the art of boring™

EP 165 | Skyscrapers and Storefronts: Insights on the Commercial Real Estate Market in 2024

[00:00:00] Rob Campbell: Today on the Art of Boring, credit analyst Curtis Elkington joins me to talk commercial real estate. If you're like me, you'll hopefully walk away from this conversation with a few takeaways. I found myself much better informed about the commercial real estate landscape and how various segments are coping with some pretty significant stresses.

I was surprised by some of the inefficiencies in the market. Curtis shares a story from the single asset class commercial mortgage-backed securities (CMBS) market that you may find fairly astonishing. While we don't have much direct exposure to commercial real estate within our fixed income portfolios, I love that Curtis walked through how our team approaches credit analysis, talking through a German real estate company, as well as one closer to home, Granite REIT.

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[00:01:04] Rob Campbell: Curtis, welcome to the podcast.

[00:01:06] Curtis Elkington: Thanks for having me, Rob. It's going to be a good time we have today.

[00:01:09] Rob Campbell: I really think it will. I'm so glad you're here because you and the credit team put out a note recently on commercial real estate. It strikes me that over the past four years – if you think about the pandemic and the rise in interest rates – this is probably the single asset class that has faced the most headwinds over that period.

The other thing that sort of fascinates me is that we think about markets as being quite efficient. It's also interesting to see just how long it takes for certain themes to play out because I think you mentioned yesterday that Blackstone's commercial real estate fund cut its dividends substantially as it's seeing an increase in defaults. There is a lot to talk about when we think about commercial real estate, and I'm sure we could fill four hours easily on a podcast.

To start, can we zoom out, and can you provide a general overview of the commercial real estate market? What has its evolution been like over the past couple of years?

[00:02:03] Curtis Elkington: Thanks, Rob. The overall size of the commercial real estate market – that would include multifamily, office, retail, and industrial properties – it's quite staggering. In 2023, Savills, a British real estate firm, estimated the total global property value at $50 trillion. Within that, the U.S. would obviously be the largest component. Any estimate comes with a degree of uncertainty. To put this in perspective, the market value of the S&P 500 is about $48 trillion. U.S. Treasuries are about $28 trillion.

[00:02:31] Rob Campbell: So it's a massive market.

[00:02:33] Curtis Elkington: It's really quite large. We focus on credit, thankfully, so we can actually be a little more specific. We can give you a bit better number. The size of the commercial mortgage market in the U.S.,

according to the Mortgage Bankers Association, is $4.5 trillion of commercial mortgages outstanding in the U.S.

[00:02:48] Rob Campbell: It is still pretty big.

[00:02:49] Curtis Elkington: Yes, still big numbers. Given the size of the market, there are a lot of people involved. I've broken these into owners and lenders. Oftentimes, you have entities acting as both. An owner would be government pension plans or insurance companies along with publicly traded REITs, private equity, ultra-high net worth, high net worth, and mom-and-pop investors. Then lenders, you would have some overlaps; government pension plans and insurance companies appear there again. You also have your banks, your unsecured bond market, CMBS, and private credit. Finally, owners and lenders who lease the space themselves.

[00:03:20] Rob Campbell: Lots of different players evolved, both on the ownership side and on the lending side, presumably lots of intermediaries and investors. How about that evolution? Am I right in thinking about commercial real estate and just the past couple of years being pretty wild?

[00:03:33] Curtis Elkington: You're definitely spot on there. There are two major drivers over the past five years in my view, and you alluded to them right at the start. The first was the pandemic. You had the lockdowns and then the subsequent reopenings. I would say this impacted commercial real estate subsectors very differently, and that's dependent on the city, industry, and a company's specific policies to return to work.

Secondly, you had the rise in interest rates. If we rewind to July 2021, the U.S. 10-year yield was about 1.5%. It's 4.2% today. As we saw interest rates rise, what are known as capitalization rates rose too. The capitalization rate, or a cap rate, is an estimation of the required return on investment. What you do is you take your property's cash flow and divide it by your cap rate and that derives your market value of the building. The higher the cap rate, the lower the value of the property. While COVID had a very different impact on each different subsector, higher rates had a much more uniform impact across basic subsectors.

