence of the strategy, a sample investment, and the risks associated with the approach. The members posed an array of questions and then spent time at their tables debating each strategy. Finally, a spokesperson for each group presented its recommendation.

As expected, consensus was lacking on which strategy to back, but there was a robust discussion around the strengths and weaknesses of each, with self-storage winning the most support. Our goal was to stimulate dialogue on an important topic and to allow for both presentations from sector specialists and a robust exchange of views among a sophisticated group of investors. We hope that through this combination of presentations and dialogue, our members left the session with improved perspectives, having learned something and enjoying their time with other senior industry leaders.

Spring 2024: We plan on using the upcoming session to take this approach one step further, focusing on presentations on individual transactions, with opportunities for questions and an exchange of views at the table fashioned around the experience in an investment committee. We are excited to show the array of issues inevitably associated with any investment, especially in this highly volatile environment.



Capital Markets—Red Flight

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Red Flight:

Peggy DaSilva, *PIMCO Prime Real Estate*

Chris R. Miers, *Prime Finance*

Spring 2023: The Red Flight meeting kicked off with a friendly catch-up session of our close-knit membership. Following that, members had a robust discussion about the activity in the secondary market. Jeff Giller, a Partner at Stepstone Group, kicked off the discussion. He provided detailed research and historical insights into the secondary market, which stimulated a lot of questions and discussion about market fundamentals and the current state of the market. Scott Koenig, Managing Director and Head of Secondaries at Neuberger Bergman, also contributed to the discussion by providing additional perspectives on the current trends and added deeper insights into how the secondary market functions.

Fall 2024: As usual, the Red Flight members kicked off the meeting by catching up; they value the opportunity to build lasting, career-long relationships. Sandeep Dave, Chief Digital and Technology Officer at CBRE, kicked off an exciting and informative discussion about how artificial intelligence (AI) will impact real estate portfolios. His explanation spurred a great discussion with a lot of speculation about how quickly real estate owners, operators, and developers will actually harness AI for good versus the damage AI usage could bring. The group came away with a better appreciation of the early stage of AI and how much our industry will ultimately benefit from integrating AI into all aspects of operations and development. We look forward to continuing our group discussions in the 2023 meetings with the goal of continuing active and informative dialogue among our members.



Defined Contribution Plans

Tripp Brailard, *Clarion Partners*

Ali Siby, *Hines*

The Defined Contribution Plans Affinity Group focuses on the inclusion of private real estate in professionally managed investment strategies for DC plans. It facilitates discussion and information exchange about the DC market and how private real estate can serve an important role in helping DC plan participants reach their retirement savings goals.

As of 2023, according to the Defined Contribution Survey conducted by DCREC, NAREIM, and Ferguson Partners, the amount of DC capital invested in private real estate was \$59 billion in dedicated, nondedicated, and 403(b) vehicles. DC plan sponsors continue to evaluate the inclusion of private real estate in their multi-asset-class solutions, and many of the largest corporate and public plans have already included private real estate in their investment strategies. Inflows from new mandates into DC vehicles are increasing, and the number of dedicated DC private real estate vehicles in the market grew from four in 2005 to 17 in 2023.

The Defined Contribution Plans Affinity Group provides a forum for real estate professionals and market leaders to gain important information to be at the forefront of the US retirement market evolution.

Presentations and Speakers

The affinity group hosts discussions with members and external speakers on current topics within the DC and daily-valued private real estate market. In 2024, the group will focus on key topics, including these:

- Current and future trends in the DC market, including the regulatory environment
- Use case studies
- Non-US DC market

Looking Ahead

The Defined Contribution Plans Affinity Group will continue to provide content that is relevant to all the following key constituents: DC plan sponsors considering the inclusion of private real estate within a professionally managed multi-asset-class investment strategy, DC plan sponsors already including private real estate in their DC plan investment offerings, and real estate managers offering or preparing to offer private real estate funds for DC plan investment.



Development

Matthew Claeys, *Heitman*

The Development Affinity Group is focused on best practices in product design, development financing, and project delivery strategies. Members have deep experience in the development of commercial office, retail, industrial, and residential assets, with widely distributed investments throughout major US and global markets through private equity, private debt, and highly structured investments.

Fenway Center Property Tour

At the Fall 2023 PREA Conference, the Development Affinity Group had a property tour of Phase I of the Fenway Center development to get a better feel for the opportunities and challenges facing the submarket. The tour was arranged by Nuveen, and the group members enjoyed an in-depth discussion about the recent delivery of the Fenway Center property on site while enjoying spectacular views of the stadium.

Members' Roundtable

Roundtables enable members to share investment philosophies on major markets and current market trends and opportunities. They are strictly confidential and fact-laden. Members discuss deal parameters, design/repositioning challenges, and expected investment returns. Several members are selected in advance to jump-start discussions with views on product design, delivery costs as well as revenues, leasing strategies, and financing. The members' roundtable will continue during the 2024 Fall PREA Conference.

