

SPEAKING OF ALTERNATIVES

S1 EP15: Let's Talk Global REIT Securities

[Music]

Voice over >> Real estate is a special asset class in that it indirectly touches on just about every part of the investment world. It can enhance diversification to a broader stock on portfolio while offering further variety within its numerous segments. Keshav explores the world of real estate securities with Rick Romano, Head of Global Real Estate Securities at PGIM Real estate.

Keshav Rajagopalan >> Welcome to "Speaking of Alternatives," the podcast where we dig into everything that has to do with the alternatives landscape, I'm really excited about today's conversation where we have Rick Romano, a colleague and friend from PGIM Real Estate who manages our global real estate securities business. Rick is going to talk about some attractive features of the entry point today in global real estate securities, and really how to think about accessing private real estate through public markets. Welcome.

Rick Romano >> Hi, Keshav, and thanks for having me today. Really happy to be here.

Keshav Rajagopalan >> Let's start as we do with every episode Rick, just to learn a little bit about yourself. What brought you into the investment industry specifically, then real estate, and then what keeps you here today?

Rick Romano >> Sure. So I did not take what I'd call the traditional direct path into real estate. In undergrad I was an English lit major, but I was an economics minor and as I was taking those courses, I liked the investment side better, but I did learn some very valuable lessons on the English lit side, like critical thinking and analytical skill - but combining that with the sort of quant skills of economics and the interest in investments and finance really led me to look at opportunities in the investment world. And I was fortunate enough out of undergrad to get an opportunity to join the analyst training program within PGIM Real Estate.

Keshav Rajagopalan >> So it sounds like that mix of critical thinking, but the quantitative side, brought you into real estate, but why real estate? What drew you there and kind of what keeps you interested today?

Rick Romano >> Yeah. So it's where I started, and what kept me there was that real estate is really interesting for a couple of reasons. To me, number 1, it's a hard asset. So you could go visit it. If you're investing in bonds, for example, you're not going to go visit a piece of paper, right. So being able to go visit a hard asset to me was attractive. And then real estate touches on all aspects of the economy globally. So for example, if you are investing in an apartment building in Houston or an office building in Houston, you need to know a little bit about

the oil industry. If you're investing in San Francisco, you need to know about the technology industry and you could apply that across the world. If you're investing in Japan, for example, you might need to know a little bit about the auto industry, the electronics industry; so that to me was fascinating, because I think it's the only sector that touches on every part of the world, every piece of industry in the world, and so that really excited me as I was starting.

Keshav Rajagopalan >> I appreciate the shout out to Houston, being from Houston, but it sounds like the build environment, just the tangibility of it and also the multifaceted nature is what keeps you hooked. So let's level set for audiences, what are global real estate securities, what is that business you lead, and what do you actually invest in?

Rick Romano >> That's a great question, and global real estate securities didn't really exist in scale prior to the 1990s. So this is somewhat of a nascent industry and what we invest in, in particular, is equity securities that trade on international stock exchanges. So they trade alongside names like Microsoft and Apple and you can go and buy these individual securities on a Stock Exchange. They did own commercial real estate, they develop commercial real estate, they manage commercial real estate. So the typical property types would be not only ones that you would think of more on a core basis - office buildings, apartments, industrial - but in the real estate security space, it also includes big investment options in areas like data centers, healthcare, real estate or whether it's assisted living or medical office. Those are included as well. Now, what we don't invest in on a securities basis is mortgage REITS. So those that are investing that own debt or non-traded REITs, we don't invest in either. So it's got to be listed. It's got to be on a major exchange. And other than that it's hard assets, real estate, that's what they own, that's what they manage. That's what they develop.

Keshav Rajagopalan >> We'll touch on this public access to private a little bit, but it sounds like you're investing in public markets, but on a look-through basis, you really have to understand what's the tangible asset that these public securities are therefore invested, and tell me a little bit why now? What if you're an investor in the market today and you look at from a public securities perspective or a real estate perspective, what is exciting about your sphere or slice of the world today, and how you think about an investment today?

