



Defined Contribution  
Institutional Investment  
Association

# THE ROLE OF REAL ESTATE IN DEFINED CONTRIBUTION PLANS

June 22, 2017



**Jimmy Veneruso** is a Senior Vice President and Defined Contribution Consultant in Callan's Fund Sponsor Consulting group Callan Associates based in Summit, NJ. Jimmy joined Callan in 2007 with focus on all things related to investment products within a defined contribution framework. Jimmy works with consultants and clients on defined contribution plan structures identifying appropriate exposures and how to access these exposures in an efficient manner. Within Callan, Jimmy is responsible for research and analysis of target date investment managers and assists plan sponsor clients with manager searches. Jimmy is a regular speaker at the "Callan College" and various investment forums.



**Toni Brown** is a Senior Defined Contribution Specialist at American Funds, part of Capital Group, San Francisco, CA. Toni has 27 years of investment industry experience and has been with Capital Group for three years. Prior to joining Capital, Toni was the Director of U.S. Client Consulting and the U.S. Defined Contribution Leader for Mercer Investment Consulting. Before that, she was a Senior Investment Consultant at Callan Associates with management responsibilities for the San Francisco consulting office and the firm's defined contribution practice.



**Craige Stone** is Director, Defined Contribution Plans at Utah Retirement Systems. Craige Stone directs the plan administration, daily operations, and customer service efforts of the Utah Retirement Systems Defined Contribution Savings Plans. These plans are provided for over 170,000 state, city, county, and school employees; including retirees. In addition to the Savings Plans, Utah Retirement Systems administers Utah's public defined benefit systems and the Utah Public Employees Health Plans. The Defined Contribution Department works closely to coordinate with these systems and benefit plans. Prior to his current position, Craige managed the marketing and education efforts for both the Defined Benefit and Defined Contribution plans.



**John Cunniff** is Head of Portfolio Management, Multi-Assets Team at TIAA Investments. John currently manages investment strategies for TIAA's Lifecycle and Managed Allocation portfolios. Prior to joining TIAA, John served as Director of U.S. Research at Morgan Stanley Investment Management and as a Portfolio Manager for both Van Kampen Investments and Franklin Templeton Investments.



**John Worth** is Senior Vice President, Research and Investor Outreach at NAREIT, the National Association of Real Estate Investment Trusts. John's prior experience includes Chief Economist of the National Credit Union Administration (NCUA) and nearly a decade at the U.S. Treasury where he served as the Director of the Office of Microeconomic Analysis.

- Introduction
- Setting the Table
  - Overview of real estate as an asset class
  - How real estate is being used
- Investment Merits & Implementation Considerations
  - Discussion of investment attributes and fees
  - Implementation of REITs vs. private real estate
- Common Operational Issues for Private Real Estate
  - Liquidity
  - Valuation
- Decision Tree and Wrap-up

# WHAT IS REAL ESTATE?

- ✓ The buildings we work in, the malls we shop in, the residences we rent, the doctor's offices we visit, the hotels we stay in
- ✓ Commercial real estate provides exposure to hundreds of thousands of structures across diverse property sectors:
  - Retail
  - Residential
  - Office
  - Industrial
  - Health Care
  - Self-storage
  - Hotels
- ✓ Accessed through both public, listed (e.g., Real Estate Investment Trusts "REITs") and private markets

