

The DTU+E Investment Approach and its Efficacy

Featuring: **Jay McNamara** and **Jacques Gordon**

Jay McNamara: My name is Jay McNamara. Welcome back to another episode of MSCI Real Estate Conversations. I'm really excited today to spend some time with Jacques Gordon LaSalle Investment Management's Global Investment Strategy Head. Jacques it's great to see you again.

Jacques Gordon: Good to see you, Jay.

Jay McNamara: So Jacques, we've been doing a number of these episodes with senior executives at our clients and other industry figures and a few folks in academia and it's been interesting to look back on the ones that we did going back to April and to think four or five, six months since much of this has gone down in North America and Western Europe. We know our colleagues in Asia have been dealing with this a lot longer than we have, but it's quite remarkable to think in such a short period of time, how much has changed and what I want to do is I want to spend a bit of time to talk to you, Jacques, a bit about an area that you and others at LaSalle have been quite vocal on, which is some of these, to use your own words, these currents that have been propelling the real estate industry and the asset class forward in the last several years. I'm curious to get your thoughts on some of these currents that you've talked about, whether they're the demographics, the technology urbanization, what LaSalle's referred to as DTU, and now E, the environment. How are you thinking about them from an investment strategy standpoint, five, six months into the pandemic and its impact upon both the broader financial services industry and society as a whole?

Jacques Gordon: The idea there is that so many real estate researchers spend a lot of their time thinking about the cycle, where are we in the cycle, what a property market and economic indicators look like quarter by quarter, year by year, even month by month, and the idea is to break out of that mold by not just focusing on cyclical trends, but on secular trends. So I still would maintain that the smart way to read a market is to look at both and that those secular trends really work right through the cycle and work out over decades, not quarter to quarter or month to month.

Jay McNamara: Do you see, Jacques, when you think about the DTU and E, do you think about them regionally? Do you think of them in a broad catch-all global perspective? How do you take that into account if you're thinking about demographics as you spoke, or even urbanization, for example, right. Do you take into account regional local differences, particularly in light of the fact, even in the U S we have different sub regions dealing with the pandemic very differently and the outcomes have been

quite different, but how do you factor in the fact that LaSalle Investment Management is so global with their investing in their client base and their capital raising? How does that factor in?

Jacques Gordon: Well, these secular trends are global, and they do play out slightly differently in Shanghai and Hong Kong versus Sydney or Melbourne or London or Paris. Yes, that's true. But there are echoes of the DTU+E trends really in all the major markets where LaSalle is active, there's interplay between them and that interplay over the last decade and a half - we started using that way of organizing our thinking about a decade ago, and the interplay between demographics technology and urbanization worked very well in a specific - thinking about how live, work, play, younger workers working in tech firms, like urban areas. So you can sort of take DTU+E and add verbs and nouns, and get a theme there. So these factors are still there. They are affecting our real estate, I'd say in some surprising ways during COVID, but I also would say it's smart to look to the post vaccine or post 'COVID under control' idea and realize that this time we're in now is an unusual interim period before that period.

Jay McNamara: Right, and maybe even accelerate some of the trends we saw pre-COVID, pre-pandemic to cities that - Austin's always the one that we in the States hear about as really becoming a city of choosing for many individuals, vis-a-vis what we would describe in the financial services circle as those investment hubs, the Tokyo, Hong Kong, New York, London type, so maybe some of those. In the T component of it Jacques, when you think about technology, and again, you referenced demographics is this enormous catch-all word to define so many things. What is the T component of it mean in the LaSalle view of the world in this DTU+E, when you talk about technology there, and it being such a trend, a secular trend, that we need to be watching, what does it mean to LaSalle exactly?

Jacques Gordon: Well, it means a lot of different things. I think for the last 10 years, we focused on demand drivers and particularly looking at human capital indices that we've created, looking at where patents are, looking at where universities are, looking at both life sciences and software and other tech heavy industries, media, and even film and Netflix - the LA Hollywood bundle of Netflix and Amazon Prime. But in general, city by city, technology has become the real driver of, particularly the office market and also the residential market. So, just in the last, I'd say three years with the help of JLL, LeSalle's corporate parent is JLL, we're also realizing there's an incredibly important supply side impact of technology. It's what we've been learning from our corporate solutions business, which works for the largest tech companies, as well as all occupiers and realizes that technology ends up becoming a tool to manage your workspace, a tool to manage your collaboration space, your booking of conference rooms, your intensity of use, a whole variety of tech related supply side attributes, that really matter a lot. You can just think about wifi when we're all working at home, the quality of our wifi has suddenly got really important, and it's always been-

Jay McNamara: With teenage children, I saw that. Exactly, competing, for space on the wifi network at home with Netflix and teenage daughters.

Jacques Gordon: So I think all the property types have this, but in office it's really a hyper-situation with COVID.