Rick Romano >> When you look at real estate securities today, you've got a really strong value proposition, so when you look at one of the metrics that we use, you mentioned private real estate, we look at the snapshot of this company's existing real estate, where's it valued relative to where we think it would trade in the private markets?

And by that metric, REITS are historically attractive. Why is that? Number one, we're coming off of this period where interest rates were increasing. We saw Central Bank response to inflation, which was higher interest rates and typically, what that means is that the cost of capital for real estate is higher and values might go down. So we did see that in the weak market, but we saw that in 2022, private is starting to adjust. We're seeing some write downs and it's getting there, but REITs have already level set. So for us, we look attractive on a valuation basis versus not only private real estate versus general equities, but we're also coming to a period where the fundamentals look really good. And what does that mean? Supply is limited in terms of new additions of commercial real estate coming online in 26 and 27. Part of that is due to inflation, cost to build has gone up. So a lot of new builds don't really pencil out from a return perspective for investors. So that gives a great advantage for your existing landlord and what does that mean, you have pricing power right? Because you don't have a lot of supply coming on your markets, you have good demand in most property types. It's a really attractive opportunity and entry point here, one that we really haven't seen in quite a while due to the lagging nature of the space in the past five years.

Keshav Rajagopalan >> In prior episodes, we've had some of our other colleagues from PGIM Real Estate to talk about the entry point in real estate. It sounds like it's that same case, but perhaps even more accelerated because of public markets getting to the valuations faster, and then you can really get a look at the fundamentals and say OK, there's value here to enter. Is that a little bit of the story?

Rick Romano >> Yeah, I think that's exactly right. That's public markets, as we know, react to immediately so the prices have reset, the entry points are level set and there is good growth going forward as we look at the supply/demand fundamentals and then the other thing that listed has, that maybe you can't access in as big of a way in the private markets, is the ability to access some of these what I'd call non-core property types that are secularly growing, so areas like data centers, assisted living, healthcare that really have secular demand-growth trends that are not cyclical. Historically commercial real estate was very cyclical. Now, in the listed markets, you have these big areas of opportunity that are not very cyclical and we haven't really seen that in the history of commercial real estate.

Keshav Rajagopalan >> We'll dig into that because I think there's some interesting tailwinds there. We like to talk to all of our guests about a headline that's out there just to help us kind of unpack and contextualize what readers may be reading. This one's from IPE, from real assets. It's an analysis based on a poll, but it says will real

global real estate investors reallocate from the U.S. to Europe? There's obviously a lot happening just from a macro perspective. How are you thinking about the shift and is that underway?

Rick Romano >> Yes, I think we've started to see that already the beginning of this year. And again, we have to put all this in context because if you look at global real estate performance over the past five years or so, US listed real estate has outperformed Europe, it's outperformed Asia, and now we're at a point part of that was what I talked about before. Is that the easiest way to access some of these secularly growing property types is in the U.S. that's where they have the largest property base and footprint. So Europe still has a lot of what I'd call the cyclical or non-core property types in the listed space, so office retail, apartments, but all of that being said, because of the underperformance over the past five years, the valuations relative to the U.S. were very attractive and we started to see that move. We went from U.S. exceptionalism really quickly to U.S. uncertainty and people wanting to move out of that space. So we have certainly seen that trend and we've seen it in the dollar weakening as well. So anytime we invest in Europe, there's going to also be not only getting the underlying real estate fundamentals in that valuation, we're going to see the benefit of what's happened with the dollar, which has weakened. So that's aided returns as well.

Keshav Rajagopalan >> It's a great time for you mentioned the entry point, but also great case for active management, right? Where especially in this type of market you need the local market knowledge, but also understanding the macro. So as those come together, you can obviously think about how to position the portfolio. Let's pivot to headwinds and tailwinds. We talked a little bit about some of the headwinds maybe in certain markets that could lead to tailwinds and others, but overarching what are some of the big themes you're focused on from a headwinds perspective and then we can touch on tailwinds as well.