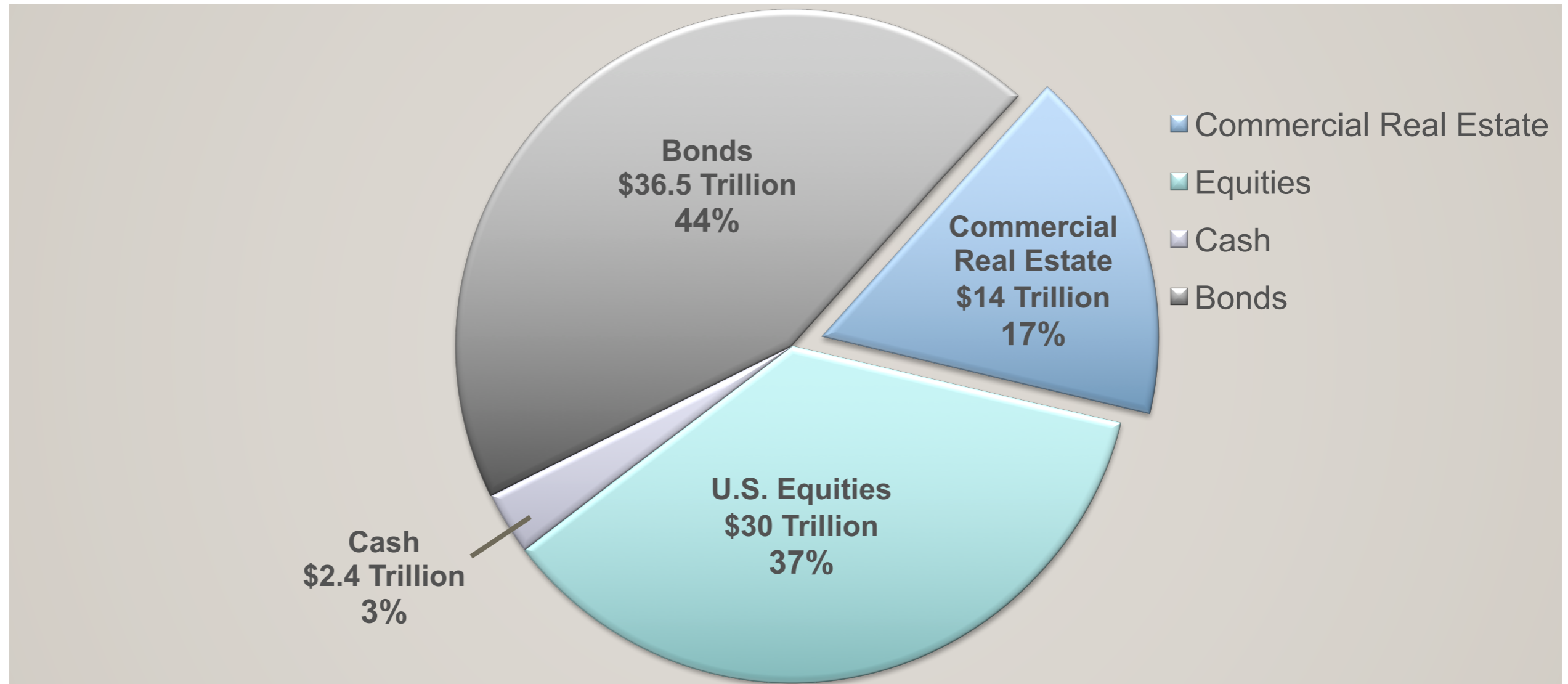


- ❖ Real estate provides unique investment attributes:
  - Hybrid investment returns with elements of both stocks and bonds
  - Investment grade real property assets provide a measure of inflation hedging
  - Real estate cycle does not coincide with the overall economic cycle
  - Moderate correlation with other assets over time provides potential diversification
  
- ❖ Studies indicate optimal allocation to real estate may be 5%-15%

Source: Wilshire Funds Management, "The Role of REITs and Listed Real Estate Equities in Target Dates Fund Allocations," 2016

## Commercial Real Estate is a Large Asset Class

Third Largest Asset in U.S. Investment Market Basket



**“Basically, there are only four types of investment categories that you need to consider: Cash, Bonds, Common Stocks and Real Estate.” – Burton G. Malkiel, PhD (Economist, Princeton), The Random Walk Guide to Investing**

Sources: Stock and bond data from Board of Governors of the Federal Reserve, Financial Accounts of the United States, 2016Q4; commercial real estate market size data based on NAREIT analysis of CoStar property data and CoStar estimates of Commercial Real Estate Market Size, 2016Q4.

# ACCESSING REAL ESTATE: DIRECT/PRIVATE VS. LISTED REITs/PUBLIC

## Direct Equity Real Estate

**Direct equity real estate represents ownership of physical properties such as office, retail, apartment and industrial buildings**

1. Management acquires and administers properties
2. Invests funds for capital improvements, tenant improvements and leasing commissions
3. Generates returns through the collection of rent and capital appreciation of property values