Jay McNamara: If we stay within the DTU+E space, but pivot it a bit to the E. So obviously within our society, financial services, and then kind of narrowing it down even to just real estate, one of the hottest topics right now is ESG, and I know in MSCI's case, at the end of June, we launched actually a climate value at risk model for clients, which will allow clients to look at their portfolios holistically and get a value at risk calculation for the portfolio, and then further developments and to single asset analysis and these sorts of things. But how is LaSalle Investment Management considering various ESG governance or even climate-specifically, which we at MSCI, we're clear to say of ESG but climate needs to be its own thing too. How is that incorporated into the investment strategy, the capital deployment process and do things vary from region to region?

Jacques Gordon: They do vary from region to region, I can answer that question most simply. More importantly, the journey that investment managers are on, in terms of equity real estate for ESG-type factors, is in some ways far advanced relative to peers on the stock market and bond market, and in other ways lagging way behind. I can give you a quick example, the way in which I think we are more atuned is the way in which buildings and their energy output and their contribution to carbon is being monitored, measured, lead has been around with us in all of the major markets where LeSalle is active now standard energy stars is another and in Australia, there are a lot of different acronyms, but energy certificates are needed for every building in the UK as the MSCI teams would know. So, there's a leadership area that real estate is playing on the environmental, carbon neutral, carbon emissions side of our ledger. The S and G, those are probably lagging a bit in real estate, particularly the S. They're harder to define, our metrics are less well-established. MSCI has been a leader in corporate indices of establishing what constitutes a good S and G program - real estate is behind that. We need really leadership from groups like MSCI, the World Economic Forum, to really explain how would an S factor contribution to your community, contribution to the problems of society. What would it look like in a real estate setting?

Jay McNamara: Right. Okay. That's good to hear because I know that the fastest growing area of MSCI right now is our ESG segment and with the launch in June, starting with climate, that was our first foray into the real assets base starting to extend some of those solutions beyond equities and fixed income and funds and things of this nature. I just want to ask a little bit more too about - I know that LaSalle along with JLL launched the 11th annual, I think it's the 11th annual transparency index, global transparency index and were there any interesting takeaways from this year's release that either pre- or post- COVID that we need to be considering as we transition out of this interim period of dealing with the pandemic, this isn't going away anytime soon, any thoughts, ideas that came out of this year's index?

Jacques Gordon: Yes, every two years or three years when we did it, we took that three year time frame, for the second one, the second edition took us three years to do, each time we've done it, we've

expanded what we're looking at, and we've expanded the number of variables in it. They're now over 200 variables per country, and we've also started ranking cities. And the types of things we're looking at are much the same, but we've added a lot. The surprises were many. At a very high level, there are countries that continue to improve over the last two years. India is a good example. They've done a lot there. We had IPOs and listings and reach start to get offered in the India stock exchange. That's brought a lot of transparency to the quarterly earnings, understanding of how Indian real estate works. Indian real estate was always a low transparency or opaque market to a lot of us. Now it's moved up to the middle tier where it's semi-transparent, it's actually the high end of the semi-transparent range, so it moved up a lot. So all of this adds up to an interesting finding, which is that the improvement in transparency between 2018 and 2019 was modest. The lowest we've seen.

Jay McNamara: From an MSCI perspective, we believe we exist to provide investment management decision making tools. And so many of those tools are about providing transparency into an asset class that you know even better than I, has historically been opaque, whether it's the transaction side or just underlying drivers of performance. And so it's been interesting. We saw those results and I know we've worked a bit with you in the past on it. And it kind of dovetails nicely with our coming to market with a Brazil solution and potentially considering in the back end of 2020 and into 2021, what other emerging markets will the large global institutional investors like LaSalle want us to be able to provide tools to support the process, whether it is within the investment side and the allocation and deployment of capital, or even more on the transaction brokering capital market side. Well, Jacques, I really appreciate you taking the time. I think we probably could have spent - every time you and I get together, we could probably spend an hour or two talking about a variety of topics, but, I want to say thank you. I appreciate you carving out some time for us. I enjoyed our conversation here and I look forward to continuing those conversations, whether they're in New York, Chicago, or wherever we happen to find ourselves in the future.

Jacques Gordon: Well, thank you, Jay. Thanks for inviting me and please give my regards to my many friends at MSCI. I don't know if you can see on my bookshelf back here, but one of these says one of your predecessors, they use the IPB.

Jay McNamara: Oh yeah, there we are. The roots of real estate. Yeah. Right. Excellent. Excellent.

Jacques Gordon: I think you guys are in the transparency business and there is a lot for the institutionalization of the asset class, the growth of the asset class, and really helping explain the asset class to a whole generation of new investors, investors who have not invested in real estate before need to understand it. So appreciate the work it does in that regard as well.

Jay McNamara: Great. Thank you, Jacques. And I want to thank everyone else. Thank you for joining us for this episode of MSCI Real Estate Conversations. Take care.

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