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'I'm all in, and I think our future is bright'

A Q&A with Matt Johnson about building a smart, inclusive, diverse U.S. real estate team

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, *Institutional Real Estate Americas*, spoke with **Matthew Johnson,** head of U.S. real estate for UBS, about Johnson's first year in the role and his outlook for real estate in 2021, and beyond. Following is an excerpt of that conversation.

What was your background, Matt, prior to taking over as head of U.S. real estate last year?

I was head of the Americas for UBS's Multi-Manager Real Estate business, which I joined in 2008. I was the first portfolio manager hired. We had the luxury of being a startup inside of a company with a big balance sheet. We had no clients, no assets under management — 12 years later, thanks to our talented team, it was approaching $20 billion in AUM, more than 500 clients and multiple vehicles. The success of that business was part of the reason I was tapped on the shoulder for this job.

What has it been like stepping into a new role during the pandemic?

When asked whether I would be interested in taking over as the head of U.S. Real Estate, I wasn't anticipating a pandemic! I knew I was going to have to make changes, but I wasn't anticipating leading a nearly 200-person team remotely for most of the first year. Obviously, the transactions markets fell off. Our sales plan for 2020 was heavily impacted, and we were not able to meet our goal. However, this also gave us a bit more time to be even more thoughtful and strategic about the assets we were selling. We have an aggressive plan for selling non-strategic assets this year, and I am optimistic about our ability to execute on it.

What else have you learned about the U.S. platform with a year in this role?

The perception from the market is that the platform is quite focused on diversified core real estate, which underpins one of our biggest strategies with the longest track record. But we also have a debt strategy with a track record that (as of March 2021) is in now excess of 40 years! In addition, we have a strong value-add investment track record, and we have some interesting new ideas that we'll roll out over time. We have extremely talented people on this team. I am all in, and I think our future is bright.

Can you expand on some of those key initiatives?

UBS has historically looked more to the investable universe for real estate and focused less on the NFI-ODCE index [National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open End Diversified Core Equity], which is the benchmark for many of our strategies. But we have to embrace the ODCE as our benchmark — that is what we are being compared with every single quarter. Further, our goal is to transition from being a bottom-up, property-level shop to much more of a top-down, research-driven shop. In essence, the portfolio management team will take responsibility for the allocation decision and getting those decisions correct, while looking at their overweights and underweights in the portfolio relative to the ODCE. We are definitely not going to be benchmark huggers, but we are going to have a rationale behind each asset less influenced by deal flow.

What role do you see ODCE playing in the industry in the years ahead?

NCREIF is an outstanding organization, and I think it will play a critical role in our industry in perpetuity. In terms of ODCE, however, it is a question of how the index adapts to the changing environment. Currently, roughly 47 percent of the ODCE is invested in office and retail, which are two property types that are viewed less favorably by investors at the moment. I think you are going to see a lot of the ODCE participants try to dramatically reduce their allocations to those sectors quickly. The way the ODCE is set up, traditional sectors — office, retail, industrial and multifamily — have to account for 75 percent of the allocation. If you use the public real estate market as a proxy, in the year 2000, office, multifamily, industrial and retail accounted for more than 75 percent of the listed real estate market, while today they make up a little bit over 40 percent. I expect those four traditional property types will become a smaller piece of private real estate investors' overall allocation, as well, and we will have to see if the ODCE adapts to allow a higher allocation to alternative property types.

Do you think your background on the multi-manager side gave you a better window into the larger universe of funds and the competitors that you have in the market?

Yes. The business I am leading now always saw the biggest ODCE funds as their main competition. The competitive universe has broadened with core and core-plus funds that are not ODCE funds and were not as prominent on the firm's radar in the same way that they were with me on the multi-manager side. In the multi-manager segment, you get a very diverse group of real estate investors coming to your offices and telling you what they are trying to do, and you have the luxury of picking the ones you think will perform the best. Meanwhile, you gain a lot of insight from smart people telling you what they are thinking. Also, we didn't have the benchmark constraints, so we could be significantly overweight to industrial or we could add senior housing, student housing, medical office to our vehicles through sector-specific funds.

What do you find interesting at this time in U.S. property segments?

In terms of sectors, we are really focused on industrial, which I think everybody is interested in, and multifamily, where we have a particularly strong track record and team. That may expand into other forms of living — whether it is manufactured housing or senior housing, student housing, co-living opportunities. Senior housing has been pretty hard hit during the pandemic because of what has gone on at some of the senior housing centers due to COVID-19, and I think there will be some interesting buying opportunities coming out of that. The longer-term trend is for that to be a strong segment.

In terms of alternative sectors, we expect cold storage to be the next frontier. Cold storage is heavily linked to our sustainability and impact efforts; food waste is one of the biggest contributors to environmental concerns. Therefore, to be a catalyst for reducing food waste is a great thing. Much of the existing stock of cold storage is 30-plus years old. We think cold storage is set to transform the industrial and logistics space.

What are your key predictions for the U.S. property market in 2021, and beyond?

From a macro perspective, now is an interesting time to have dry powder for real estate. We have obviously had some repricing, which will continue through this year, and people who need to sell will find out where pricing really is. If you had dry powder coming out of 2009 into 2010, that was just a tremendous 10-year period to invest in real estate. The Savings & Loan (S&L) crisis in the late 1980s/early 1990s also created excellent buying opportunities that eventually led to the modern REIT market. So, overall, I am optimistic about the prospects for real estate, going forward, coming out of the pandemic.

Longer term, I expect 2021 to be the start of another long run in private real estate with strong returns. Interest rates are incredibly low, so real estate is still going to be interesting for investors relative to fixed income. In addition, we have seen greater interest from investors in becoming active in the co-investment space over the last several years.

What are you passionate about in business?

One of the things I have really tried to emphasize during my time in this role is our efforts around increasing the diversity, equity and inclusion within our team, but also within the industry. Almost 17 years ago, two women who were running the San Francisco office for Townsend Group took a chance on me when I really had no experience in real estate, and it changed my life forever. I made a commitment that I would try to pay that forward. Real estate has historically been a male-dominated universe, and I want to do everything I can to bring more women into the industry, particularly into investment roles, but it extends to people of color and the LGBTQ community. We have started a diversity, equity and inclusion team within the U.S. real estate business, and I have been proud of the commitment across our team to participate. We want to focus on recruiting diverse candidates, and I think we are making strides there. For example, making connections with historically Black colleges and other resources that can connect us with diverse candidates when we have job openings and internship positions. We also have a graduate training program. But if we bring in diverse individuals, and then we try to force them into our group think, then we won't reap the benefit of having diverse perspectives. We can only get that benefit if we create an inclusive environment — which I define as an environment that allows people to be their authentic selves. We are focusing within the U.S. real estate team to build an inclusive environment, and it is really a journey, not a destination.

The other thing I am really passionate about, and I don't mean this to sound corny, but most of the people that I look up to are coaches. I am working to help our entire team to achieve their career objectives. This involves being transparent about how our business is evaluated, and what the key performance indicators are that we need to stay focused on. For example, how people should go about goal setting and putting themselves in the best possible position to get promoted, but also so that they are making an impact. Part of that process is really about creating a psychologically safe environment, which goes hand in hand with inclusion — figuring out a way for people to feel like they are making an impact in our business, having a dependable work environment where people meet deadlines and are responsive to requests, and where they find meaning in what they are doing. When your team has those elements, then you get the benefits of the team really pulling all in the same direction.

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CORPORATE OVERVIEW

UBS Asset Management

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