



2026 GLOBAL CONFERENCE

LEADING IN A NEW ERA



US REAL ESTATE REIMAGINED: CAPITAL, CREDIT, AND THE TECHNOLOGY SHIFT

Carol Massar

Good afternoon, everybody. I'm Carol Massar, and I've done real estate panels a lot at Milken over the years and really looking forward to this group next to me. I have to say that it feels like at Milken, the private credit market, which is now about \$1.8 trillion, gets so much attention here, and I would largely argue that the global real estate market is as important, if not more so. Fixed amount of land, realistically, you can just build so much in certain areas. There are lots of rules and regulation. Just to give you a little perspective before we dig into the conversation, the size of the global real estate market, this is Grand View Research, more than \$4.3 trillion last year. They project that it's going to reach about \$7.3 trillion by 2033. Does that feel about a real number to you guys? Do you like it?

Asia Pacific real estate market accounted for a market share of about 53 percent last year. By property residential, accounted for a market share of about 35, a little bit more last year. By type rental, accounted for a market share of 51.3 percent. North America held a market share of 21 percent of the overall global market last year. And then real estate in the US held a significant market share of about 62.6 percent of the North American market in 2025. I have to say, our LA Bureau Chief, John Gittelsohn, says what's great about real estate is that it really is a great indicator on the economy, and I would say, and he would argue too, the K-shaped economy. Institutional investors continue to scale exposure to logistics, multifamily housing, alt assets such as data centers—you're going to hear a lot about that—and also healthcare properties. We have a bunch of these great institutional investors right next to me, and I want to try and do some quick introductions. I know you can read it, but this is a pretty impressive group up here. Jeff Blau of Related Companies. Over \$60 billion worth of development and acquisition activity, most notably—and I know I'm a New Yorker—the Hudson Yards behind that incredible West Side development. The company, though—which I didn't really register right away—has transformed itself and is deep into the AI data center build-out. We're going to hear a lot more about that in Related Digital. You want to add anything to that?

Jeff Blau

Sounds good. Perfect.

Carol Massar

Okay. Russ Gannaway, co-head, Tactical Opportunities at PIMCO. \$169 billion in AUM, 280+ real estate professionals, 35 offices. It is one of the largest and most diversified real estate managers in the world. You can add if you want. No, everybody's going to move along.

Russell Gannaway

Perfect.

Carol Massar

Justin Kennedy, managing partner and co-founder of the CRE lending and loan servicing firm 3650 Capital. Sorry, I'm going to get back to you, Julie. Originator and servicer of both short and long-term commercial real estate loans. 32 years of experience. All of these guys and gals have had a lot of experience in this. Julie, coming back to you. Partner, head of real estate at Ares Management. She's responsible for leading the business strategy and operations of their global real estate platform. \$113.8 billion of AUM as of the end of last year. They've got 700+ investment and operating professionals across 44 offices in Americas, Europe, and Asia. And then at the far end, Mike Ungari. He's managing director and global head of Real Estate Strategic Value Partners, SVP. They invest in debt, PE, event-driven, and financing opportunities. Opportunistic. Before this, he held several leadership roles at Goldman Sachs. He holds a BA in psychology from Boston College. I don't know why I found that interesting, but I feel like we could all use a degree in psychology right now because it's a little bit tricky out there. They're impressive. They're incredible. There are questions you guys can send. I have an iPad. I hope you will do so to bring it in. A lot to cover. I do want to start quickly. I know we're talking a lot about the war here at Milken, but I think a lot about my job, and we are glued to the White House. I check President Trump's tweets, social media postings every hour, every half hour, every minute. It impacts the market sometime. I want to start with that. Jeff, why don't you kick it off with me? What matters for you when it comes—what comes out of the White House?

Jeff Blau

Well, what comes out of the White House is always a surprise. So you're never quite sure. And obviously, the impact of the war, the human toll is difficult to take, but I assume your question is more real estate focused, so I'll try to stay on topic. Look, for us—so we—Related Companies, we're a large real estate development firm, so different than some of the others on the panel. We don't actually buy and sell—well, we sell, but we develop, and we create new developments. And so, when we listen to what comes out of

the White House on a regular basis, the first thing that comes to our minds is things like tariffs, like what's the impact on our supply chain? Countries that we're not able to procure materials from China. So, the data center business we're building, just to pick one, let's say we just closed this week in Michigan. We have 10,000 pieces of equipment that historically would come from around the world, and more and more are coming from the United States because of these issues around tariffs or excluded countries.

Carol Massar

Has that just changed in the last couple of years?

Jeff Blau

Absolutely.

Carol Massar

Wow, okay.

Jeff Blau

Absolutely. And this was a global supply chain that has narrowed significantly. So, managing tariffs, managing supply chain, managing costs are critical. And the sways, because it takes us a long time—

Carol Massar

Yeah.

Jeff Blau

—from go to finished, and the procurement of those materials has become extremely difficult.

Carol Massar

Yeah.

Jeff Blau

So that's probably the biggest impact from a developer's perspective.

Carol Massar

And we're going to talk a lot about data centers. I'm doing a little macro, and we're going to dig deeper into it, because I know we've done some reporting about things like transformers or things that you just don't have enough for data centers. Russ, come on in on the macro and the White House and what matters to you guys.

Russell Gannaway

Well, I think on a day like today, it's just inflation and rates. You could see what happens with rates on a day like today. And having lived through an inflationary shock just a few years ago, and we all know what that did to real estate. It was the most significant downturn that we've had in real estate since the GFC. It brings up a lot of negative memories.

Carol Massar

Yeah.