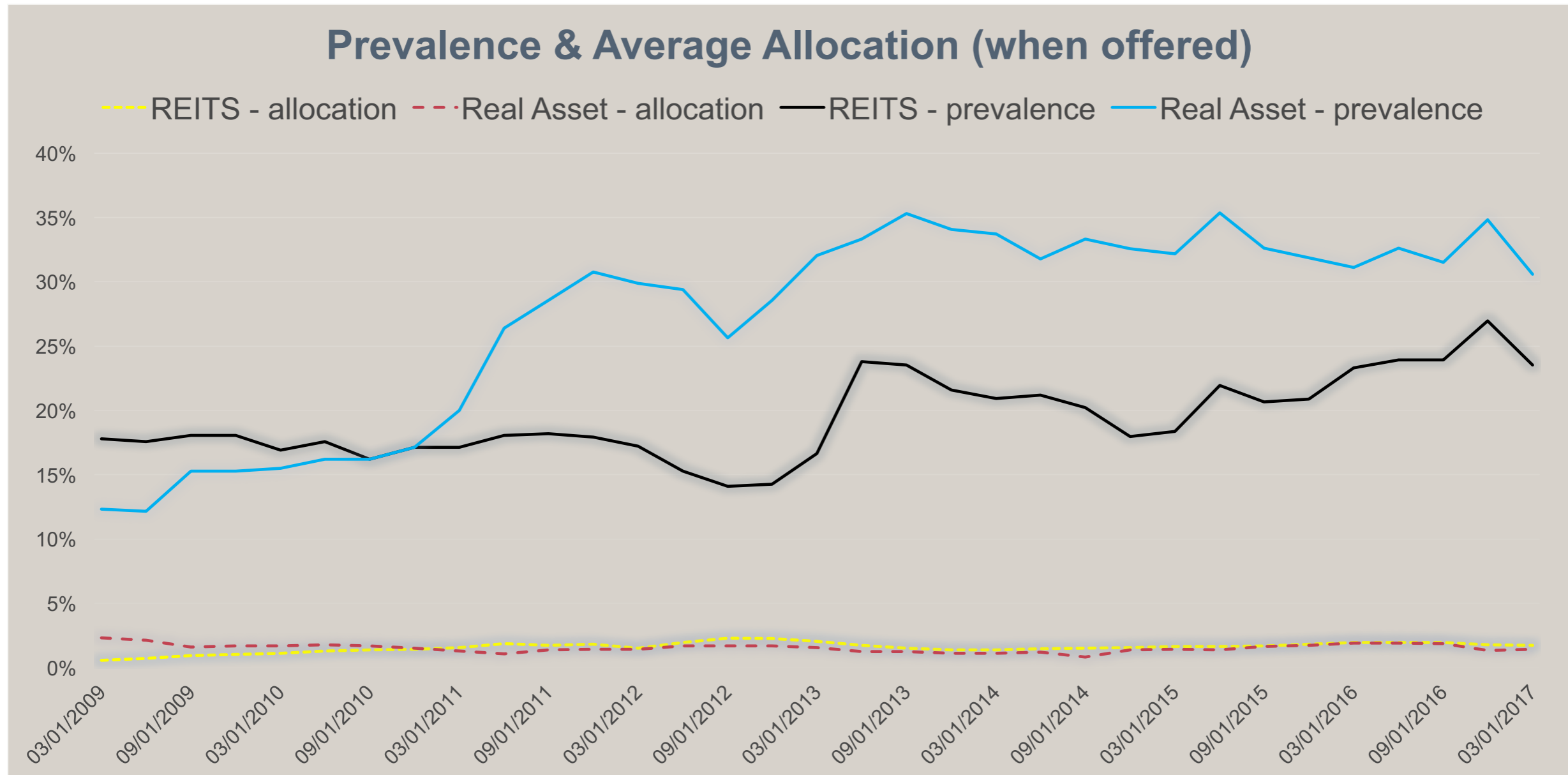
## Listed Real Estate Investment Trusts (REIT)s

**Listed REITs are public companies that specialize in owning and operating commercial real estate**

1. They trade on exchanges and are available in active and passive mutual funds and ETF vehicles
2. They generate returns through the collection of rent and capital appreciation of property values
3. They return most (90%) of their income to investors in dividends – income comprises about 2/3rds of total REIT returns

