

# In Plain Sight: The Core Plus real estate investment opportunity that every investor should know about



Author  
**John Carrafiell**  
Co-Chief Executive  
Officer, BGO

In today's commercial real estate environment, a new paradigm is reshaping the way BGO is approaching the market. Structural shifts in capital flows, transformative demographic trends, and evolving tenant behaviors are driving waves of change that have further strengthened our resolve and the rationale for Core Plus investing. We are in a higher cost of capital world, not only with interest rates but also with insurance costs and operating environments. Further, secular shifts have changed the way the built environment is utilized globally. Much like viewing a city skyline from a new vantage point, our perspective on the investable universe with a market that we believe is experiencing supply/demand imbalances and dislocation, has brought this current vintage of middle market investment opportunities into plain sight for investors seeking value add-like returns with potentially lower downside risk. In this higher cost of capital environment, new liquidity has understandably been drawn to distress opportunities, but BGO's Core Plus thesis is firmly focused on capitalizing on dislocation with investments focused on rent growth as the winning approach for our investors, and here's how we're doing it.

## Capitalizing on New Supply and Demand Dynamics

Supply and demand shifts happening at both the capital and investment level have compounded to create opportunities for diversified Core Plus strategies to acquire stabilized assets at considerable discounts.

As a result of the market and interest rate volatility of the last few years, we have seen sellers at both the safer and higher-risk ends of the spectrum become far more motivated. Close-end fund managers from mature vintages are now late into harvesting periods, and evergreen, longer term core managers may have liquidity needs due to mounting redemptions that are driving a necessity to transact. Higher risk strategies with locked up capital tied to an over-reliance on leverage have created another pressure point that is driving capital to the middle as well.

This middle ground that Core Plus occupies is where BGO is experiencing considerable traction, and this supply and demand dynamic of investment opportunities places a dislocation-

focused investor with the scale of BGO in a highly favored position. Our Core Plus strategies have been buyers of dislocation: high-quality, traditional core assets at substantial discounts. The opportunity is fueled by both the pressures on sellers to return capital, and credit market volatility. Further, sellers and fund managers motivated by their own liquidity pressures have been forced to sell stabilized, high credit assets. Our Core Plus strategies have capitalized on these market dynamics with minimal competition.

Adding to what we believe is a favorable environment, there is also an overall dearth of capital raised in the diversified Core Plus space for middle-market investing where the need for liquidity is most pronounced. Capital raising figures for this subset of the market are relatively lower and competition is minimal. This is leading to additional value plays for BGO's Core Plus strategies.

## Generating Value from Dislocation

By targeting assets and markets with strong demand fundamentals and high barriers to entry, BGO's Core Plus strategies often achieve excess returns when compared to historic levels for traditional Core Plus investing.

This strategy is premised on a few fundamentals that are central to BGO's approach. Firstly, well-diversified and coherently defined Core Plus strategies without operating, construction, and development risk avoid several pitfalls in manufacturing a "mid-risk" return within a portfolio. This approach, coupled with BGO's capital market visibility across the globe, emphasizes the centrality of our Dislocation Not Distress thesis that guides all that we do in this space. The second fundamental is our focus on rent growth, where current interest rate forecasts signal to us the importance of NOI performance versus appreciation, for the foreseeable future.

For example, our recent acquisition of a mission-critical, advanced R&D facility, 100% leased to a global technology leader, showcased BGO's ability to secure high-quality assets with strong in-place cash flows and significant rent growth potential. Acquired at a 40% discount to replacement cost, the property, which was in an attractive location with a high concentration of R&D users, provided both immediate yield and the possibility of long-term value appreciation.

## Acting on Information Arbitrage

The cultural embrace of data science at BGO reveals powerful insights that draw on our firm's considerable scale and local market presence to deliver timely information on markets and sub-markets, demographic shifts, and even in

some cases sub-terranean levels of data, to our investment managers.

A recent deal by our US Core Plus team to acquire a multi-family property in the U.S. South-East was not only driven by the asset's compelling underlying investment attributes, but was also informed by local market knowledge that showed that the municipality's underground infrastructure was reaching capacity. This constraint would impact new development supply going forward, thus favorably impacting rental demand and income growth prospects at the property.

Our Core Plus strategies draw on a daily flow of market research and intelligence from BGO's diversified investment management platform to inform its own direction. BGO actively invests in every part of the risk spectrum, thereby equipping our Core Plus teams with a firsthand understanding of the full spectrum of market forces that are at play. BGO's real estate debt business also provides intimate insights into the public and private capital markets and their lending capacities and behaviors.

The diversification of our Core Plus portfolio is a critical element to its performance, but successfully managing assets across all major and niche asset classes requires experience. In the U.S. alone, BGO manages more than 17,000 apartment units, over 158 million sq ft of industrial property, and more than 8 million sq ft of cold storage. We are highly active in both the development and management of life science-focused properties and have almost 20 years of experience in the health care-related real estate market. Simply put, asset management is the rubber that hits the road on investment performance, and in sectors with niche complexities and high barriers to entry, management experience and access to proprietary information still matters.

The view of the real estate investment landscape from the investor's seat is challenging in this new paradigm, but access to enhanced risk-adjusted returns should be as visible as ever. Today, Core Plus real estate investing and the generational opportunity to capitalize on dislocation and supply/demand imbalances across the risk spectrum is now in plain sight.