Russell Gannaway

And war on, war off, Strait open, Strait closed. It can give you whiplash, but I think—you start seeing 10-year creeping back up to 4.5, maybe 5. Pretty soon cap rates could follow. So we definitely want to not to dwell on it too much, but I think everyone knows just how correlated real estate is with interest rates now.

Carol Massar

Yeah. We said the 30-year, I think, hit its high for the year today. Julie, come on in on the macro and the White House.

Julie Solomon

Yeah. Certainly, when you think about what real estate does for all of us, effectively real estate houses the economy. It's housing, it's storing, it's moving goods and people in many different ways. And so that's why there are so many macro impacts that affect how we view real estate investing. For us at Ares, we center our investment activities around supporting what we call the new economy, which is effectively investing behind those sectors—

Carol Massar

Mm-hmm.

Julie Solomon

—that support the way that we live, the way that we work, the types of products that we consume, and when we want them. So we are very much exposed to those dynamics. But I think what we've also been able to do, particularly after the past five or six years where we've been through global pandemic, we've been through war, we've been through tariffs, we've been through a lot. There's a lot we can also tolerate. And the economy has been fairly resilient. And now coming out of that interest rate shock and in a much more normalized environment, we've seen real estate actually enter what's a pretty exciting recovery.

Carol Massar

Alright. And we're going to dig into that. Justin, come on in. I know you said on our planning call—well, you come from the lovely state of California, so politics is—

Justin Kennedy

Well, originally California.

Carol Massar

Okay.

Justin Kennedy

Started as a developer here. Somehow got out of school in the Bay Area in the late '80s and decided not to become a tech guy, but become a real estate guy. That was maybe not the best decision, but—

Carol Massar

That's for the book.

Justin Kennedy

—but probably not being able to add too much to the watching the White House. Russ, the interesting thing about what you said is that real estate was supposed to be a hedge. What happened? Something happened, right? And it happened over the past 10 years—

Russell Gannaway

Yeah.

Justin Kennedy

That we're not an inflation hedge anymore. And I guess—I'd throw it out there that it's maybe because we've had a demand shift coming out of some of the technological changes in the way that we live and work that has caused demand to change unfortunately for a lot of commodity properties to the negative, that has prevented this hedging effect that we would traditionally have seen from coming true. And so, I guess what I would say in terms of we try to be a little bit longer cycle thinking, and because particularly as Jeff points out with this White House, it's hard to know what might come the next day, which I think is by design, frankly. And so that thinking about a little longer cycle is how we spend our day, because otherwise I might end up like Carol, you watching every second of what might come out new on Truth Social.

Carol Massar

Well, I just want to follow and then I'm going to bring it to you, Mike. When you think about cycles, do you think about the administration that it will change? It might change with the midterms later this year. Do you really kind of look through those kinds of things?

Jeff Blau

It's a huge issue if you think about things like power and renewables or gas or going back to data centers. So now the push is to invest in power driven by natural gas. So last administration it was renewables. We have a renewable energy business. We build solar and we used to say wind, except we're not building too

much wind anymore. So there is a shift and you definitely have to think because again, these projects take so many years. You have to plan through several administrations. And the other thing you didn't quite hit on, but local politics has become an increasingly difficult issue. And we have so many things to put in when we do the investment memos, the risk categories. Local politics, all politics, have really moved from maybe the bottom of the list to the top of the list. It's probably our number one underwriting issue.

Carol Massar

I promise I'm going to ask you about New York City.

Jeff Blau

Okay.

Carol Massar

Mike, come on in.

Michael Ungari

Yeah, no, I think, look, we're following what's coming out of the White House very closely, and the situation in the Middle East very closely. The thing I would observe is that the markets overall seem pretty placid when you think about what's going on out there. And I would say that from where we sit, you don't really see real estate transactions falling apart because of that volatility.

Carol Massar

Why is that?

Michael Ungari

I think perhaps that over the last couple of years we've had different things happen and ultimately it always ends up okay. And so I think the market might have been a little bit trained that this will be okay, too. But what I would say is that there's still a lot of credit stress in the system. And to the extent that we did have a bad outcome in the Middle East, I think you could see more of that happen more quickly than we've been seeing it so far. And so we're watching that very closely, and we're cautious as we await the outcome of what happens over there.

Carol Massar

Russ, I want to go to you because one of the things that came through that you discussed, again, prepping for this, was that this whole idea that real estate's gone through its own recession, and we need to think about that when we compare it to other asset classes.

Russell Gannaway

Yeah, I think that's the best thing going for it right now, is that it looks very good on a relative value basis. Kind of looking at the direct lending guys, like, "It's your turn." We had our 25, 35 percent drawdown depending on the asset class, and it's a very good time to be a lender at reset bases, and it's a pretty good time to come in as an equity owner. I don't think it's going to be a V-shaped recovery, you know. This is only the third instance in the past 40 years of a real estate drawdown on a national level over 10 percent. Early '90s, GFC, and now. But I think the mentality's changed around how long of a road we have back. I think it's trying to grow earnings and not betting on cap rate compression or just stock parlance, underwriting earnings growth, but not multiple expansion. I think that's what we're sort of seeing out there, and it's going to be a long road back, but it is an attractive entry point particularly compared to other asset classes.

Carol Massar

Julie, go ahead.

Julie Solomon

I think Russ is making a really important point, that you have an attractive entry point because of the repricing that we just went through. But at the same time, that's also aligning with really strong demand drivers that we're seeing come through in the major real estate properties like logistics and living. Office is still in a very different place, which I know we'll get to. So you have this alignment of cyclical momentum with structural demand that sets up real estate for a really strong growth prospect going forward. Because typically what you see in a repricing is that growth has slowed down, economy has slowed down, consumers slow down. We haven't seen that. So now what we're going to see is, as we're coming into this recovery, real estate is going to be able to catch up to the growth that the broader market is seeing. And so we do believe that on a relative value, it's very attractive, but you do have to pick your spots because it is uneven, and it's going to require a very different skill set going forward than what much of the market went through over the past 15 years.