[00:04:28] Rob Campbell: Can you talk a little bit more about those subsectors? You mentioned multifamily, office, industrial, and retail. Can you talk a little bit more about those? What's been going on there? Because, as you said, different experiences, and even within those depending on the quality of the real estate itself.

[00:04:46] Curtis Elkington: I'll start with the biggest multifamily, and then I'll go through from biggest to smallest. I won't spend too much time on multifamily. It's pretty stable. Demand's very stable. Data from the U.S. Department of Housing and Urban Development shows vacancy rates. They've declined from 7.6% to 6.6% from 2019 to 2023. Cap rates, however, CBRE data shows they've gone from 3.9% to 5.9% over that same time period. That's really just reflective of the change in interest rates.

[00:05:12] Rob Campbell: These are the two primary metrics that we're going to be talking about – vacancy rates and cap rates and how those have evolved.

[00:05:18] Curtis Elkington: Yeah, exactly. Your vacancy rate is what portion of your building is empty and what you're not earning rent from, and the cap rate we talked about a bit earlier. For office, COVID really impacted this differently. You had the work-from-home phenomenon at the start of the pandemic, and then the gradual return to office; that has really weighed on demand. Your cap rate for a U.S. office asset, that's from 4.2% to 6.5% from 2019 to 2023. Colliers data for vacancy rates, increased 11% all the way up to 17%. Clearly, there's some stress there. In our view, it's largely a demand issue. The amount of people spending time in the offices is just lower relative to pre-pandemic.

[00:05:55] Rob Campbell: I know we've got a couple more categories to go through, but just comparing those two, it seems to me like cap rates have gone up in a commensurate way between both of those asset classes.

The real difference is the vacancy rate, which I presume factors more into the forward-looking valuations for some of these properties.

[00:06:11] Curtis Elkington: I would say that's fair. There'll be one sector – we'll wait until we get there – where cap rates might not have moved as much. But yeah, that's been a bit more uniform with interest rate moves. Whereas if you're looking forward, what building do you want to invest in? What building do you want to lend to? That vacancy rate is probably going to be pretty topical forward looking.

For retail, this subsector in the U.S. has been struggling for a while pre-pandemic. Vacancies had been increasing, and that's largely due to online retailing; you just have more competition. But what happened post-pandemic is actually a bit counterintuitive. So lockdown restrictions eased, and people were free to return to spending. And what happened? You actually saw vacancies decline from about 6% to 5%. You had a bunch of pent-up demand. People were eager to get back out there in person. So yeah, your retail vacancies declined. Cap rates we saw a move to 6.6%. That's about 2% higher than pre-pandemic.

[00:07:00] Rob Campbell: That's retail. And that leaves us with industrial.

[00:07:00] Curtis Elkington: So industrial, I'd say the pandemic impacted the sector differently as well. So you had physical store shot, and then online shopping proliferated. Demand for warehouse space was very high because you had to support this e-commerce supply chain. So we saw vacancy rates plummet. They went from 5% to 3.5%. That's from 2019 to 2022. What's interesting here is a lot of developers, they said, "Well, okay, there's a ton of demand for industrial space. We should go build some."

[00:07:28] Rob Campbell: I can attest to this in our neighborhood.

[00:07:29] Curtis Elkington: You're seeing that, too. So currently the vacancy rate is actually up at 5% again. In contrast to office where that rise in vacancy was just demand-related, this has really just been the impact of supply where there's more product coming online. So what's different with industrial, your cap rate only went from 4.7% to 5.4%. That's a much smaller move than other subsectors.