Rick Romano >> Interest-rate volatility has been a headwind for the space over the last 24 months or so. So I think what we need to see is some stabilization in where rates end up and even if they end up at this level, the 10 year, if it's around where it is today, somewhere around 4 1/2%, that's OK for REITS because like we said before, rates have a reset pricing to mark to today's conditions. But what investors want to see is, OK, what is going to be the base rate? How do I assign a risk premium to that base rate? And once we start to see that level off, once that headwind starts to subside, I think we'll start to see more investor conviction around investing in real estate. And what do they like about real estate is that if we look at the headwind in the markets today, what's on everybody's minds is tariffs, right? And REITs are in a good place on a relative basis in this tariff argument, right? Because

unlike other periods that we've seen of volatility in the markets like the global financial crisis, like COVID, real estate doesn't sit in the center of the tariff war, so you've got predictable earnings, long-term leases, a lot of domestic driven demand for a lot of real estate. So with the exception of maybe port centric industrial, there's really not that much of a headwind there, that's a headwind potentially turning into a tailwind. And so we can pause there, but we could talk about tailwinds as well.

Keshav Rajagopalan >> As you mentioned you were segwaying right there. What are the tailwinds then, as you kind of think about the opportunity set that further bolster your case for why now?

Rick Romano >> Yeah, sure. I think we hit on some of those before, certainly the valuation argument is very attractive. So very large discount to private real estate, price to cash flow multiples versus the S&P 500 on a relative basis, at some of the lowest levels that they have been since we've been tracking it. So that's certainly an interesting valuation entry point. Fundamentals demand is strong in most property types in most parts of the world. Office is a bit of an exception, but even within office we're finding some value because as we discussed before, listed real estate has already discounted a lot of the bad news that's happening in office. So as we get into 26 and 27, that's going to be above-trend in a property type.

Keshav Rajagopalan >> And then when you think about other tailwinds, we've got into some of the sub sectors or areas of focus as you mentioned real estate. What's exciting about your job and your focus areas is you get to touch areas of the economy. So what are some of the sectors and kind of underlying areas you're thinking about from a portfolio positions standpoint?

Rick Romano >> One of the big areas that we like is data centers. You've got a secular demand growth opportunity. So it's not just AI, it's cloud-based services as people are using, streaming more and putting photos on their phone and want to access them quickly. All of that is just leading to rapidly growing demand in the space and it's in an environment where supply is very restricted. And why is supply limited when demand is growing so fast? Number one, you've got issues with accessing power right, data centers use a lot of power. Municipalities may not want to approve a data center in their town because they can't necessarily commit to providing that much power to the data center, so that limits supplies significantly. And then these are very expensive to build. These are big facilities, they could be \$500 million, a billion dollars. And so the debt markets look a little bit different than they do in other areas of commercial real estate where you can get a regional bank syndicate to loan on an apartment building, or just one regional bank. Here it's so big, that the primary ways of debt financing that have

occurred, have been seen on secured debt with REITs and private debt has stepped in to fill some of that gap as well. So we really like the revenue growth trends. We saw some headlines which gave us an opportunity to add further; in the first quarter where we saw DeepSeek, they announced that they were able to do some of the learning AI-type functions with a lower cost chip using less power. That resonated and caused a selloff in listed data center REITS. And it really wasn't warranted because, number one, they don't really have much exposure in that commodity-type data center space where you don't need speed and low latency. So the portfolios are more positioned on cloud-based services and high-barrier-to-entry-markets where low latency is required. And then the AI functions are a bit more focused on the inference phase, where you do need low latency in those locations. So that's an area that has us really excited.

Keshav Rajagopalan >> Really interesting to play data centers via public markets. Healthcare is another theme that you talked about at the top of the episode, dive a little deeper into how you're thinking about that and positioning that in the portfolio.