Carol Massar

Because Mike—go ahead.

Michael Ungari

I was going to say, I think the repricing has happened, but from where we sit, the system has not cleared, which is an interesting component, and I think it speaks—

Carol Massar

So why? If the repricing has happened, why hasn't the system cleared?

Michael Ungari

I think it's honestly because the economy has actually been pretty good this cycle. If you think about the size of the credit market today versus back in the GFC, it's 80 percent larger. Special servicing default rates are actually right around where they were during the GFC and still rising, but you haven't seen those \$1 billion, \$2 billion liquidations from banks that you saw during the GFC. And I think it's because the economy's been pretty healthy. It's allowed lenders to modify and extend loans really liberally, and they have. And that's really extended the duration of this. And, so look, I agree with the panel. I think it's a really interesting time to invest in real estate. But I think the system has to clear, and that could take years at the pace that we are currently on in terms of clearing that credit stress.

Jeff Blau

I also think the real estate market is differentiated more than it's ever been. And people used to think of real estate almost like a fixed income product, and that's really not the case anymore. Every single asset class has to be studied, every single building within an asset class, old office versus new office. People ask, "How's the real estate market?" You can't answer that question anymore. And I think that really requires, as you said, a different skill set—

Carol Massar

But wasn't that always to some extent the case in terms of different types, geographies or—

Jeff Blau

It used to be a little bit easier. You could just say, "I'm investing in office. I'm investing in multifamily." There's a new word that we never had growing up, which is obsolescence. Right? Basically, we always thought real estate just got better over time. But actually, we have to study obsolescence, whether it's industrial buildings or office buildings. They have an end date, and that has to get factored in. And things like old office, B office, there's essentially no demand for this product. So when you say it reprices, reprices to what? Because I don't know if it's worth anything, right? And that's why we're seeing all these conversions happen. But at the same time you have new office buildings being built achieving the highest rents ever, and the costs are higher than they've ever been. So on one hand, you've got the highest prices ever, and the same arguably similar product, older, is not really worth much. That kind of never really has happened. What has happened in the past is as rents went up, as new buildings got built, the older buildings, they always were cheaper, but they still went up in value, and that's not happening.

Carol Massar

How much of—go ahead. Come on, Justin.

Justin Kennedy

So Jeff, I'd challenge you on the B office versus—

Jeff Blau

I knew you were going to do that.

Jeff Blau

Roy's here. We could ask Roy.

Justin Kennedy

We could ask Roy, too. The dispersion of performance results is as much locational. You think about here in Los Angeles, Century City versus Downtown Los Angeles. You can rent in Century City for the same price that it costs to buy in Downtown per square foot. Century City's having all-time high rents as you describe, but it's all buildings. The fact that you're in Century City, the fact that you're on Park Avenue, the fact that you're in Coconut Grove in Florida—it doesn't matter what the quality of the building is, it's the location. And Barry said it on a panel earlier today, which was real estate—to your point, Julie—has become a stock picker business.

Jeff Blau

Correct.

Justin Kennedy

Right? And that anybody that thinks you're going to go out and buy real estate based on a macro idea of, "I'm going to buy Southern California office"—

Jeff Blau

Right.

Justin Kennedy

Well, you're going to actually probably not have such a good experience relying on that—let's call it dynamic—

Jeff Blau

It's just very differentiated.

Justin Kennedy

That used to drive the market.

Jeff Blau

Right? It could be location; it could be age.

Justin Kennedy

Super high dispersion of results.

Carol Massar

So street to street?

Justin Kennedy

And I—

Carol Massar

Like what? Everything? Is it that specific?

Julie Solomon

Yeah. It's specific by—

Jeff Blau

Yes.

Justin Kennedy

By street. Across the street.

Julie Solomon

Yes.

Michael Ungari

I think you're making a good point that Class B buildings in strong locations can thrive. But I do think that Class B and C, honestly, is probably shrinking over time. You think about the suburban office buildings and you think about secondary cities. My gut is that you probably end up with a smaller office universe 10 years from now. You have really good Class A stuff, that is, it sees rent growth, sees occupancy growth. And then the Class B and C, I think in most cities, not all, but it probably is a little bit smaller.

Justin Kennedy

But I would challenge you to think about it, and then if you go and look at it in most places, right? If it's a B—Our own building on Park Avenue—we have our office on Park Avenue. It is decidedly a B building. But it's 100 percent full, and it's getting the highest rents that we've gotten. Right? And so I think you see that dynamic playing out around the country where it's locational, and it's because demand has changed. It's about providing your employee with a whole package of things. One of the most important ones of which is, is the place safe? Is it fun to hang out when you go out for lunch, right? Is there something to do after work, right? Is it a fun place for your employee, for you to bring your clients? Right? That all these factors that, again, get back to this stock picking point, are what are driving the market, and it's true in retail as well.

Carol Massar

Yeah. Do you want to come in, Russ?

Russell Gannaway

I was just going to say, there's a lot of national narratives out there. I think one thing that's not talked about enough—

Carol Massar

Wait, do you not agree?

Russell Gannaway

No, I agree with it.

Carol Massar

Okay.

Russell Gannaway

Is something like San Francisco, which just gets talked about ad nauseam on the way down.

Carol Massar

They said after COVID it was done.

Russel Gannaway

Doom and gloom.

Carol Massar

Yep.

Russell Gannaway

It's the hottest office market in the country right now. You won't read about that. It's having its best year since 2019, and no surprise here, but 65 percent of the new office leases are AI tenants. So San Francisco is going to do what San Francisco does. It's boom and bust. But it's not getting enough air time out there, just the recovery underway.