[00:07:50] Rob Campbell: Differences between the various entities. Interesting to see how the supply and demand dynamics can adjust. I am surprised by that retail piece, but like you said, it's really the office space, which I think is pretty intuitive for many. For those watching this on YouTube, I'm working from home today; that would be the one where the impact was greatest.

[00:08:09] Curtis Elkington: Totally agree. Changes in behavior have most impacted the office sector. I'd say the cap rates have negatively impacted valuations because they've increased where a change of behavior has been mainly in the office sector.

[00:08:20] Rob Campbell: Can we talk about valuations? I was reading yesterday in the Financial Times, and there was an article about somebody who had looked at if you had bought this basket of U.S. REITs, across the board, right on the eve of the pandemic, what would your return have looked like through to today? The answer is that you'd be up 16%, which on an annualized basis is quite a bit lower, so call it reasonably flattish.

This is not what I would have thought based on some of the headwinds that you have described. Can we focus more on the valuation side? Have we seen write-downs? What do those look like, and where we have seen them? You talked about some of the lenders earlier whose loan books are really exposed to that.

[00:09:01] Curtis Elkington: I'll start with loans, and then we'll get into valuations. For loan books, most significantly, small banks are much more exposed than large banks in the U.S. If you pull some data from the St. Louis Federal Reserve, the 25 largest commercial banks have about $860 billion in commercial real estate loans.

Sounds like a big number, but that's only 6% of their collective assets. If you look at all the other banks outside of the top 25, they actually have $2 trillion in commercial real estate loans. What's shocking is that's 30% of their assets. So that's an astonishing number and that really is a significant exposure.

We're not seeing significant charge-offs yet. Losses have been trending up, but they're low. Q1 2024 charge-offs ticked up to 23 basis points (bps). That's up from 10 bps year over year for context. We're a very far cry away from the highs of call it 3% following the global financial crisis.

[00:09:54] Rob Campbell: So 10 bps to 23 bps but not 300 bps?

[00:09:55] Curtis Elkington: Yes, a long way away. Now, getting to your first question on equity write-downs, it's a very broad spectrum. The Canadian pensions have released their annual results, and their real estate portfolios were down 15% to 5%, which is pretty good. Those are really large, really diversified portfolios, both geographically and by asset class.

On the other end of the spectrum, and this is what you might be seeing in the media and the news, you have something like single asset CMBS. That market has shown several examples where an owner just walks away from the asset because the debt on that property is probably larger than the market value, at least in that owner's opinion. In that case, that would be a 100% write-down on equity. You're likely actually taking a hit as a lender, as well. I can just give some context on cap rates. Bank of America aggregates a ton of cap rates based on the entire REIT sector. They show your average cap rate is about 6% now; that's up from 5% over the past two years.

[00:10:52] Rob Campbell: I think that's the part that's surprising to me. Maybe it's because I don't spend as much time in credit markets as you do or looking at the space. But a move from 5% to 6% doesn't sound like much given the headwinds. In your view, is that appropriate given the fundamentals out there?

[00:11:07] Curtis Elkington: That's kind of a tough one; is the move in cap rates reflective of fundamentals? The market's actually trying to figure that out currently. Fundamentals are definitely weaker. Cap rates are definitely higher, but is it enough? The cap rate spread is one thing you can look at. That's really shrunk over the past three years. A U.S. 10-year Treasury has increased about 3% from bottom to top. Whereas your cap rates, as we acknowledged from Bank of America, are only at 1%. The incremental earnings relative to like a risk-free rate are much lower. For what it's worth, we've looked at several real estate companies over the past six months and thought the risk-reward on the credit side was unattractive in all those scenarios.

[00:11:43] Rob Campbell: That's the summing in and of itself looking forward. You're a credit analyst. You're looking at cash flows, maturities, and debt profiles. In the commercial real estate space, what's coming up? We think about that a lot in terms of Canadians, in terms of my own mortgage renewal. What does this look like in terms of the need to refinance for various issuers? Are they still able to borrow? Is there a big lumpy refinancing that's coming up? What do those markets look like? Are they still financing these entities?

