Real Estate Investors: Stuck in the Middle with You

Adam Bass (00:03):

This is MSCI Perspectives, your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host, Adam Bass, and today is November 9, 2023. As one of our guests pointed out as we recorded, commercial real estate used to be boring. In other words, it's no longer boring. And if we accept that premise, we do still have to ask ourselves, "Is this a good thing or is this a bad thing?" That can be difficult to answer because the current environment ... Well, to put it one way, we've seen this movie before. However, many real estate investors, even some experienced ones, are simply too young to remember. I invite those investors, as well as the rest of you, of course, to grab some popcorn and listen in with me on a truly interesting conversation that was held between our own Joe Collevecchio, along with two old friends who just happened to also be on the cutting edge of insightful, anything but boring, commercial real estate investment research.

Joe Collevecchio (01:16):

Gentlemen, let's just start by setting the scene. What is the situation for commercial lending and commercial real estate at the end of 2023? How did we get here? How does it compare to other periods? Jim, let's start with you.

Jim Costello (01:30):

Sure. I'm Jim Costello. I'm Chief Economist for MSCI's Real Assets team. What I do is take a lot of the market data that we collect and the performance data for commercial real estate and use it to help people understand where the world is and tell stories about it in writing and presentations. And talking about the lending market has been a big topic in many of my recent talks. And the story has been that people are worried that we might be heading into a period of illiquidity, like the financial crisis, like the S&L crisis. But it's a little bit different I think. In lending, where we had no debt at any price in some of those previous downturns, this one is just more about the cost of debt I think. The severe increase in interest rates last rear year, and into this year, has really changed the underwriting criteria for a lot of investors.

Rich Hill (02:23):

My name's Richard Hill. I'm Head of Real Estate Strategy and Research at Cohen & Steers. For those that might not be familiar with Cohen & Steers, we were founded in 1986 by Marty Cohen and Bob Steers. I think we're largely known for one of the grandfathers of the modern listed REIT market, but we manage around $80 billion across real assets. And more recently, we made a push into private real estate, commercial real estate investing, in addition to what we do on the listed REIT side.

(02:54):

I completely agree with what Jim said about the debt markets. I spend a lot of my time right now specifically trying to separate fact from fiction. I think the narrative has moved very much so to the pervasive negative side of the debate. While there are some real challenges facing the commercial real estate debt markets, sometimes the truth can be in the middle, and I think, in many respects, we've lost sight of that broad middle ground. So I'm really interested in spending some time with Jim, who I've known for quite some time, understanding what's fact from fiction and what the challenges are and maybe what some of the opportunities are as well.

Joe Collevecchio (03:32):

Rich, when we had our pre-production meeting prior to recording this, you said something kind of interesting that stuck with me, and that that things are returning to an old normal. It's not a new normal. This is how things were and we've had this kind of unprecedented period of low rates. Could you expand on that a little bit?

Rich Hill (03:47):

I'm probably going to paint myself immediately as an old curmudgeon with the comments that I'm about to make, but we're often asked, "What doe this new normal environment look like?" I reject the premise of that question. This is not a new normal environment. This is a return to an old normal environment that persisted for decades prior to the great financial crisis. What do I mean by that? Well, we are now in a higher-rate, higher-inflation regime. A 10-year Treasury at 4% to 5%, that's not historically high. And inflation returning to, call it, a 2.5% to 3.5% range is not historically high. What is abnormal is the environment that we've seen for the past 10 to 15 years where interest rates was low in falling, inflation was low in falling. Said another way, Jim mentioned we're getting used to a higher interest rate regime. That's entirely true. We've become accustomed to global central bank intervention that introduced tremendous liquidity into the system and pushed interest rates to historically low levels that we've never seen before.

(04:54):

So in many respects, I think the market's learning to walk on its own again. That can be painful and that can be challenging, but I think it will put us on healthier footing. So maybe in conclusion, the abnormal event was what happened over the past 10 to 15 years. What we see happening right now is a return to old normal and, frankly, a lot of people haven't been around to see that old normal environment. So that's the curmudgeon coming out.

Jim Costello (05:17):

That's the point I was going to make, that a lot of these events that I'm at, the people that I'm seeing, they're just too young. They came into the industry right around the global financial crisis or just after. I mean, there's people in senior positions in the real estate investment world now where the only downturn they've had experience with is the financial crisis and all the really low rates that came after that with the flood of capital from all the rescue money that went out. And so as we remove the support that came from the COVID crisis, it is trying to get back to a point where the capital markets have to stand on their own feet, and that's an adjustment that people just don't have work experience in that kind of environment. And so it's a shocking thing for a lot of folks, and it's going to take a while for the expectations to reset to those levels.