Justin Kennedy

Right. San Francisco is booming, office and multifamily, but I could—and it is AI focused, but the predecessor to the boom—

Carol Massar

Oh, my goodness.

Justin Kennedy

—was local politics because San Francisco got so bad, and that's why San Francisco went down. It went down because of local politics. And San Francisco got a new mayor, who's terrific.

Julie Solomon

Mm-hmm.

Justin Kennedy

The council turned over, the board of supervisors, everything turned in San Francisco, which set the stage for the AI revolution to occur in San Francisco. And now San Francisco is going to benefit from much better politics and a strong demand driver. San Francisco has been a great market in the past year.

Carol Massar

I will point out Anthropic, OpenAI, Databricks, Scale AI, just some of the homegrown startups that are staffing up offices in San Francisco at an accelerated pace. I wasn't going to go to office until we did data centers, but let's just keep there for a moment because I am wondering then, in terms of office properties— we're going to go back to data centers—how much of AI is going to make more office properties obsolete? I know—we don't know so much still about AI, to be fair. I hear it's going to create jobs, it's going to kill jobs. I don't know. If they're all optimist robots, they don't have to go out for lunch. They don't even need lights probably. But I'm just trying to figure out, do you guys even think about this in terms of the AI—Julie, come on in. Oh, go ahead, Julie.

Julie Solomon

No, absolutely. We don't invest much in office. We've been under-allocated to office for 25 years—

Carol Massar

Because you just don't like it?

Julie Solomon

For us, given the level of oversupply that we've seen, the capital intensity, the potential for obsolescence, it just hasn't been the right sector for us. It was a good decision for our business. So our perspective as we think about is there a point in time where we would reenter, it's thinking about those types of factors. AI and the analysis around the impact to the property, the community, the drivers of growth, that is a practical overlay to all of our underwriting, and I assume for everybody who's up here. So thinking about the impact of AI on the office is something that would be top of mind. And you think about—listen, none

of us know what's going to happen and how quickly it will happen. But we do know that AI will start to have a material impact on certain types of jobs, certain types of functions, and those are the types of office products, and those are the markets relates to multifamily, as Jeff was talking about as well, is how will AI impact the actual demand for space is ultimately a part of it.

Justin Kennedy

I would just throw out to you that we've already seen the third industrial revolution change office demand, right? In that there is all kinds of demand for the high-quality properties that we're talking about from tenants that, let's call it, prices don't really matter for them.

Carol Massar

Look at JPMorgan's building that just came up in New York City, right?

Jeff Blau

Spectacular.

Carol Massar

Yeah. Exactly.

Jeff Blau

So now everybody has envy, because everybody wants a brand-new building just like JPMorgan. So we're building two new office buildings in New York. We are achieving the highest rents ever in New York City today. So, and again, at the same time when the B buildings are not there. But I agree with what Justin says, it's not just the physical product. It's all the services and amenities and programming that you put in these buildings. That's in design and staffing and customer service. That's what people are paying for. And so when you think about the AI revolution, nobody knows what—Real estate, ultimately, we're a byproduct of jobs and the economy, right? So first, the tech people have to decide where's AI going to go, and then we could tell you what's going to happen to office. Ultimately, I think people generally agree there's always going to be executive offices. Someone has to run these companies, even if they have AI. But if you own offices that house call centers, I don't know what you do with that, right? And that would probably be a bet many people would not want to take today.

Carol Massar

All I think about is the EV manufacturing plants over in China that are dark because it's just robots. Justin, I feel like I cut you off, so did you want to finish?

Justin Kennedy

No, I don't think anybody knows the answer to the AI question, right?

Carol Massar

Yeah.

Justin Kennedy

Is it going to be a job destroyer or not? It's going to be a job changer for sure, and being able to look forward and say, how is this building positioned in the market to create utility for a user in that forward market, right? And if it's a call center, bad, bad bet. What's going to replace the call center type of building in that B grade suburban office building that you talk about? The answer is—and what's the reusability of that building?

Jeff Blau

Most of those buildings are headed for land value.

Justin Kennedy

The—

Jeff Blau

A lot of those buildings are headed for—

Justin Kennedy

Apartment land, right?

Jeff Blau

Yeah.

Carol Massar

Well, that's what I think about in terms of prices clearing, Mike. How long then does this take? You said already a few years you're waiting. You've got—I remember you telling me—your limited partners—

Michael Ungari

Sorry?

Carol Massar

Some of your investors are saying, "Why aren't there more opportunities out there?" I don't get it.

Michael Ungari

Yeah, our view is that there is an opportunity set in credit today, in terms of the clearing of that credit, that rivals the size of what happened during the GFC, just over a much longer time period. And—

Carol Massar

That's a lot.

Michael Ungari

It is a lot. Now, look, it's not the free fall of distress that you saw after the GFC because there was such a deep recession then. And so this is going to take—it's already taken many years. It feels like we're resolving very slowly, and so our view is that it takes many years from now, let's put it that way, before we're fully cleared in terms of the system.

Carol Massar

I just want to ask everybody who's here, in terms of the AIs, do you think it will result in the loss of a lot of jobs? Raise your hands.

Justin Kennedy

Total jobs or changing jobs?

Carol Massar

Detail. Total jobs. Let's think about it. Are we not going to have the labor force that we have? We're a consumer economy. We buy a lot of stuff. If we're not going to have people who are employed, that's going to be a big fundamental change in our economy. Do you people think that's what's going to happen? Raise your hands. Do you guys think that's going to happen?

Julie Solomon

Only about a third.

Carol Massar

I know, it's not that much.