[00:12:13] Curtis Elkington: If we look at commercial mortgage loans, there's about $1.2 trillion in 2024 and 2025; that data is coming from the Mortgage Bankers Association. About 17% of that maturing staff is office product. We saw some data from Barclays, and they show there have only been two single asset single borrower (SASB) New York office real estate deals this year, which leads us to believe there's not much refinancing activity going on.

[00:12:36] Rob Campbell: Yeah, that seems shockingly low.

[00:12:37] Curtis Elkington: Yeah. I would say the ability to borrow in the office sector is tough. You have rising vacancy, as we were talking about earlier. You have higher financing costs and both those pressure your building

values. If you think about it, these loans are typically made at 70% loan-to-value, meaning your loan is 70% of the building value. If your building value is falling, not only are lenders more hesitant to finance you, but if they do, you actually have to decrease the loan size because the value of the property has declined. What's been really interesting is as refinancing assets have become really challenging, some owners have just decided to sell their assets. In the most challenged situations, sellers are actually resorting to vendor financing which means they're actually extending a loan to a buyer at below-market rates just to incentivize them to buy that asset.

[00:13:25] Rob Campbell: Wow. Just to keep the music going, I guess.

[00:13:27] Curtis Elkington: Yeah, exactly. Banks are also in a tough spot. Like we talked about before, it's particularly the smaller ones. Other pressures they have are deposit costs are rising; you have the risk of losing deposits; there are some proposed regulatory changes that are a concern; and then you already have a ton of that commercial real estate exposure at 30% assets. All those things can restrict your bank's ability or willingness to lend more to the sector.

That was mainly just office though, but there is a differentiation if we get into different subsectors. What we've seen is even within different subsectors, what really matters is – I don't know if it's scale, location, or just quality of the asset portfolio.

[00:14:03] Rob Campbell: Location, location, location.

[00:14:06] Curtis Elkington: Exactly. If you have a good tenant and a good location, those are going to be refinanced. You're going to have to pay more. Your rate's going to be higher. Whereas if you have a more challenged asset in a less desirable market, that's going to be more challenging to refinance. It's the same for different ownership types. For Canadian pensions and large diversified real estate owners, capital is available at a price. For smaller real estate companies, if you're in a specific niche or a single asset issuer, you're going to have a harder time borrowing in that case.

[00:14:32] Rob Campbell: Curtis, you mentioned CMBS earlier. I wonder if you can walk us through what that looks like because, to my earlier comment, it seems like a part of the market where there's a high degree of inefficiency and complexity. I'm almost imagining you as Margot Robbie in a bathtub, like in The Big Short. Can you take us through what that securitization market looks like and some of the real quirks that you're seeing with respect to commercial real estate in that space?

[00:14:57] Curtis Elkington: I might not do as good of a job as Margot did, but I'll give it my best shot.

Let's just back up. So what is securitization? Essentially, it's credit risk being transferred from a lender looking to reduce exposure – that's typically banks – to another party, typically bondholders. Assets can be anything like car loans, credit card balances, or high-yield bonds. In this specific case, we're going to talk about commercial mortgages. Those assets are packaged up, and they're transferred to a special purpose vehicle (SVP). The SVP issues bonds. Typically, there are multiple tranches. You kind of have 'AAA' at the top and equity at the bottom.

[00:15:29] Rob Campbell: This is the Jenga stack from The Big Short.

[00:15:31] Curtis Elkington: That was the analogy they used, yeah. When the SPV issues bonds, that pays for the purchase of the assets, and then you have that asset pool that serves as collateral. When borrowers make payments (interest principal), there's a waterfall; your most senior tranche, 'AAA,' gets paid first, and equity gets paid last. What's really interesting – and you've probably seen this a bit more in the media – is that there's the advent of single-asset CMBS. So instead of having a diversified pool of, say, 100 buildings, you're actually only lending against one property.

