

Behind the Markets: Looking at New Economy Real Estate in December 2023

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Christopher Gannatti, CFA

Global Head of Research

We were recently able to speak with Uma Moriarty, Senior Investment Strategist and Global ESG Lead for CenterSquare Investment Management, on *Behind the Markets*. WisdomTree has a relationship with CenterSquare, licensing the CenterSquare New Economy Real Estate Index for the [WisdomTree New Economy Real Estate Fund \(WTRE\)](#).

A Wall of Maturities Coming in the Real Estate Debt Market

Let's face it—since the global financial crisis of 2008–09, interest rates around the world have been very low, encouraging entities to take out more and more debt at a low cost. Now, a lot of real estate loans are maturing and interest rates are expected to be higher for longer, to use the popular expression. Uma noted that the key is the underlying asset. For example, if the underlying asset is an old office in a secondary or tertiary market, that means there are structural issues and holding that debt may not be beneficial. At the same time, if someone is looking at a multi-family home and the asset is performing, then debt taken out against it may not be as problematic.

Real Estate for the Modern Economy—Data Centers

Over time, people are shifting their preferences and behaviors, which is driving the importance of different, newer types of real estate. Data centers are a prime example. Globally, both businesses and individuals are consuming and storing more data than ever before. This trend is being accelerated in 2023 with the proliferation of large language models (LLMs) like GPT-4, LLAMA and, most recently, Gemini.

Uma discussed the difference between developing and training these models versus running them for live inference calculations. Developing and training can occur in secondary markets where power and land are less expensive. Read “secondary” as meaning “further away from major population centers.” When a model is deployed for inference, however, people want using it to feel faster. In technical jargon, this means that you want to minimize latency. One way to do this is to locate the data centers much closer to major population centers. There is only so much space and only so much power in these areas, so the data center REITS that have built platforms with lots of these assets located close to major cities are extremely valuable and becoming more valuable with the Cambrian explosion of AI applications and LLMs.

Data centers are seeing increased rents, which is notable. Five years ago, the supply coming online was very much aligned with demand, but in today's world, the demand is ramping up much faster. When you wonder where all those Nvidia GPUs are being deployed, the answer is largely these data centers.

The day before we had our conversation with Uma, an article was published in the *Wall Street Journal* noting that Blackstone and Digital Realty were teaming up to develop \$7 billion in data centers.¹

Real Estate for the Modern Economy—E-commerce Logistics Centers

Uma spoke of Amazon as the gold standard when considering how to set up a supply chain over an extended period of time, which has led to consumers being able to make an order and receive it, in some cases, within roughly two hours. Being able to do this has led to reconceptualizing the supply chain and in many cases thinking of a larger number of smaller industrial spaces. If these spaces can be closer to the end consumers, it makes the largest costs—labor and transportation—lower for companies seeking to provide e-commerce solutions to their customers. Over time, we can start to see the different solutions being invested in today being deployed, be it the potential for drones, autonomous vehicles or other technologies.

Uma noted that the supply of these smaller industrial spaces closer to customers is in decline, so the pricing of these pieces of real estate has been increasing and CenterSquare sees the potential for this to continue.

Real Estate or the Modern Economy—Life Sciences

Uma cited that in the U.S., roughly 10,000 people turn 65 years of age each day. Many societies are getting older and will need more and more health care solutions. Jeremy noted that he and I can work from anywhere and we can record podcast episodes like this from anywhere, but the innovations behind life sciences require very specific real estate.

During the week that we spoke to Uma, *The Economist* published an article discussing specific life sciences real estate.² We'd also note that one of WisdomTree's contrarian ideas for 2024 relates to biotechnology, a segment of megatrend investing that has underperformed in recent years, but that may turn.

While data centers and e-commerce logistics real estate, per Uma's views, have been seeing decreasing supply, life sciences real estate has been seeing increasing supply. This has led to a bit of a valuation discount in this area of new economy real estate, which could be an opportunity for investors with an expected growth acceleration in demand in the future.

Real Estate Is Changing—Investments Should Reflect these Shifts

Real estate has been an asset class for a long time, but our relationship with CenterSquare is meant to provide investors with an option to shift real estate investments more in line with the types of real estate in demand today. For those wanting to learn more, click [here](#) to listen to the full episode, or listen below.

1 Source: Peter Grant, "Blackstone, Digital Realty Team Up to Develop \$7 Billion in Data Centers," *Wall Street Journal*, 12/7/23.

2 Source: "American Life-Sciences Firms Are Moving Labs Downtown," *The Economist*, 12/7/23.

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