(06:11):

But for the longest time, real estate performance was kind of boring. The joke was the cap rate's always nine. You go back in time and a lot of times, it was pretty stable. It didn't move too much from one period to another, but we had a tremendous drop in cap rates over the period from sort of after the internet bust and into this period when you had bank intervention helping more liquidity there. And now, you're seeing the opposite direction in terms of cap rate movements and opposite direction from the kind of support that helped drive some of that change.

Rich Hill (06:54):

Now, I think your point about cap rates is an interesting one, and the stability of cap rates. Most people, and frankly, even including myself, missed all the fun in the early 1990s and certainly missed the Russian debt crisis and what that all meant, but you're right. It's been sort of a steady decline in cap rates, frankly, since 1980 really. We've had some blips here and there, but one of the stats I like to tell people is that we've been in a secular decline in 10-year Treasury rates since 1980.

(07:22):

So I'm going to give you a wonky stat here, Jim. Prior to 2022, there was less than three months since 1980 where the 10-year Treasury was not lower a decade forward. What that means is in 1990, it was lower than 1980. In 2000, it was lower than 1990. So yes, of course, cap rates compress into a rising interest rate environment because historically, guess what? You were still able to refinance into a lower and lower interest rate environment. Now all of the sudden, every single month since the beginning of 2020, interest rates have been higher than where they were a decade forward and we're just having to deal with all of this. I refer to it as the grieving process. I thought we were getting through the grieving process, and then early August hit and interest rates spiked on us. And now, I think we're sort of back to either anger or denial, one of the two.

Jim Costello (08:11):

That point you made about the change over 10 years, I have a chart that I use in a lot of my presentations that I do it as a seven-year change because the typical holding period for a lot of commercial real estate investments is seven years. So since the mid-1980s, every time an investor has bought an asset, they were generally buying the asset from somebody who, seven years previously, had financed it at a higher interest rate and typically a higher cap rate environment. Where I'd like to use that slide in particular is I asked an audience, "A show of hands, who here is a Gen Z?" and then I play into the whole, "Okay, boomer," stuff. I said, "Didn't they have it easy? They had the wind at their backs," and it's typically helping the young folks make fun of the senior folks in the room.

(08:58):

But I actually, really do feel good for those Gen Zs because they're going to have to work through an environment where even if the 10-year Treasury stays flat where it is today and we don't have any other movement, even if it goes down 50, 60 basis points and stays flat at that level, they're going to be working in an environment where every deal that comes up, it's going to be a more difficult financing situation than the previous buyer. And to be able to deliver value, they're going to have to work for this. They're going to have to focus on true real estate issues. Asset management will matter.

Rich Hill (09:35):

I completely agree with you. You're going to have to focus on the asset again. Especially in the environment that we're beginning to see, where there is massive disparity between the performance of property subtypes. Jim, I follow your CPPI pretty closely, but I don't think that tells the whole story. It certainly doesn't tell the whole story across property types, and it certainly doesn't tell the whole story across regions and cities. One of the things I like to show people is office valuations. Office valuations are taking it on the chin right now, but there are some office markets that are doing a lot better than others. And so I guess that's a long way of saying people like to talk about the commercial real estate market as this singular asset class.

Jim Costello (10:21):

Yeah.

Rich Hill (10:21):

But in reality, it's 18 different sub-sectors that are a lot like my seven-year-old's first grade class. They're all going different directions at different times.

Joe Collevecchio (10:30):

So Jim, you mentioned that financing is a little bit more difficult with each deal going forward in the current environment. And we've lost some sources of liquidity, but others have opened up as well.

Jim Costello (10:40):

There is an increase in the activity by what people are now calling private credit strategies. That's another label that people are putting on what were called debt funds a short while ago. It's effectively non-bank lenders stepping in, providing sources of financing to borrowers in a time of a little bit of challenge.