Julie Solomon

Not that much.

Carol Massar

Do you guys think it's going to be?

[Crosstalk]

Carol Massar

Transition? So changing jobs.

Julie Solomon

It will be a change.

Russell Gannaway

And by the way, we've been having this debate for the past five years, the future of office demand. It just used to be work from home, and now it's AI.

Carol Massar

Well, that's what's interesting. I think about—go back how many years off of COVID, and we were talking about office here, and people were thinking people aren't going to go back to work. Just this past week, Fidelity finally said, "Everybody, five days in the office." I work for someone who was like, "I give you a beautiful office to work in. I want you in there." And we're back. One thing I want to ask you—and Jeff, you talked about New York City—the New York City Mayor Zohran Mamdani, the *pied-à-terre* tax. You have Ken Griffin of Citadel considering pulling out of its new office development of the city. Hall projects that could take thousands of jobs from New York City. We're talking about a 62-story development on Park Avenue. Tell me about New York. Do you talk to the mayor? Tell me.

Jeff Blau

I do.

Carol Massar

Is it constructive?

Jeff Blau

Look, the mayor comes from a different viewpoint than probably many in this room. He—

Carol Massar

Different isn't always bad.

Jeff Blau

He believes in socialism and not capitalism, and that's at odds with what New York stands for, I believe. Having said that, and he came in with big, bold ideas. He never really had a leadership position, certainly not like this. And I think what's happening with the mayor is—you know, it's easy to be a protester, it's easy to run for office. But when you actually have to run something, you have to make real decisions. And he's going through a budget right now, and the vision is crashing into reality, and I think he's learning that right now. And he also—the mayor, like in San Francisco, doesn't actually have a ton of control. The mayor can't make all these decisions. He needs the governor. He needs the state legislature, none of whom are supporting his big tax initiatives. So, at the end of the day, we might just get the best case, which is nothing. Because if nothing happens—we went through this with de Blasio, and essentially nothing happened during his term, and New York has survived. New York is strong. New York is still the global capital of the world. It is still where—if you ask your kids, where do they want to go after graduation, they want to go to New York. And the reason people, companies still come to New York with all the difficulties that exist is because people want to be there. It's where talent is, and that's why they pay the highest rents, and that's why they go to New York.

Carol Massar

Well, on that, even Elon Musk had said to Governor Newsom, after moving and going off to Austin, is that he couldn't find engineers and talent. And so back in the West Coast. So, I guess my point is, if there is local politics that are pushing back, taxing, what have you, are people really not going to build in these great cities?

Jeff Blau

So, we're building Ken Griffin's office building in Miami.

Carol Massar

I know.

Jeff Blau

And he is moving a lot of jobs there. He does have plans to build a big tower on Park Avenue, and after the dust-up on the *pied-à-terre* tax, he threatened to not build that building. And I don't know what was going through the mayor's mind when he stood in front of Ken Griffin's apartment and said, "We're going to tax Ken Griffin's \$238 million apartment"—

Carol Massar

I know he made a video, but we also have a president—

Jeff Blau

He made a video.

[Crosstalk]

Jeff Blau

He also didn't take into account that—

Carol Massar

We live in a crazy time.

Jeff Blau

Ken is a very large employer in New York City and has plans to build a \$6 billion building, which creates thousands and thousands of local jobs, and put all that at risk. And again, I think the protesting mayor, the running for office mayor, is learning on the job. And—

Carol Massar

That's fair.

Jeff Blau

Hopefully he backs off, because we need more Ken Griffins in New York City.

Carol Massar

Anybody else want to add?

Justin Kennedy

We're just happy that Ken Griffin's doing stuff in Miami. But we wish the best for New York, and Jeff's right.

Carol Massar

Yeah. Alright. I do want to talk about data centers because I really thought that's where we're going to go quickly. I want to jump in. Alphabet, Amazon, Meta, Microsoft committed to spending, I think, at least \$650 billion this year. We just got earnings. So we've just continued to see the spend coming out. At least \$3 trillion is set to flow into data center related investments over the next five years. That's according to Moody's. Much of that capital coming from big tech, but also investors. And then there's the power that's needed to operate them. A lot of you here on this panel are working together on things. Jeff, Related, has done this major transformation to data centers. A year ago, Related Digital vertically integrated data center development and investment platform with a near-term \$45 billion development pipeline. That's a lot. First data center: Ontario, Canada. Why the switch? How much of your investments now data centers or devoted your allocations? And that \$45 billion, how quickly do you deploy that?

Jeff Blau

So, we got into the space through our renewable business. We started a renewable business about five years ago. We built solar, as I mentioned, and mainly for governments and utilities. And then all of a sudden, the tech companies came calling and looking to buy power in very large quantities before all this current craziness around data centers. And Google is now our biggest customer in the renewable space. But really what was interesting, I said, "What are you guys doing with all this power?" And we started to learn about data centers three plus years ago, which seems like ages ago in data center land. And we started to understand and we pulled talent that were power grid utility experts out of our renewable. We put them with our real execution team on the real estate side. We hired some veterans of the data center space. We formed this company, Related Digital. And now just three years later, we have about \$35 billion of development underway in data centers. We're building for almost all the hyperscalers. A couple of us on this panel—

Carol Massar

Russ and Julie.

Jeff Blau

Last week, we closed a big deal in Michigan that was in the press. That was a \$16 billion deal, part of the Stargate program where we're building a data center for Oracle and OpenAI. And we used a very new, interesting financial structure to get that done. So the demand from the hyperscalers seems just unabated. I spent a lot of time, because we all ask the same questions, "How long could this last? Is this real?" And I could just tell you from in their offices, speaking to the tech companies, that the demand is essentially unlimited right now. Now, I don't know how long right now lasts. None of us know that, but I could tell you it's at least five years because the commitments that are being made now extend five years. So is it 10 years? I don't know. But right now, the biggest constraint to new data center development—I'd say there's two. It's power availability and now community relations. Right? Those are the two things that could slow this down.

