PIMCO Flexible Real Estate Income Fund (REFLX): Opportunities in Commercial Real Estate

Individual investors can now access PIMCO's global real estate platform through a newly launched interval fund.

AUTHORS

Devin Chen
Portfolio Manager
Commercial Real Estate

Christoph Donner
Chief Executive Officer
Allianz Real Estate

Ryan Mulvey
Strategist

PIMCO has launched a new interval fund, the PIMCO Flexible Real Estate Income Fund (REFLX), which seeks to provide individual investors access to high quality, income-producing commercial real estate equity and debt. Devin Chen and Christoph Donner, co-chairs of the Fund's investment committee, talk with Ryan Mulvey, strategist, about why they see this as a great time to invest in real estate, and how REFLX can potentially provide individual investors with attractive income, compelling total return, and diversification from traditional asset classes.

Q: WHAT IS REFLX?

Chen: PIMCO Flexible Real Estate Income Fund is an interval fund designed to provide individual investors access to institutional-quality real estate equity and debt. REFLX targets attractive risk-adjusted yield by investing predominately in high quality, stabilized, income-oriented commercial real estate equity and debt in the U.S. We have the flexibility to invest across public and private debt and equity globally as we see attractive opportunities arise.

PIMCO has long been a global leader in commercial real estate (CRE) investing. Yet until now, most of our CRE solutions have been in vehicles primarily limited to institutional investors. We launched REFLX to offer individual investors access to the same institutional-quality CRE investments in what we believe is an investor-friendly interval fund structure. And we have committed $75 million in seed capital to the fund, further aligning our interests with our investors.

Q: WHAT ARE THE POTENTIAL BENEFITS OF PRIVATE REAL ESTATE?

Donner: Private, stabilized CRE can potentially offer owners three key benefits: tax-efficient income, low volatility of returns, and inflation hedging.

Tax-efficient income. REFLX's monthly distributions can generally be comprised of ordinary income, capital gains, and return of capital (ROC), each of which has different tax treatment. As an interval fund that has also elected to be taxed as a real estate investment trust (REIT) for U.S. federal income tax purposes, REFLX can take depreciation deductions against pretax income, which allows REFLX to characterize the portion of its distributions that would otherwise be treated as ordinary income, as ROC. ROC distributions may be tax-deferred until REFLX shares are sold, at which time they may be taxed as a capital gain. We expect a significant portion of REFLX's monthly distributions to be classified as return of capital, which helps to reduce tax dilution. In addition, the portion of each distribution classified as ordinary income may benefit from a 20% deduction to individual tax rates. In aggregate, we believe this tax treatment should result in a tax-efficient distribution profile for the Fund.[1]

Low volatility. Private real estate assets may experience less volatility than more traditional assets like equities; in fact, private real estate assets have realized a volatility level that is less than half of the S&P 500 index over the last 15 years.[2]

Inflation hedging. Private real estate assets may also have an advantage during periods of high inflation. Over the last 20 years, the unlevered total rate of return generated from real estate has kept pace with inflation, even during periods of negative real interest rates.[3]

When leasing properties, property owners tend to build in contractual growth in rents plus a reset at renewal that factors in inflation. Some sectors of the commercial real estate market, such as apartment buildings, have the flexibility to change rents annually. This provides real estate assets with a natural inflation hedge.

Q: WHY IS PIMCO LAUNCHING REFLX NOW?

Donner: Private real estate markets are repricing and yields have risen, amplifying opportunities for both income and total return. Asset repricing has not been uniform across the real estate asset landscape: Valuations in public real estate markets have tumbled, while private market assets are in earlier stages of repricing. Flexible real estate funds like REFLX can capitalize on this dislocation, focusing on segments of the market that offer the most attractive return profile. As a new portfolio, REFLX does not have the burden of legacy holdings weighing on its earnings and return potential, providing the managers even more investment flexibility.

Q: WHAT DO YOU BELIEVE IS PIMCO'S COMPETITIVE ADVANTAGE IN THIS SPACE?