(11:05):

Some of the strategies that these private credit folks will do is just a little bit of a bridge, helping people through what some believe may be a temporary change. If you look at the SOFR Forward Curve, there is an expectation that comes down a little bit in the future, and so some people may be thinking to themselves, "I'm going to try and hold onto this asset and try and refinance out of whatever difficulties I have at the moment with some short-term debt and maybe longer term, I'll be able to stabilize the property, get a lower rate on a mortgage in the future, and it all kind of helps me out." The real challenge has been the change of late in bank lending. Banks are not everything. There are other types of lenders out there. We have the Fanny and Freddie helping in the multifamily sector. You have the life insurance companies. [inaudible 00:11:56] out there. But banks were the largest slug of debt capital. And the small banks in particular took it on the chin in the second quarter with all the uncertainty around Silicon Valley Bank, Signature Bank, and First Republic.

(12:14):

If you look at the Fed data on just total stock of commercial real estate loans held by banks, into September it grew only minimally, which suggests they're really starting to originate less at this point. It's a challenging environment. And if you are in a small city in the state of Missouri, you're not going to one of the big money center banks for your financing. You're dealing with the small, local bank where it's relationship lending, even as much as it is real estate lending. And in those areas, people are becoming a little bit more gun shy and it's going to be harder to find backup sources of capital for some of those areas.

Rich Hill (12:58):

I think this is maybe where some of the biggest misconceptions are. I want to maybe just get on my soapbox for a second and lay out some facts as we see it, and feel free to disagree. But we see the CRE mortgage market around $4.5 trillion. You will hear this stat thrown around a lot, that banks, particularly small banks, finance 70% of that $4.5 trillion. We think that statement couldn't be more wrong. So let me explain to you, or for listeners, what we think is occurring. So banks hold less than 40% of the income producing loans and around 45% of all CRE mortgages, including construction loans.

(13:37):

What is true is that small banks finance 70% of the loans held on bank balance sheets, but you need to sort of take that 45% number, multiply it by 70%, and then you're talking about small banks only holding a little bit more than 30% of all CRE mortgages. That's still a really big number. I don't want to dispute the fact that small banks holding a third of all CRE mortgages is a big thing, but it's not 70%. You've had some great research about talking about how much small bank market shares are falling quarter-over-quarter and year-over-year. I think I sort of poked you a little bit saying, "Great headline. Hope you got some good clicks on that." But the reality is small bank market share got up to 35%, 37%, almost 40% at one point.

Jim Costello (14:22):

Yeah, yeah. About 40% of originations into the first quarter of 2023 was a record high level for their share of all originations. And then it fell into the second quarter at a record case decline.

Rich Hill (14:37):

Which is sort of bonkers to begin with that they were still going very strong at the beginning of 2023. And look, they were going probably even stronger in 2022, but I'd just like to remind everyone that you are going to see some really big market share declines for small banks because 40% was not a natural level. 40% was bubble level.

Jim Costello (14:58):

But the one thing where I'd say it should have been a little higher is that the equity investment market is moving a little bit more towards the asset types and locations where those local banks dominate the deal market. It's not like the State Bank of Utah is coming into Manhattan and making loans for office towers on Fifth Avenue. They're making loans on the asset in Provo that's a small warehouse where people are shipping goods around the region. It's smaller, local areas that see more deal volume today. We've seen the biggest pullback in deal volume in the expensive coastal markets where the major money center banks and some of the CMBS lenders were so active.

(15:50):

But deal volume didn't fall as much in some of the smaller markets, and particularly those smaller markets are also more heavily exposed to industrial and apartment investing. Those are viewed by equity investors as relatively safer asset classes, and so there's a little bit more capital going into those. And it shifted some of the composition of which markets are the top markets for total investment activity. Some of the equity moves were just focusing on those markets where those banks dominate.

Rich Hill (16:20):

So for everyone listening, just to be clear, there's more than 4,200 banks across the United States. So Jim, you brought up an interesting point about, "Hey, look. Maybe these small banks aren't going to be as active originating loans as they were previously." I think that's a very pragmatic objective view of the world. I am curious, though, how you think about modifications with existing borrowers. Because you're right, it's a much different type of relationship. It's almost relationship lending. And I'd love for you to tell me I'm wrong here.

(16:49):

I've sort of argued that maybe these small lenders, small banks and small markets, are going to be more willing to modify and extend a loan with a local relationship because that's actually going to hurt their local economy if they suddenly foreclose on a property. Is there any merit to that? There was a concern in March that, "Hey, look. Sky's falling. There's going to be a complete utter collapse in the commercial real estate market." Things aren't great from the lending perspective by any means. But do you think maybe, at least what they small banks, do you think there's a chance that maybe they are more willing to modify and extend these loans with a low court relationship?