Carol Massar

Come on in, Russ, because talk about the financing side of it. It's certainly something we covered, but why don't you talk about the details?

Russell Gannaway

Yeah, you throw out some big numbers, and those numbers are so big that the bank market can't take it all down. It necessitated broader participation. And so I think what Jeff was mentioning is we structured it as a 144A securitization, such that we could trade it. It's more easily tradable. For someone like Pimco, it gives us the flexibility to provide liquidity if things were to slow down. Or, you know, realize a total return in excess of a hold to maturity if we want to sell some. So we're always looking for that flexibility. There's probably four or five banks out there quoting two ways on it. And any time that we can use liquidity to our advantage, we're going to. So I think it's a template we've actually used twice now. Also in the Meta deal in August of last year. And I think it's going to be probably used a lot more frequently going forward.

Carol Massar

And you guys led a—what is it? A \$27 billion debt deal for Meta data center?

Russell Gannaway

Yeah.

Carol Massar

Yeah.

Russell Gannaway

That's right.

Carol Massar

Are there more like that coming?

Russell Gannaway

There's a lot out there. And I think, part of the reason it came to us is because banks, particularly with Oracle, just couldn't take anymore. It needed broader participation and I think that you'll see—there's definitely others in the works right now.

Carol Massar

Julie, come on in, because you guys are participating in this.

Julie Solomon

At Ares, we've been active in data center investing probably for about 10 or 15 years, and we've done it through a variety of ways. We've done it through our real estate business, our infrastructure lending, asset-backed finance business, and what's just so clear and what we've been talking about is the capital needs are enormous. This is a multi-trillion-dollar capital need for an industry that will continue to grow. The hyperscalers will be filling portions of that, but the requirement for third parties is going to be very significant, and that's where we've all come in. Now, for us, we are a lender, we are an owner, we are now also a developer. We brought on with the acquisition of GCP last year. We brought in and now have our

own data center development operating platform. So a team of 70, 80 professionals who live and breathe and do this every day. So it allows us to develop assets ourselves, but also to partner with groups like Related Digital that if we're going to come into a transaction like this, we want to work with a team that has that proven expertise of doing large-scale developments and build-outs, and that's what we saw here. But we're very excited about the opportunity set, and we think there are a number of ways to participate in the market that we'll continue in.

Michael Ungari

Carol, I'm not the data center guy.

Carol Massar

I know you're not.

Michael Ungari

But I have one point about data centers. So, you hear the size of these capital stacks, which are truly huge, and one thing that we see is that we talk a lot about the K-shaped economic environment in this country right now, but we're starting to see a bit of a K-shaped capital formation environment in real estate. In 2021, we had a record fundraising year in global real estate, \$300 billion. That fell over a number of years to 2024, \$180 billion. And then last year, we had a rebound year. But if you look at that rebound year and you parse it between capital earmarked for data centers versus all the traditional sectors, data centers is growing really rapidly, and the traditional sectors are actually stagnating or even declining in many cases. At the same time, there are still a lot of legacy cap stacks that need to be cleared in the system. And so to us, that's a really interesting dynamic. Obviously, data center trends are super interesting and exciting, but it feels like it is drawing eyeballs and capital away from the traditional sectors, which gives us potentially a really interesting opportunity in opportunistic credit and equity.

[Crosstalk]

Justin Kennedy

The data centers are offering higher yields, right? It looks better than the pricing in the regular real estate market. So by nature, the capital is flowing to where the better yields are for risk-adjusted returns. And particularly the deals you guys did, where it's fully amortizing structure, right? You're buying the Oracle credit cheap to where it trades in the market, right? That okay, obviously the capital's going to flow to that deal, right? What's that mean for—let's call it old school real estate? Probably not something that is saying

that cap rates are going to compress. Probably that yields need to expand. And given the amount of, let's call it pent-up resolution—

Michael Ungari

Yeah?

Justin Kennedy

That exists in the market, there probably are an accelerating number of special opportunities and distressed transactions that need to play out in the market that have been part of this kick the can down the road.

Carol Massar

But it's got to be frustrating waiting, right, for this—

Justin Kennedy

We're particularly carrying around the special servicing capability, too.

Michael Ungari

We're very busy now, but we believe that we should be busier. And it'll come over time. It always has to. The system has to clear eventually.

Carol Massar

Everything's a cycle. I want to ask a question coming in. Thank you. Isn't the data center CapEx boom eventually going to end like all real estate development cycles with a bust? How do you determine the terminal value of a data center, given the rapid changes in technology creating obsolescence risk? I also find it interesting we're coming off a Fed meeting, Jay Powell's last as Fed Chair, and he even talked about data centers continuing. Just like that was something he pointed out. Anybody want to address this?

Russell Gannaway

Yeah. Well, I think Justin answered it. From my perspective it's that most of the deals we're doing are fully amortizing. So as complex as it sounds and how many nuances there are—and it is. It's a lot of work. We spent a lot of time with Jeff and Related. At the end of the day, we're underwriting high-quality cash flows from IG companies that as long as they're paying the lease—

Carol Massar

So ,there are data center deals you will not do.

Russell Gannaway

Oh, absolutely. We don't want refi or balloon risk three or four or five years from now.

Justin Kennedy

If it's tens or hundreds of billions of debt structures that do not fully amortize, that have exactly the risk factors that you're talking about embedded in the debt. Indeed, the equity, which is largely getting its money back over the term of the leases, might actually be in a lower risk position than the debt.