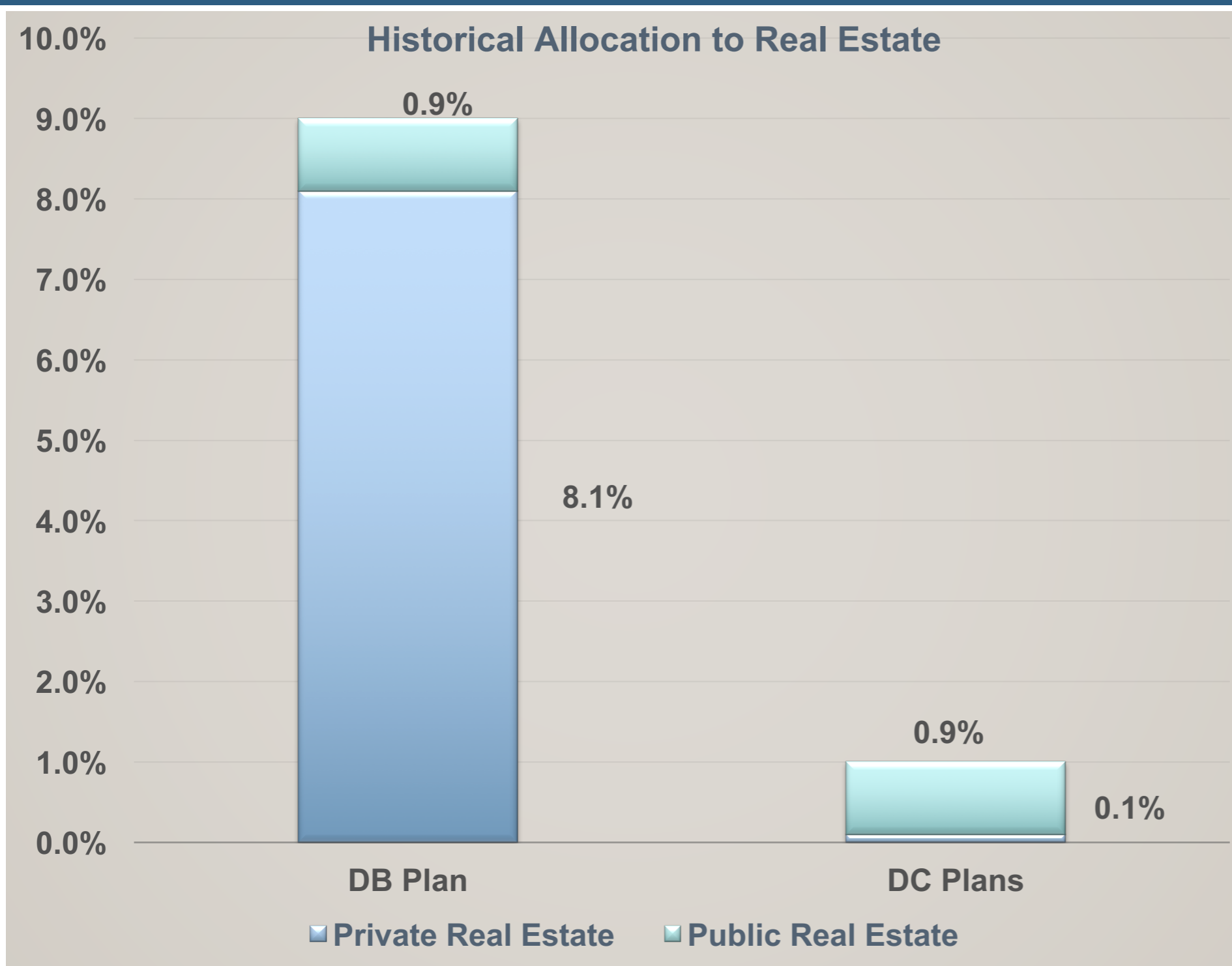


## Prevalence & Average Allocation (when offered)



- Historically DC Plans accessed real estate through public REITS
- In recent years, more multi-asset “Real Asset” funds, which often include REITS, have been offered
- Even when offered, either as part of a multi-asset solution or a standalone public REIT product, uptake has been low

Source: Callan DC Index™, Q1 2017, <https://www.callan.com/dc-index/>



## Direct/Private:

- An *estimated* \$25bn allocated to private real estate in DC
- Across 100+ DC Plans, 20 consultants have clients that have implemented across 14 record keepers, 10 custodians
- Present in 7.7% of off-the-shelf glide paths, with strategic allocations ranging from 2.5% to 15.0%

## Listed REITs/Public:

- An *estimated* \$225bn allocated to listed REITs/public real estate in DC
- REITs are available as a stand alone option in nearly 200,000 DC plans,
- Implemented by virtually all record keepers
- Present in 90%+ of Target Date Funds. Included as a sleeve in 60% of Target Date Funds

Sources: DCREC estimates, Q2 2017, Callan DC Index™, Q1 2017, <https://www.callan.com/dc-index/>, Esrig, Kolasa and Cerreta, "Assessing the Impact of Real Estate on Target Date Fund Performance," Journal of Portfolio Management, 2013

- ❖ Are the investment merits worthwhile?
- ❖ Do the fees justify the potential outcomes?
- ❖ Where would this fit into a DC plan structure?
  - Target date funds? Multi-asset funds?
- ❖ What type of implementation best fits?
  - REITS or private or both?

# THANK YOU FOR YOUR INTEREST IN OUR WEBINAR

THE WEBINAR REPLAY AND PRESENTATION MATERIAL  
WILL BE AVAILABLE AT [WWW.DCIIA.ORG](http://WWW.DCIIA.ORG)

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