Chen: PIMCO's edge is in our expansive integrated platform. We manage more than $190 billion[4] in commercial real estate assets globally, including more than $118 billion in private real estate assets across sectors, geographies, and the risk/return spectrum. Our team of 290 dedicated CRE investment professionals spans 32 office locations in 19 countries. We leverage proprietary information and well established relationships to access, underwrite and structure real estate opportunities. We also work with PIMCO's corporate credit research analysts to underwrite our commercial tenants, and with our structured credit and REIT analysts to source attractive relative value opportunities in public and private debt and equity.

Investing with a large, time-tested global platform is especially critical today, as turbulent markets require an active manager with experience navigating real estate debt and equity markets through all phases of the cycle. PIMCO's CRE platform was borne out of the market dislocations of the global financial crisis, and we expect to use a similar thematic approach to try to take advantage of today's CRE markets.

Q: WHY SHOULD INVESTORS CONSIDER REFLX IN THEIR PORTFOLIO?

Mulvey: Private commercial real estate represents the third-largest U.S. asset class with a market value of more than $20 trillion.[5] We have seen investors' allocations to commercial real estate grow alongside an increase in popularity of non-traded REITs, CRE-focused interval funds, and tender offer funds, which now collectively have more than $200 billion in assets and have raised more than $75 billion in new assets since 2020.[6]

We see REFLX as a compelling way for investors to capture the benefits of a commercial real estate allocation, and believe the Fund can be an excellent complement to existing CRE allocations. The Fund is launching at a very attractive entry point in the CRE market; valuations have become more attractive across the CRE asset landscape, providing what we believe is a massive opportunity for REFLX's fresh capital to take advantage of. REFLX's portfolio is structured with the goal to capitalize on rapidly changing CRE markets. We have flexibility in the portfolio to invest across public and private CRE equity and debt to try to maximize relative value opportunities, and do not possess legacy assets in the portfolio that can weigh on forward return expectations. REFLX is structured as an interval fund – a structure designed to provide access to private strategies that have long benefited large institutions, at lower investment minimums and with simpler 1099 tax treatment. REFLX is available for daily subscriptions at net asset value, and provides limited liquidity through quarterly repurchase offers expected to be 5% of outstanding shares.

1 Under the Tax Cuts and Jobs Act of 2017, U.S. individuals and other non-corporate persons are entitled to a special 20% tax deduction with respect to taxable ordinary distributions from the Fund. The description of tax consequences considered herein is limited to the U.S. federal income tax consequences to a U.S. individual or other taxable non-corporate person, of an investment in the Fund. At this time, the 20% deduction to individual tax rates on the ordinary income portion of distributions paid to investors is set to expire on December 31, 2025. **PIMCO does not provide legal or tax advice**. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.

2 Equity market measured by the S&P 500 index; versus the average monthly annualized volatility of the Green Street Commercial Property Price Index. Time frame referenced is from 30 2007 September 2022 through 30 September 2022. Volatility measured by standard deviation of monthly returns. It is not possible to invest directly in an unmanaged index.

3 According to a blend of NOI for assets tracked by GreenStreet in 50 major metros in the U.S., which has outpaced the Consumer Price Index for All Urban Consumers. This index consists of all Items less food and energy in the 50 major metro U.S. cities. The index is average, annual, and seasonally adjusted. As of 30 September 2022.

4 Assets include $97 billion in assets of clients contracted with Allianz Real Estate, an affiliate of PIMCO. The AUM attributable to Allianz Real Estate includes uncalled capital commitments. Allianz Real Estate is a PIMCO company, comprising Allianz Real Estate GmbH and Allianz Real Estate of America and their subsidiaries and affiliates.

5 CoStar

6 Robert A. Stanger & Co. As of 31 October 2022

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Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. This and other information are contained in the fund's prospectus, which may be obtained by contacting your investment professional or PIMCO representative or by visiting www.pimco.com. Please read the prospectus carefully before you invest or send money.

The fund is a newly organized, unlisted closed-end "interval fund." Limited liquidity is provided to shareholders only through the fund's quarterly offers to repurchase between 5% to 25% of its outstanding shares at net asset value (subject to applicable law and approval of the Board of Trustees, the Fund currently expects to offer to repurchase 5% of outstanding shares per quarter). Although interval funds provide limited liquidity to investors by offering to repurchase a limited amount of shares on a periodic basis, investors should consider shares of the Fund to be an illiquid investment.