Jeff Blau

Look, I think the other thing, there's very few data centers that are built on spec. So while we might speculate to tie up land, control land, or power, certainly not at these scales, nobody's building a \$16 billion data center on spec. So they're not really going to get over-built in terms of you're going to wind up with an empty building. Now, if technology changes down the road and the demand is less for, or more efficient compute that uses less power, I mean, those—

Carol Massar

It's happening.

Julie Solomon

Yeah.

Jeff Blau

But every time that happens, the demand for compute goes up. So it has not taken away overall demand. So the answer is you do these things with self-amortizing. You have long-term credit leases, and you don't really speculate. There are different credits in the data center business, right? So you have all the investment-grade credits, and then you have the neo clouds that are also getting financed today. And clearly there's more risk in that. You get paid for it because your return, your yields are much higher on the neo clouds deals if you can even get them financed.

Carol Massar

Mike, one thing I want to just talk about, kind of the energy infrastructure, because if you don't have the energy, you can't really build a data center. Chicken and egg. But it's becoming problematic, right? And we've seen it certainly become political with the affordability issues and power costs. But Mike, one thing I wanted to bring up because you said, with people so stressed for power that when looking at perhaps an office property, one looks for excess power. Just talk about that. I thought it was fascinating.

Michael Ungari

Yeah, I mean, a lot of the loans and assets that we come upon are basically sort of assets in transition. They might be an office building that had a failed business plan. Maybe it's a manufacturing facility. Maybe it's something else. And I would say five years ago, we wouldn't have looked for excess power. But now when we're underwriting these deals, we look to see, do these assets have excess power, because that could be the highest and best use. It's not a hyperscale data center like we're talking about here, but there are smaller data centers that you could sell that power to someone who wants to do that. Or can it get power quickly? And so that's part of the playbook, that's part of the checklist right now as you look at assets that are being repurposed. We have a situation where we're looking at an office building. It was probably worth \$150 million at peak. You can probably buy it through the debt today for \$30 million. It also happens to come with 20 megawatts of quick power. And that could end up being something that you could end up taking forward and selling off to a small data center developer. That could be the highest and best use. So it's part of our underwriting now.

Carol Massar

One thing we brought up before we came in here is, I think I asked you guys if you have an exit strategy for the data center play. And the only reason I bring it up is you have folks talking about Elon Musk, talking about data centers in space. Maybe sounds crazy, but when it's Elon, you never count anything out. But it's not just Elon, it's other folks thinking about that. I mean, do you seriously think about this and having an exit strategy for the overbuild that could happen?

Jeff Blau

The thesis from data centers in space, it makes all the sense in the world because the two most expensive costs in a data center are power and cooling, both of which are free in space. Now, how you actually get all this up there and the cost to do that, and how you service and maintain it, and then kind of bring all that information back to Earth, I'm not sure we have the technology yet. Elon, you don't want to count him out. But the premise, it makes a lot of sense, and ultimately, we don't have enough natural resources on this Earth to power all the demand for data centers. So it's not a crazy thesis. I think it's many, many years out.

Carol Massar

Anybody else want to add? We can move on. I want to ask about any other real estate that we should be talking. We've talked office, we've talked data centers, but I want to throw it out to the group because there's so much more out there.

Julie Solomon

There is, and I actually think it's very much interconnected with our discussion on data centers, which is data centers has a pretty significant downstream effect on the economy and how we're using real estate. So for us, as an example, we're one of the largest owner and operators of logistics facilities around the world. So we're buying, we're building, we're lending on industrial logistics, which are effectively anywhere from warehouse boxes to state-of-the-art facilities that are serving as the fulfillment centers for Amazon in Japan, as an example. Right? So when you think about what data centers are serving and the purpose, it is amplifying all of the activity that then drives the need for other types of real estate. So if you think about what we're doing with AI to advance and accelerate online purchases, e-commerce, in fact, here in the US, e-commerce is only about one in five purchases, which is incredible to think about. And it's even less in Europe, and it's even less over in Japan where we have a big operation. So a lot of what we're hearing and talking about with regard to AI, with regard to data consumption, is just driving the need for other asset classes that not as much capital is going towards, which actually creates a really exciting opportunity for us.

Carol Massar

Is that what's happening in housing, residential, and affordable?

Justin Kennedy

Different.

Carol Massar

Different.

Justin Kennedy

Different. Right? That the ability to use, let's call it, again, third industrial revolution technology to work in a different place is already established, right? And that has changed where you can live. People live much farther from the office now on average. They live in different cities. There's new commuting patterns that have happened, right? And that the one real estate asset class that tech might not change demand for is residential. But it's changing where the demand is. And what are the factors that you might choose for a multifamily property that you would select as your next place to live if you work from home now? Right? Or, if you're running an AI agent, can you do that from a different place than you would've done it from otherwise? And I think that, again, back to this stock picking point, who's the guy or girl that is picking that, let's call it new dynamic in the market? Because this is not something that always before, the multifamily had to be, or the housing generally, had to be where the job was. Or in proximity to it, or next to the commuter line that got you there. If you're not having to go there anymore, right, the places you can live expand in choice. And, okay, the fact that I might want to live in a city with warm weather might trump all the other factors that you were choosing around, and you can do that now because of technology providing new options.

Julie Solomon

Right. If you can receive products and services and streaming anywhere in the world, you have a lot more flexibility, which also drives towards rental housing because you want the flexibility—

Justin Kennedy

Yeah.

Julie Solomon

And you don't want to create a home ownership situation, which you're not able.