Rick Romano >> Yeah, absolutely. What we like about Healthcare is that it really has defensive demand characteristics and you see the demographics and you could see the population ageing and what we're coming up on now is the silver tsunami, right where the baby boomers are hitting their 80s. That is really the high use age group for areas like assisted living, where a lot of the admits to the facilities are medically necessary and needs based, and so we have that happening in a period where there has been very low supply in terms of adding senior housing and also an expense picture that is looking a lot better than it did a few years ago. If we rolled back to 2023, what we would have seen in senior housing portfolios is that healthcare worker wage inflation was rising double digits. That's reversing and tempering now. So that's rising single digits. You have top line occupancies growing back to pre-COVID levels. Other few ancillary areas aside from those which are obvious, secular growth areas, things that we're looking at in the public markets where we could be a bit more tactical and constructive right now, is we're starting to see a shift in areas like self-storage and apartments where we're seeing the rate of change in revenue growth turned positive. So the second derivative of revenue growth is changing and that's really attractive to us, starting to turn and with supply muted over the next few years, we think we can really see some good revenue growth acceleration in those more traditional property types. So we're excited about that too.

Keshav Rajagopalan >> It's an interesting way you start at the top about how real estate and what you focus on touches so many sectors of the economy and the great thing is you can play that in a different way in a portfolio.

So it's really interesting. We like to also get questions from our distribution teams because this is what our clients are asking about thinking about. So in a few of those, something that I focus a lot on is where public and private markets are converging. And it dawns on me that where you sit, Rick, in you're investing space which you mentioned you know, came about in the 90s. So you're 30 years into this journey really is really at the center of public and private markets. You're getting private markets exposure via public markets. So talk to us about how you talk to clients about that, as well as what you're hearing from them in terms of that interplay.

Rick Romano >> Yeah, absolutely. I think when we talk to clients, what do they like about accessing real estate in a liquid form - number one, they do like the liquidity aspect. So if they are in any kind of private investment that's not listed, the ability to get money in and out, so really on both sides for investors right to put money to work quickly or to exit when you need liquidity. So as a result of that, a lot of our larger sophisticated clients like to put the two together within real estate, meaning they like to have a private real estate allocation that maybe is 70% of their real estate allocation and combine that with a listed allocation that is about 30%. They feel like it gives them ample liquidity, number one, it optimizes their return, because what's interesting about real estate listed versus private is that while the cash flows correlate to one for the most part, because these are high quality, institutional commercial real estate properties, that are owned in the listed market, they're owned in the private market, the returns do not correlate to one. They're often out of sync. So that creates some good portfolio diversification in their real estate allocation, because if private is trending down like it has been for the past few years, REITs were up so it really balances out the volatility in your real estate portfolio by marrying the two together. I think investors really like that component and what I touched on before, they liked the opportunity to access some of these secularly growing property types in scale, where they can do it in a very directed way. Tomorrow, they could buy \$500 million worth of data centers in the listed market. You can't do that in the private market. Same thing with this assisted living. They can buy \$500 million tomorrow. Get exposure. So I think those are really the attractive things that we're hearing from clients about the space.

Keshav Rajagopalan >> Most people think of liquidity on the way out, but it's also on the way in. So as you can really take advantage of opportunity. So it makes a ton of sense. Second question, a little bit more on portfolio construction. When you talk to clients, how do they think about the role this plays in portfolios? You mentioned dividends earlier. What's the theme that you're hearing from clients as you think about the use case for this in overall portfolio construction?

Rick Romano >> When they think about real estate and REITs, they look at it at this hybrid of a bond in a stock. So it's got the dividend and income component that you mentioned, that's sort of the bond-like component, that income piece. However, that dividend is not fixed, it grows over time. So as rents grow, whether it's a listed REIT portfolio or private real estate, as those rents grow over time, that income component in that dividend grows. And historically when you look at REITs, that dividend has grown in line or greater than inflation. So investors really like that component. So from a total return perspective, you get the income, you get the growth that's the hybrid and it also diversifies. So when you look at real estate, private or public versus general equities or bonds, the correlations are not that high. So you get that diversification.

Keshav Rajagopalan >> And of course, as we've seen in current times with inflation, there's obviously the inflation hedge component as well as overall income characteristics.

Rick Romano >> There is. Yeah. So that's that dividend growth piece and that grows because the rents are growing. And when you think about inflation, there's a couple of natural things that it does in real estates favor; cost of construction goes up. So that means limited supply, existing landlords have more pricing power. So we think that's attractive. Also, when you look at some of these leases, many of them will have escalators that are in the contractual lease and some of those escalators are tied specifically to inflation. Each year, year rent will go up by CPI, so that becomes a very natural inflation hedge.