This product type really boomed post financial crisis in the easy money era, but now it actually accounts for 40% of the market. It's quite prolific, but the concern is, "What happens when you have a single property as collateral and that underperforms?"

[00:16:14] Rob Campbell: Yeah, you don't have that diversification.

[00:16:16] Curtis Elkington: I can give you a couple of examples. 1407 Broadway; that's an office building in New York. It's facing foreclosure. I think the owner hasn't made a mortgage payment since July 2023. And what's remarkable, Fitch still continues to rate the most senior bond an 'AA-'. This was 'AAA' originally. For those who are unaware, Fitch reserves the 'AA' category for borrows with very high credit quality and debts with a low risk of default. Yet, the bondholders on this 1407 Broadway, they're going to take a loss on this investment.

Just down the street, we had Blackstone. They defaulted on a single asset CMBS. And the most senior tranche that, again, was rated 'AAA,' they only received about 75% of the principal. So that's not consistent with what an 'AAA' product is.

[00:17:00] Rob Campbell: I want to make sure I heard you right. In the first case, the 1407 Broadway, the payments have stopped to the owners of the CMBS.

[00:17:06] Curtis Elkington: Correct. They haven't paid in a year.

[00:17:08] Rob Campbell: So basically, they are in default effectively, and yet they still have extremely high-quality credit ratings. Did I hear that right?

[00:17:15] Curtis Elkington: You heard that 100% correct. It's puzzling to us, and it might be puzzling to the listeners too.

[00:17:18] Rob Campbell: Wow. And so why might that be?

[00:17:22] Curtis Elkington: There have been more single-rated CMBS deals where there's only one rating agency versus a diversified three or four broad basket of rating agencies. Some market participants are suggesting that $100 billion of U.S. CMBS is mis-rated. That's about 15% of the market.

[00:17:38] Rob Campbell: That's mis-rated?

[00:17:39] Curtis Elkington: Yeah, mis-rated. And you're seeing that in the market. So secondary market prices reflect that for single-asset CNBS, some are trading at steep discounts to par, which is basically the market saying this isn't 'AAA.' That's not just limited to the U.S. real estate market. European investors and previously triple-rated CMBS, they're heading toward losses, too.

[00:17:58] Rob Campbell: So through a combination of higher cap rates, higher vacancy rates, particularly in some segments of the market, more difficulty refinancing going forward, definitely stress in commercial real estate, some of which is reflected in prices, some of which is not, and the same to be true with respect to credit ratings.

So let's step back for a second. I want to get back to the work that you do, Curtis, as a credit analyst with our bond strategies. To summarize: Higher vacancy rates, higher cap rates, more difficulty refinancing, and we're starting to see write downs. So genuine stress in the commercial real estate market, and again, depending on the subsector. What does our exposure look like within the bond strategies, whether it's our Canadian bond strategy or our global credit opportunities strategy? What does our exposure look like in those two portfolios?

[00:18:45] Curtis Elkington: Currently, we don't have any direct exposure in either of our bond strategies, neither fund owned CMBS nor unsecured debt issued by real estate companies. That doesn't mean we don't look

at it or monitor the real estate market. In fact, the team does spend a fair amount of time on it. Firstly, that's just due to the sheer size and scope of the real estate financing market. What happens here can impact other sectors and markets where we're actively involved. Secondly, we do have some indirect exposure. I can actually give you an example if you're interested. I can talk about some banks or insurance companies. They typically, as we talked about at the beginning, lend their own real estate. So, I can walk through an example of SunLife. Would that be helpful?

[00:19:19] Rob Campbell: Given the sheer scale of this market, it seems hard to believe that there wouldn't be any indirect exposure in some particular way. So yeah, we'd love to hear.

[00:19:26] Curtis Elkington: Exactly. In the Canadian bond strategy, we own bonds issued by SunLife Financial. It's a life insurance company. Like most life insurers, SunLife owns real estate assets directly, and it also has a large mortgage book where it lends against real estate assets. As part of our credit review process for Sun Life, we look closely at what their real estate exposure is, and we try to assess how it can impact our bond investments.