Confidential Professional Dialogue

Member roundtables are designed to identify development methodologies, such as ownership structures, approvals, land and construction costs, tenant fit-out expenses, and leasing approaches. Discussions include repositioning, targeted marketing, and creative project economics, such as tax increment financing, to transform image and create value. Roundtables respect internal confidentiality and promote an extraordinary professional dialogue to share performance metrics and development hurdles with specific development case studies.

Looking Ahead | Offsite Property Tour

During the Spring Conference session, the group will continue the tradition of visiting a local development that is underway and hear from the development team, the lender, and the LP investing in the project.



Innovation

Tucker McCrabb, *Teacher Retirement System of Texas*

Bradley Petersen, *Jamestown LP*

The Innovation Affinity Group focuses on cutting-edge innovations, disruptive technologies, and ESG factors that affect real estate occupiers, investment managers, and investors. This highly engaged, dynamic group combines off-site tours of leading projects located in the host cities with guest speakers and roundtable discussions.

With the shift to flexibility in working environments, real estate has an increasingly important role in shaping health, driving productivity, and creating great workplaces. The impact of real estate on the health of employees and customers is rapidly becoming a key theme for real estate, and for its economic viability.

From online retail to autonomous vehicles, the world is changing rapidly. Innovations and new technology increasingly impact preferences on how people work, live, and play; tenants demand more from technology to automate routine tasks, increase experiences, and connect socially.

Sustainability and green building are must-haves in today's competitive environment. Tenants demand it, and in many cities, regulation enforces it. Energy efficiency, renewable energy, and battery storage offer buildings options to improve efficiency, lower energy costs, and reduce reliance on the grid.

Typical discussion topics include the next generation of smart buildings; big data applications that bridge the physical locations of assets; occupant engagement and contextual intelligence; and the increasing importance of sustainability, alternative energy options, and health and well-being in building development and operation.

In this past Fall's meeting, the group focused on the confluence of uses in Boston's innovation district, touring Jamestown's Innovation and Design Building (IDB) and WS Development's Seaport district. IDB represents a new mixed-use model that leverages the connective tissue of innovation to bring together diverse industries to form a multidimensional creative community. Seaport showcases how WS Development tapped into creative strategies such as art activations, unique retail incubation space, and access to green space to create a thriving and sustainable neighborhood.

As the PREA conferences rotate across cities, building tours at each affinity group session have included some exemplary buildings, with guidance typically provided by the developer, owner, or chief engineer:

80M Street, Washington, DC—Columbia Property Trust DC's first mass timber development

Boston Seaport (Boat Tour)—ARUP A climate risk view of Boston Seaport

Westfield Century City Mall, Los Angeles—Westfield Retail in the era of technology

Old Parkland, Dallas—Crow Holdings Repositioning of heritage assets into today's market

888 Boylston Street, Boston—Boston Properties Energy efficiency and decarbonization strategies



International Real Estate Investment

Joanne Douvas, BGO (BentallGreenOak)

Roberta Waxman-Lenz, State Teachers Retirement System of Ohio

The International Real Estate Investment Affinity Group provides a forum for discussion of non-US investing, particularly focused on differences in strategies, markets, and property-type structures from those found in the US. The group relies on specialists in various property types, regions, and financial structures to initiate discussions, opening up conversation to members for questions and to share member perspectives on challenges faced and advantages gained through broadening geographic access. Participation by members provides for lively and informative discussions.

Recent Topics

2023 Spring: Global Opportunities to Take Advantage of Distress Cycles and Scarcity of Capital

The Spring 2023 meeting featured global capital allocators who explored the varied real estate markets across Asia, Europe, and the US. The discussion addressed market shifts that are non-synchronous across regions and whether portfolio returns can be enhanced by geographic diversification. Our experts looked at the impact of European regulatory changes, Japan's continued low interest rates, and the reversal of the zero-COVID policy in China. The discussion was led by Mark Gabbay, CEO LaSalle Investment Management, and Dennis Lopez, CEO, QuadReal.

2023 Fall: A Conversation With Senior Leaders at Pan-Asia Platforms

Our Pan-Asian markets experts provided their views on which subregions on a relative basis are expected to provide the strongest opportunities for returns. Claire Tang (LaSalle Investment Management) and Tom Lee (KKR) discussed how they are responding to regulatory changes in Japan and pressure from activist investors on corporates to sell real estate that is not core to their businesses. They also addressed the impact of the capital pullback from China, how rate increases are affecting the viability of new construction in South Korea, and investment opportunities in Australia.

Looking Ahead

The Spring 2024 session will focus on a recovering Europe and the aftermath of falling values. Over the past few years, the European real estate sector has been enduring a period of turbulence, with a confluence of rising interest rates, falling valuations, spiking energy and construction costs, and a war on the EU's doorstep. But now, there are clear indicators that Europe is turning a corner: fundamentals are solid, assets have repriced, there is no near-term supply wave as in the US, and the cost of leverage has come down. Is now the time to enter the market, and if so, what is the best way to play the market—debt issuance? brown to green? buying from overleveraged/forced sellers at a discount? Some believe the debt maturity wall will prompt a string of defaults and force sales on the distressed market as borrowers become unable to repay or refinance. But how extensive will this opportunity actually be? Will asset owners be able to extend payment terms, resulting in fewer distressed sales? We will examine the risks and potential for discounted transactions as well as data points for determining what and when to buy.