Keshav Rajagopalan >> Well, Rick, thanks a lot. This has been a terrific conversation. I think three things that stood out to me. One, your point on why now, there's a really attractive entry point. Just if you look at valuations, and the fact that global real estate securities are a way to play real estate via public markets, really affords an entry point to come in now where public markets have priced in things, but also put money to work right away. Take away two for me as you really are sitting at this convergence of public and private markets, and you've been there, your industry, your area has been there for 30 years. So it's an interesting way to think about alts. And then take away three, is where you started. What's kept you in your role is the interest in how varied and how many areas of the economy real estate matches and that then can be manifested in a portfolio. If you think about playing as you talked about data centers versus healthcare versus office versus multifamily. And that's an interesting part about how to construct these portfolios. Really enjoyed the conversation and thanks so much for spending some time with us.

Rick Romano >> Great. Thank you. Really appreciate the opportunity.

Keshav Rajagopalan >> Join us next time on Speaking of alternatives where our guest is Josh Cohen, he'll be here to talk about everything related to alternatives in the defined contribution space.

Voice Over >> "Speaking of Alternatives" with Keshav Rajagopalan, a podcast from PGIM. Follow, subscribe, and if you like what you hear, go ahead and give us a review. And be sure to look for the podcast "The Outthinking Investor," also from PGIM.

[Music]

Voice Over >> This podcast is intended solely for professional investor use. Past performance is not a guarantee of future results. All investments involve risk, including the loss of capital. PGIM is not acting as your fiduciary. The contents are for informational purposes only, are based on information available when created, and are subject to change. It is not intended as investment, legal, or tax advice and does not consider our recipients' financial objectives. This podcast includes the views and opinions of the authors and may not reflect PGIM's views. PGIM and its related entities may make investment decisions that are inconsistent with the views expressed herein. This podcast should not be reproduced without PGIM's prior written consent. No liability is accepted for any direct, indirect, or consequential loss that may arise from any use of the information contained in or derived from this podcast. This material is not for distribution to any recipient located in any jurisdiction where such distribution is unlawful. PGIM is the global asset management business of Prudential Financial, Inc., which is not affiliated in any manner with Prudential PLC, Inc. in the United Kingdom, or with Prudential Assurance Company, a subsidiary of M&G PLC, Inc. in the United Kingdom. Copyright 2025. The PGIM logo and the rock symbols are service marks of PGIM's parent and its related entities, registered in many jurisdictions worldwide.

For Financial Professional Use Only. Not for use with the public.

The views expressed herein are those of PGIM investment professionals at the time the comments were made and may not be reflective of their current opinions and are subject to change without notice. Neither the information contained herein nor any opinion expressed shall be construed to constitute an offer to sell or a solicitation to buy any security.

Certain information in this commentary has been obtained from sources believed to be reliable as of the date presented; however, we cannot guarantee the accuracy of such information, assure its completeness, or warrant such information will not be changed. The information contained herein is current as of the date of issuance (or such earlier date as referenced herein) and is subject to change without notice. The manager has no obligation to update any or all such information, nor do we make any express or implied warranties or representations as to the completeness or accuracy. Any projections or forecasts presented herein are subject to change without notice. Actual data will vary and may not be reflected here. Projections and forecasts are subject to high levels of uncertainty. Accordingly, any projections or forecasts should be viewed as merely representative of a broad range of possible outcomes. Projections or forecasts are estimated, based on assumptions, subject to significant revision, and may change materially as economic and market conditions change.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation. Clients seeking information regarding their particular investment needs should contact their financial professional.

Prudential Investment Management Services LLC is a Prudential Financial company and FINRA member firm. PGIM Investments is a registered investment advisor and investment manager to PGIM registered investment companies. All are Prudential Financial affiliates. © 2025 Prudential Financial, Inc. and its related entities. PGIM, PGIM Investments and the PGIM logo are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide.

4837673 Expiration: 6/30/2026