With some digging, we can learn that commercial mortgages and investment properties are about 8% and 6% of SunLife's total investment portfolio. And that's a $173 billion portfolio. Now if we're concerned about office, let's say, and worried about valuations there, we can dig a bit deeper. Its exposure to office assets is about 1.6% and 1.1%, respectively. That's a level we're comfortable with given other factors like geographic sector and asset breakdown of its overall investment portfolio.

We do the same analysis for other issues. We've done Bank of America, Citigroup, Royal Bank, MetLife, et cetera. And that would assess the strategy's full exposure, whether that be the Canadian one or the global credit opportunities.

[00:20:26] Rob Campbell: So to build on that, you're digging down to understand just the size of a particular exposure within their investment portfolio. More generally, what is the credit process for evaluating real estate investments?

[00:20:38] Curtis Elkington: I'm happy to talk to that. So first, I just want to highlight the two main steps, and this would be for the entire investment process, not just real estate.

[00:20:45] Rob Campbell: Any credit?

[00:20:46] Curtis Elkington: Yeah, any credit. We do two main things in the intensive analysis portion: your Mawer credit rating, and that's more tied to valuation; and then you have the margin of safety, and that's more tied to downside production. So Mawer credit rating. What we need to do is we need to complete our own analysis. That's looking at the business fundamentals, assessing the management team, what's your leverage profile and your covenants. And then we can assign an independent credit rating.

Where it gets a little more exciting is you can take that credit rating, and we can compare it to other bonds with the same rating and determine if your spread's attractive or unattractive. So that's part one of the intensive analysis.

[00:21:19] Rob Campbell: So you're doing effectively the same work that a credit rating agency would?

[00:21:23] Curtis Elkington: Yes, exactly. The second portion is the margin of safety, and that's really about downside protection. This analysis looks at what a creditor would claim when a company enters bankruptcy, potentially. It's your worst-case scenario. So first, you have to understand the liabilities of a company and the different priorities of claims. And second, we have to try to assess the asset value, whether that's a liquidation

value of assets where you just sell everything from the furniture to your operating assets. Or it's a distressed M&A value where a competitor might say, "Hey, we can pick this up on the cheap." Once we get a sense of asset value and the prior claims liabilities, we can actually calculate an estimated margin of safety for different debt seniorities.

What would that show? It'd be like, "Hey, in this scenario, we think we're going to get 70 cents on the dollar" or in this one, "We're going to get 30 cents on the dollar."

[00:22:09] Rob Campbell: You mentioned that we don't actually own any of this in our portfolios. Have we looked at any investments that we've really kicked the tires on? If so, I'd love to hear just what that looked like.

[00:22:19] Curtis Elkington: I'll go through one for both global credit opportunities and Canadian bond portfolios. One we analyzed for global was Aroundtown. That's a German office real estate company. It's currently rated 'BBB+' with a negative outlook by S&P. So in the review of the company – this would be the Mawer credit rating – the company revealed it's dealing with the impact of higher financing costs. It's got the declining occupancy or rising vacancy and the tenant credit quality was in challenge. So we concluded the fundamentals were not indicative of a company that was rated 'BBB+' on the Mawer credit rating.

On the margin of safety, the key factor here was the existence of secured debt that would rank ahead of unsecured bondholders. This structural subordination suggests that in a very worst-case scenario, recovery on unsecured debt could be impaired. When we combined that Mawer credit rating with our margin of safety analysis, we just didn't feel like spreads were properly compensating us for the challenges faced by the issuer.

[00:23:11] Rob Campbell: And here at home?

[00:23:12] Curtis Elkington: For the Canadian bond portfolio, we looked at a company recently called Granite REIT. It's currently rated 'Baa2' by Moody's and 'BBB (high)' by DBRS. Just a quick overview. So Granite owns industrial real estate in the U.S., Canada, and Europe. The assets are generally very high quality, but we've been more concerned about weakening industry fundamentals, some of that supply we were talking about at the start of the podcast.