Jim Costello (17:26):

I think that the way I phrased it is that how people are thinking about this downturn in market prices and the distress opportunities that come out of it, there's a lot of people that think that they could just do the same things that made them successful after the global financial crisis and buying up notes on the cheap and riding a wave of recovery. You saw much more of that kind of activity following the global financial crisis because the problem loans were really heavily exposed to the CMBS market. There was no ability to have a sit-down with the lender and try and figure out how you can get an extension or modify the loan if some problem happened, that really the only recourse was a default, was some sort of event to the extent that the banks were more important in this cycle.

(18:24):

They do have more leeway. They have more leeway, both from a regulatory point of view. The regulators aren't screaming down their necks telling them to market everything to market and get everything bad off the books. And they do have much more of a relationship type of view of all the borrowers and thinking about how it works across our whole portfolio. And I think it's going to delay some decision-making as long as they can. Because ultimately, if they have to force some issue, they don't want to end up with a property, they don't want to foreclose because then they have to deal with the issues and they're not set up to do that.

(19:04):

Even if they have to modify the loan a bit and take a little bit of a haircut, that's going to be preferable to ending up in an REO situation where they end up owning the property. They are a little bit more motivated and they have a little bit more leeway to do these things compared to after the financial crisis. So the folks thinking that they could just repeat the same successes they had after the financial crisis, they may be disappointed.

Joe Collevecchio (19:30):

Now that's interesting, Jim, because I wonder if we're in a situation where there are investors waiting for prices that drop because they feel like there's going to be opportunity to pick up some distressed loans, and we have sellers that are convinced that they don't need to sell, how long can this tension last? Where does it break first?

Jim Costello (19:47):

Yeah, where does it break first? For the buyers to break and suddenly jump in, they would have to expect that there's going to be a tremendous growth in income moving forward. If I buy a property at a 6% cap rate and I expect some high income growth moving forward, that might make sense. But if I expect very little income growth and the rates are at this level, well, why don't I just put it into cash, which is yielding a level much closer to that? It will feel safer to some degree. So I think the buyers, they're just not going to be incentivized at these levels, unless something happens to tremendously change their income expectations.

(20:33):

The current owners might be motivated to sell eventually when they have a maturity event coming up. If you think about the 2021 and 2022 vintages, the early '22 vintages, those were done at record high prices with very low interest rates and very high LTVs. If you tried to refinance it today at the current availability of capital, you'd have to contribute more capital at the time of refinancing, do a cash-in refinancing, and some people just aren't going to have the capital to make that work.

Rich Hill (21:09):

There's a couple points I'd make here, and I'd maybe take a slightly different perspective than Jim. Yes, outsized NOI growth can have your un-levered IRR look attractive, relative to a low cap rate. And we don't have to debate if those NOI growth projections are fair or not and if they're consistent across property types. Now, if I'm buying a property right now, I have to sort of look at it on an un-levered IRR basis because not only is it uncertain if I can get debt capital, but if I can, I'm not sure the interest rate is that compelling to me. So look, the selective opportunities, and this is the optimal word, that we're beginning to see, they make sense on an un-levered IRR basis. And so it begs the question, Jim, why are we beginning to see selective opportunities? You hit on one of them, which is a loan maturity. But there's also, believe it or not, funds every single month that are coming up to their maturity date of the fund, closed-in funds, and they sort of got to sell stuff.

(22:14):

Given the amount of property price appreciation we've seen over the past 10 to 15 years, they're probably still doing okay, not doing as well as they thought they were, but still doing okay. And then number three, believe it or not, I think there are some sellers that just have seller fatigue right now. They put a property out for sale a year ago. They got some bids on it. They didn't like the price. Guess what? They put it out for bids six months later they got some bids on it lower than where the bids were previously. They didn't like the price. They pulled it back. Finally, they came in to say, "Look, I just want to sell this thing for one reason or another. Maybe I thought interest rates were going down six months ago. Now I don't think they're going down to where I thought they were. I'm just going to sell this thing."