Michael Ungari

I would just say, when you think about multifamily, we've all had a lot of experience. It's pretty rare moments in time in real estate when you can create pretty much brand new multifamily at significant discounts to replacement cost. That's out there today. There's a lot of good assets trapped in bad capital

structures. And so look, I think you have to be very careful about the market. Justin and I were talking earlier. There's many markets that are still seeing flatline or even negative rent growth in many cases. But it's an interesting opportunity to be able to create multifamily at that type of basis because it doesn't happen that often.

Carol Massar

A few questions I just want to get to, if I may, just because I don't want to ignore you guys. What North American markets are most attractive for commercial office investing today? Anybody want to take a crack?

Justin Kennedy

Palm Beach.

Russel Gannaway

San Francisco.

Carol Massars

What?

Julie Solomon

West Palm.

Jeff Blau

New York.

Carol Massar

New York.

Michael Ungari

Dallas is also strong in certain pockets.

Carol Massar

Are you guys talking your book?

Justin Kennedy

Coconut Grove, Florida.

Julie Solomon

100 percent.

Carol Massar

It's okay. We're allowed, just being transparent. Sitting here in LA, this is a market you want to deploy capital in? And if so, which types of properties? There's so much construction going on, as we said. LA? Wow. Quiet. Okay. We're moving on. Is the commercial real estate space in Southern California expanding? I'm sorry. Is the commercial real estate space in Southern California expanding?

Justin Kennedy

No.

Carol Massar

Wow. No.

Justin Kennedy

Well, here's Roy right here. Roy or VK, what do you think? The...

Audience Member

Is it safe?

Carol Massar

Is it safe? Is that what you said? Let's see. Might sales roles in commercial real estate be at risk? I'm assuming this is related to AI.

Russell Gannaway

Some properties.

Jeff Blau

Sales roles, meaning brokers? Brokers.

Carol Massar

I guess. Who asked the question? Sales roles, are we talking brokers?

Jeff Blau

I could tell you, it's interesting. In the rental market, early in our careers, everybody had brokers. That's how you got an apartment. There's basically no brokers in rental real estate anymore. Everything's online. So you can extrapolate that out. I think commercial is a little bit more hand-holding, and it requires one-on-one communication, and—But the rental market operates completely online now.

Carol Massar

This is an interesting question. How has the real estate investment landscape changed capital raising, investment opportunity set, et cetera, due to the big managers getting bigger with multiple product offerings versus the traditional opportunistic real estate strategies with 20 percent plus return targets? Any thoughts?

Justin Kennedy

Well, as a little guy, we're a middle market boutique focused manager that tries to play across the capital markets, and we think being able to position yourself from equity across the board to debt, and all the debt sectors in between allows us to operate in the market in a way where we're generating excellent returns.

Jeff Blau

I think you need to have your own strategy. So the big firms, the funds, their strategy is they have endless capital, and they can move fast. So for us, we're all about execution. We're about building products and using our operator to create value creation. So I think there's a role for everybody, but you have to have a defined role that is differentiated.

Julie Solomon

Yeah. I think what's important is being big and growing for growth's sake isn't enough. In our business as real estate investors and managers, we need to deliver results. We need to deliver it to our tenants. We need to deliver it to our investors, to our LPs, to all of our clients. So there's no replacement for those results. For us, we have grown significantly. We've done that both organically through performing in our funds, and investors coming back to us to do more and partner in different ways. We've also been acquisitive of other businesses over the years, and that's been a great outcome for our investors because the way we've acquired businesses and brought them into our platform is that we have greater operating capabilities. And we have felt that as we face forward in this market, to the point about being a good stock picker, you have to be a good stock picker. You also have to be really, really precise on execution, and that's how we've decided to grow our business. And it comes back to how do you deliver better results? There are plenty of businesses who have also grown that haven't been able to navigate through that. And so that's, I think what it all comes down to is making sure you're coming back to your core mission.

Justin Kennedy

That operational value point is part of being the stock picker, right? Creating opportunities through operations like Jeff Blau describes.

Russell Gannaway

I think it's also important to be flexible. That's something that there was a lot of niche operators out there over the past five to 10 years, and people wanted to pick specialists in a certain sector. But being able to

move between asset classes, move between public and private, move between credit and debt, I think is starting to resonate again with people. I don't think you'd want to be a life science operator right now. Office had a really tough time. So I think there's a lot of value in sort of looking across the relative value spectrum.

Carol Massar

On that, I just want to ask one more question. Is credit more attractive than equity today? Does it come with the same directional bet?

Justin Kennedy

It has been.

Russell Gannaway

Yeah. It definitely has been.

Justin Kennedy

Last five, six years have been pretty good.

Russell Gannaway

I think the equilibrium is starting to look a little bit more fair towards equity as we bottom, but it certainly has been a lender's market the past three or four years.

Carol Massar

Yeah. All right. Just a minute and a half, so I'm going to do a quick little rapid round if I can. As real estate people, if you could, well, you probably all could live anywhere in the world. Mike, where would it be and why?

Michael Ungari

Well, I think I'd have to say south of France because my wife wants to live there.

Carol Massar

I'm with her. Justin.

Justin Kennedy

I still have to have a job, so Coconut Grove, Florida.

Carol Massar

Okay. Julie.

Julie Solomon

I live in New York. I love where I live right now, and it's been a good home, and it's been a great place to grow a strong business.

Carol Massar

I love that. Russ.

Russell Gannaway

Innsbruck, Austria because I lived there for a summer, and it was the best summer of my life.

Carol Massar

Were you in college?

Russell Gannaway

Yes.

Carol Massar

Ah. That had something to do with it. Everything's great in college.

Jeff Blau

New York City.

Carol Massar

New York City. Alright. On that note, I'm going to leave it there. You guys were incredible. Thank you all so much. Thank you all for your questions.

Announcer

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