Ultimately, our Mawer credit rating landed on the same as Moody's. On margin of safety, for Granite, the capital structure is a bit simpler, so they only had unsecured debt. But we noted that was both bank debt and unsecured debentures, so we would invest in the debentures. However, we wanted to compare the covenant packages between the bank debt and public debt just so we could fully understand where we actually sit on the capital structure relative to other lenders, and that was pretty key in our margin of safety analysis.

With Granite, we decided not to invest. Spreads seemed roughly fair value given our Mawer credit rating and margin of safety review. A final part of our credit process is a mandatory check-in with the equity team. There may be times when they don't cover a specific issuer, but they will always have insight and relevant information on the industry, peer group trends, et cetera. And that really enhances our analysis and actually improves our decision-making.

[00:24:23] Rob Campbell: I'm glad you brought that up. It was actually what I was going to ask next because Granite REIT is certainly within the investment universe of our Canadian portfolio. I could be wrong. We've owned it in the past. On the equity side, curious what those conversations look like.

[00:24:36] Curtis Elkington: We did own that in our Canadian bond portfolio in the past. We're not invested currently. A clear competitive advantage at Mawer is the breadth and depth of our research team. And this really has the effect of expanding our credit team from three people to 40+.

On the Granite example, we're in constant communication with the equity teams on Granite and on other names. A few weeks ago, myself and Mark Rutherford, he's a portfolio manager on our Canadian equity portfolio, we were going back and forth on Granite because, like you said, it's held there. We spent the majority of that time discussing the industry, how high levels of supply we're pressuring operating metrics, and we were really trying to get a sense of when supply could slow.

I'd say we also have an extensive catalog of information just within the M42 database. Just for context, about 50% of the market value of the ICE Bank of America Global Corporate and High Yield Index – the index for the Global Credit Opportunities Portfolio – 50% of that has M42 notes on them.

[00:25:29] Rob Campbell: In our internal knowledge base notes on these companies?

[00:25:31] Curtis Elkington: Yeah, exactly. That's just a real considerable competitive advantage we have here at Mawer.

[00:25:36] Rob Campbell: We talk a lot about cognitive diversity in terms of the makeup of our team, but this plays out here too. It's the diversity of perspectives coming at different parts of the capital structure that's fascinating.

We've covered a lot of ground here, and I appreciate you taking us on this trip through commercial real estate. Any concluding thoughts? Things that we haven't covered so far that you feel are important to mention or that are useful in summary?

[00:25:57] Curtis Elkington: The real estate market, it's large and complex. The credit quality of borrowers really varies on a number of factors, whether that's your owners, your tenants, lease terms, location, asset type, leverage, vacancy rates, cap rates. That's just to name a few; the list could go on and on. With real estate, just like any potential investment, we want to review each issue and each issuer on a case-by-case basis following our thorough and rigorous process before committing investor capital. For us, that's our Mawer credit rating and our margin safety.

After we determine them, it's deciding are current spreads attract enough to warrant investment. Right now, as we've touched on, we're not identifying any attractive real estate related opportunities. That said, it's a market we're closely watching both for direct investment opportunities and just the knock-on effects that real estate trusts can have on banks, insurance companies, other lenders, and investors in the real estate industry. I think I'll wrap it there. I appreciate you having me on the podcast today. Thanks, Rob.

[00:26:51] Rob Campbell: Sounds like a great place to end. Again, I appreciate your time, Curtis. Thanks to you and the credit team at Mawer.

[00:26:58] Rob Campbell: Hi everyone. Rob here again. To subscribe to the Art of Boring podcast, go to mawer.com. That's M A W E R dot com forward slash podcast, or wherever you download your podcasts. If you enjoyed this episode, please leave a review on iTunes, which will help more people discover the "be boring, make money" philosophy. Thanks for listening.