(22:57):

So I think on the core side, you got to be really patient, but there's selective opportunities beginning to emerge. On the opportunistic and distress side. Those are going to be the first movers and those are things that are coming. Before I throw it back to you, Jim, I did want to address the comment about how long is this going to take. There is a far inferior provider of an index than MSCI Real Capital Analytics that goes back to the late 70s, early 80s. And the only reason I'm ever bringing them up, Jim, is because they do have that longer term history. If you look at the current correction from peak to trough, relative to what occurred in the GFC and the S&L crisis, this correction is actually tracking the S&L crisis. It's a little bit more severe than the S&L crisis, but it all leads me to believe that this could take a long time to play out and it's not going to be a swift V-shape down and V-shape back like we saw in the GFC.

Joe Collevecchio (23:56):

But Rich, you said earlier that it's not all down everywhere. It's not a bear market all over the place. There are select properties that seem to be doing well. And are there some properties that are just kind of passed their prime, in a way of speaking? And I'm thinking mostly about pending climate legislation, pending regulations, stuff that might make certain buildings just unattractive. What happens to those, right?

Rich Hill (24:19):

Yeah, all of the above. So look, the poster trial for this is Class B and C office, and so we might as well just talk about the elephant in the room since seemingly everyone wants to talk about it, and there was probably three articles written in the 30 minutes we've been talking about this. You might've heard offices in a bear market and office evaluations are going down. It's not a new story, but everyone likes to talk about it. So Class B and C office has a really big problem on their hands. What is a Class B and C office? It's basically something built in the 70s or 80s that had no CapEx put into it. And they probably had a challenge prior to COVID. They have real challenge now.

(24:57):

So you don't know where your NOI growth is going because rents are coming down. You don't know how much CapEx you have to spend to generate that NOI growth, and you certainly don't know how much debt you have to achieve on it. And so the simple reality is, look, you can try to redevelop that Class B and C office property, but guess what? It costs just as much, if not more money to redevelop a Class B and C property as it is to build from the ground up. And this is sort of cliché, but I don't think the analogies to the Class B and C mall space are that much different. We just have too much of it and we got to think about how to reposition it, and that's a lot easier said than done.

Jim Costello (25:37):

Yeah, that issue, a lot of folks are also thinking about the office conversion potential as a way of providing housing. And I think it's something that there's a recognition that there's a need for additional housing in a lot of cities who are under-supplied in the apartment market, but I think the math just doesn't add up. You'll add some units, but there just aren't enough units to come through that way to really have a meaningful impact on housing demand and housing supply. But it feels good to say, "Well, I'm going to try and solve this housing affordability issue by converting some of these empty office buildings," as a politician and say that and say you're going to make the framework for it, when really we have restricted zoning in many areas that limit the free markets from building what it would want. And then it comes around to people trying to look like they're doing something by saying that they're going to try to convert office buildings or maybe incentivize developers to convert office buildings, but there's really just not enough office space to solve the big supply issues that we face.

Rich Hill (26:50):

If we can somehow find a way to have a public/private partnership and redevelop big sections of real estate into something other than what they are right now, I think that would sort of be the holy grail. Am I holding my breath for that? Probably not. And so I think my base case, Jim, is similar to what yours is. It's nice in theory. Just like everyone has said, "We're going to take malls and convert them into distribution facilities." It's not like that really worked that well.

Jim Costello (27:19):

I think a lot of the malls, turning them into distribution facilities, people would find an easier time doing that because you're not going to keep the old structure. You're just going to scrape that mall down and just use the land. When you're buying one of the former Centro buildings that sold for around $200 a square foot back in '07, when you're buying it for $5 to $2 a square foot today, you're not buying the building. You're buying the land value. And the challenge for some of those facilities is that they're located on a lot of major highways where it's great connectivity for distribution activity. But local governments are preventing developers from stripping it down and building industrial facilities because number one, they're still holding out hope that somebody comes back and puts some sort of retail there because they can collect, in the many cases, in a lot of states and localities that collect sales taxes, and that generates their local revenue so they're holding off allowing any changes.

(28:20):

And number two, there's a little bit of a stigma for some folks to have industrial buildings like that in their town. Those restrictions on the owners of the land from doing what the market thinks is the highest and best use, those restrictions are preventing things. As opposed to the notion of taking some older office stock and bringing it into the housing market, I think that you're going to face far less challenges from local governments. There, you're going to have a lot of enthusiasm if somebody wants to take on that risk. You've got to do a lot more regulatory stuff to deal with some very particular housing-related regulations versus office regulations.