Past performance is not a guarantee or a reliable indicator of future results. Investments made by the Fund and the results achieved by the Fund are not expected to be the same as those made by any other PIMCO-advised Fund, including those with a similar name, investment objective or policies. A new or smaller Fund's performance may not represent how the Fund is expected to or may perform in the long-term. New Funds have limited operating histories for investors to evaluate and new and smaller Funds may not attract sufficient assets to achieve investment and trading efficiencies. **There can be no assurance that PIMCO's strategies with respect to any investment will be capable of implementation or, if implemented, will be successful.**

It is important to note that differences exist between the Fund's daily internal accounting records, the fund's financial statements prepared in accordance with U.S. GAAP, and reporting practices under income tax regulations. It is possible that the Fund may not issue a Section 19 Notice in situations where the Fund's financial statements prepared later and in accordance with U.S. GAAP or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital. Please see the fund's most recent shareholder report for more details.

A word about risk: Investments in **residential/commercial mortgage loans and commercial real estate debt** are subject to risks that include prepayment, delinquency, foreclosure, risks of loss, servicing risks and adverse regulatory developments, which risks may be heightened in the case of non-performing loans. The Fund will also have exposure to such risks through its investments in **mortgage and asset-backed securities**, which are highly complex instruments that may be sensitive to changes in interest rates and subject to early repayment risk. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in **emerging markets. Mortgage-related assets and other asset-backed instruments** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee, there is no assurance that private guarantors will meet their obligations. **Private Credit** will also be subject to real estate-related risks, which include new regulatory or legislative developments, the attractiveness and location of properties, the financial condition of tenants, potential liability under environmental and other laws, as well as natural disasters and other factors beyond the fund's control. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **Bank loans** are often less liquid than other types of debt instruments and general market and financial conditions may affect the prepayment of bank loans, as such the prepayments cannot be predicted with accuracy. There is no assurance that the liquidation of any collateral from a secured bank loan would satisfy the borrower's obligation, or that such collateral could be liquidated.

Investments in **distressed loans and bankrupt companies** are speculative and the repayment of default obligations contains significant uncertainties. The value of **real estate** and portfolios that invest in real estate may fluctuate due to: losses from casualty or condemnation, changes in local and general economic conditions, supply and demand, interest rates, property tax rates, regulatory limitations on rents, zoning laws, and operating expenses. **Structured products** such as collateralized debt obligations are also highly complex instruments, typically involving a high degree of risk; use of these instruments may involve derivative instruments that could lose more than the principal amount invested. **Joint ventures** are subject to management risk, potential for default, conflicts of interest, and may be considered speculative and involve a high risk of investment loss. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The use of **leverage** may cause a portfolio to liquidate positions when it may not be advantageous to do so to satisfy its obligations or to meet segregation requirements. Leverage, including borrowing, may cause a portfolio to be more volatile than if the portfolio had not been leveraged.

An investment in an **interval fund** is not appropriate for all investors. Unlike typical closed-end funds an interval fund's shares are not typically listed on a stock exchange. Although interval funds provide limited liquidity to investors by offering to repurchase a limited amount of shares on a periodic basis, investors should consider shares of the Fund to be an illiquid investment. Investments in interval funds are therefore subject to **liquidity risk** as an investor may not be able to sell the shares at an advantageous time or price. There is also **no secondary market** for the Fund's shares and none is expected to develop. **There is no guarantee that an investor will be able to tender all or any of their requested Fund shares in a periodic repurchase offer.**

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Information provided is current as of the date specified and is subject to change without notice to you. Amounts, thresholds and ranges are subject to annual IRS adjustments. Individuals should consult their own legal and tax counsel as to matters discussed herein and before entering into any estate planning, trust, investment, retirement, or insurance arrangement.

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for a long-term especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision. An investment in the Fund is speculative involving a high degree of risk, including the risk of a substantial loss of investment.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

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