The affinity group has room for several new members in 2024. If you share an interest in cross-border investing and would like to join the group's upcoming meetings, please contact [Amy Laffargue](#).



Reporting & Valuation

Michael Morrell, *New York State Teachers' Retirement System*

Candice Todd, *Morgan Stanley*

The Reporting & Valuation Affinity Group has a dual focus: updates and discussions regarding industry reporting requirements and discussion on trends and current issues impacting valuation practices. The broad range of disciplines represented by its membership provides diverse perspectives that add to the quality, depth, and benefit of these discussions. Most sessions touch on both topics by offering prepared remarks by industry experts actively involved in these areas, followed by the opportunity for open discussion and questions. Active participation in these discussions and the sharing of diverse viewpoints and experiences is the key benefit of membership in the affinity group.

A representative from the NCREIF PREA Reporting Standards provides an update on current and future initiatives to both inform the affinity group members and solicit input from the members' diverse experience and expertise. Past topics have included the Total Global Expense Ratio (TGER), ESG principles of reporting and KPIs for private real estate, as well as the development of reporting standards specifically for debt funds. Current projects include developing asset- and investment-level reporting best practices as well as responding to the SEC Private Fund Advisor Rule. In addition, updates are provided on aligning Global Real Estate Reporting Standards, a collaboration between NCREIF, PREA, INREV, and ANREV.

During 2023, the real estate markets experienced significant volatility because of rapid increases in interest rates, availability, and cost of debt, as well as continued uncertainty surrounding office demand. Affinity group members had focused discussions on valuing properties in this turbulent market, as well as discussion of current issues being addressed by the Reporting Standards Council and Board:

- **Spring 2023:** We kicked off the meeting with an update on the new Reporting Standards Council and Board members followed by an update on current projects. Topics included debt fund standards, financial reporting models, global standards, and implementation issues related to the SEC marketing rule. The discussion was led by Jamie Kingsley, NCREIF PREA Reporting Standards Director. We then heard from an opportunistic fund manager on how to look at valuing office properties currently held and valuing potential new office acquisitions in today's environment.
- **Fall 2023:** After an update on current projects being undertaken by the NCREIF PREA Reporting Standards, we had another interactive discussion on property valuations and their impact on investment decision-making.

Looking Ahead

The Spring 2024 session will focus on current market conditions and the potential impact of increased transaction volumes in 2024: will they occur, and if so, will they provide some transparency into asset pricing? We will also discuss the Reporting Standards response to the SEC Private Fund Advisor Rule and a project to review and recommend the potential expansion of asset-level reporting metrics.



Research

Gleb Nechayev, *Berkshire Residential Investments*

William Pattison, *MetLife Investment Management*

The Research Affinity Group provides a forum for the presentation, debate, and discussion of cutting-edge research and the current trends and market factors that impact commercial real estate. The group comprises individuals representing a broad spectrum of the institutional investment community, including investment managers and advisors, data and service providers, plan sponsors, consultants, and academics. Recent sessions included the following:

Understanding Performance: Language, Criteria, and Measurement

Presenters: **Jacques Gordon**, *MIT Center for Real Estate*, **David Ling**, *University of Florida Department of Finance*

Many of the basic definitions, relied on for decades, are due for an overhaul. Is all the fluidity in current definitions a feature or a bug for real estate performance reporting and measurement?

One of These Buildings Is Not Like the Other. But Why?

Presenter: **Seth Priebatch**, *Groma*

Single-family rentals and small unit-count multifamily properties in dense urban core areas are numerous, tightly grouped, and roughly homogeneous. How can an acquisitions team identify the best opportunities within this pool? Unique data science tools and techniques can help evaluate small differences in highly similar properties that can drive meaningful differences in performance.

Why Bayesian Modeling Is Practical and Superior to Traditional Real Estate Underwriting

Presenter: **Tim Savage**, *NYU Schack Institute of Real Estate*

In this talk, Savage documented the history of statistical approaches using the capital asset pricing model and argued that the Bayesian approach provides a superior method to compare specifications. He also discussed its current limited use in real estate forecasting, arguing that it is more appropriate given that real estate data are sparse and often erroneous.

Why Are Investors Still Underwriting 3% Property Insurance Cost Growth?

Presenters: **Raghuveer Vinukollu**, *Head of Climate Insights and Advisory, Munich Re*, **Anand Srinivasan**, *R&D / Innovation, CoreLogic*

Presenters identified the factors impacting physical risk and insurance premiums, explored the trends in insurance cost increases, and projected changes over the next ten years. These included highlighting over-sampled risks (floods, wildfires) and under-sampled ones (winter storms, severe convective storms).