(29:07):

Simple things like in New York, you need to have units where you can open the window. In a lot of office buildings, you can't. And that may sound like a simple thing, but that means physically changing the windows on a building. That's expensive, and so it just adds to the cost there. But ultimately, I think the cities would love if someone can bring people back in. Imagine all these offices that are empty, all the local retail that kind of dried up in some of these office hubs where all the sandwich shops, the bars, the coffee places, they're not as populated as before. If suddenly, you have an influx of new resonance in the area, that can generate additional demand in those areas and create some more street life, create some more engagement in the area. But there's a lot of hurdles that people face in making the changes.

Rich Hill (30:01):

Yeah. For sure. Maybe we can stick on this topic of retail for a second and zig to what might be interesting in the future. I'm always surprised whenever I see the fact, "Open-ended funds that own core real estate have almost two-thirds of their assets in multifamily and industrial at this point." Obviously, been a great trade. Remarkable home run trade for the majority of the past 10 years. But I sort of think they're over-indexed to these two property types at this point. And look, you're already seeing what's happening with multifamily valuations starting to come down. You guys started to see it less so with industrial. But we're sort of big believers that what worked over the past 10 years might not necessarily work going in the future.

(30:44):

And I'll just throw out there that open-air shopping centers are actually doing remarkably well, fundamentally and on a relative basis from a price standpoint. They are the best-performing property type year-to-date in 2023 because they're down far less than everything else. So we sort of think that, look, retail of all types are still redlined by a lot of different people. But open-air shopping centers going forward, guess what? Fundamentals are strong. They already went through their pre-COVID issue, then COVID was a great Darwinistic event. I sort of think that the market is still maybe a little bit too preoccupied with industrial and multifamily.

Jim Costello (31:26):

People tend to paint retail with a broad brush, thinking that all retail is like a dead mall outside of Cleveland. There's so many unique things in retail. You can't just look at one broad number for retail and assume it paints a picture for every asset

Joe Collevecchio (31:42):

Going into 2024 and without predicting what you think the economy specifically is going to do, where might investors look in the coming year? What are some of the trends that you're seeing?

Jim Costello (31:54):

I think that we are going to see some changes in attitude in the market just because of some simple math. There's been a lot of negativity around the fact that deal volume is falling at a 57% pace from a year earlier. We've seen 40%, 50%, 60% declines over recent quarters from the same pace a year ago. But the declines really started in the fourth quarter of 2022, so we're just about a full year through everything. And really, since April of 2023, the monthly changes from a year ago we're starting to moderate. I'm not saying that suddenly we're going to see deal volume climbing again, investors jumping back in at the same pace and getting stuff back where it was. But some of the initial shock over the fact that interest rates went up so much, we've been dealing with this environment almost for a full year now, and so that's going to start impacting the growth rates in deal volume relative to a year ago.

(32:59):

So suddenly, it's going to look less worse. But at the same time, it's not like it's accelerating down. To our earlier discussion, there's always somebody who needs to sell for whatever reason, especially on the smaller side of the market. For the private wealth kind of stuff, there's family events that people just have to sell, life events, and so there's a general churn in the activity.

Rich Hill (33:24):

I completely agree with Jim's comments that institutional investors are not looking at smaller deals. Everything that we see is the smaller deals are where the re-pricing's beginning to occur right now for various, different reasons. But I would also extend that to markets. There are some markets that institutional investors don't want to play in, either because they have bad headline numbers or they're just small markets, and so there are opportunities beginning to emerge there. But in terms of geographies, I'll just make a couple points here.

(33:56):

I think people are going to continue to move to the Sun Belt for various different reasons. I sort of think that's missing the point about the headline though. I think we firmly believe that some Sun Belt markets will start to go through some growing pains. It means things like seeing not a lot of new supply coming to market. Like Austin, Texas right now has really high supply in the apartment market. It's pressuring rents. What else does growing pains mean? It means problems with infrastructure. If you have infrastructure from a decade ago and your populations doubled from where it was a decade ago, that's not as easy as a place to live and drive around as it was previously. There are some markets that are beginning to bounce back and there's real opportunities there. So at the risk of being a classic research guy that says the truth somewhere in the middle, the truth is somewhere in the middle,.

Adam Bass (34:50):

That's all for this week. A big thank you from Joe and me to Jim and Rich, and to all of you for listening. Next up on the program: In a world where nearly every experience can now be personalized, we ask about personalizing the way that you invest, right down to your personal tax situation. Until then, I'm your host Adam Bass, and this is MSCI Perspectives. Stay safe, everyone.

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