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Industry leaders uncover opportunity across markets, structures

If you're trying to determine where to invest, and you're sans crystal ball, the next best thing is talking to the experts. They were out in force as part of a recent panel, "Real Estate Investment Structures Providing the Best Returns," during the Global Leaders in Real Estate Summit.

The Summit, hosted by iGlobal Forum in partnership with EisnerAmper, was held at the Sofitel New York.

Moderated by Michael Lefkowitz, member of Rosenberg & Estis, P.C., the panel included Michael Eglit, managing director of Blackstone; Shaunak Tanna, head of structured investments at Basis Investment Group, LLC; Spencer Garfield, managing director, credit and real estate department at Fortress Investment Group, LLC; Michael Butz, partner, acquisitions/origination at Torchlight Investors; and David Eyzenberg, president of Eyzenberg & Company.

Michael Lefkowitz

The first item on the agenda was construction lending. Lefkowitz asked the panelists about the market in general and which types of assets and locations held the most appeal.

Although Torchlight focuses more on renovation than ground-up construction, Butz hears that there's a lot of capital available for new construction, especially at the mezzanine level, and the yields are still attractive.

Eglit attributes the popularity of ground-up construction in multi-family and office space to the lure of the new. "Tenants and renters gravitate to new space," he said. "Everyone wants a new unit and new amenities."

But "new" is hardly the only consideration. Fortress, according to Garfield, typically shies away from hotel construction because the firm views hospitality as more of an operating business. "It's hard to project how the hotel will perform when it's delivered," he noted.

Both Fortress and Blackstone avoid ultra-luxury condos in New York City, due to excess supply. For Garfield, the attractive opportunities in ground-up construction are the markets that are experiencing exceptional growth and where high demand matches high supply, such as in Austin.

Torchlight, like Fortress, focuses on secondary markets, where cap rates and yields are better. But major markets have advantages, too, several panelists observed, including more liquidity and institutional buyers.

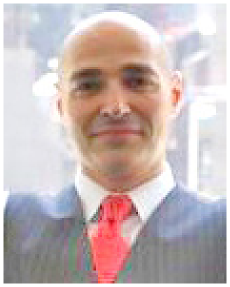
Assessment of broad trends can be illuminating, but a few of the panelists cautioned against over generalization. Tanna, for instance, described Basis as market agnostic, while Garfield emphasized the importance of viewing each transaction individually.

Beyond careful analysis of each deal, how do the panelists maintain a competitive advantage? In some cases, they turn to niche areas for ROI. One example is ground-lease structures, where Eyzenberg has had great success. Several of the other panelists were less than enthusiastic about these opportunities. Eglit, for instance, believes that ground leases hinder liquidity. Garfield added that credit rating agencies look at a ground lease as an operating expense and one in which they have an adverse view, especially as it creeps up as a percentage of total expenses.

Further debate ensued. "Anything that takes away from liquidity and makes it look like a strange duck doesn't sit well when there's not as many buyers as there are today," said Garfield.

Eyzenberg, unfazed, emphasized the distinction between a single-tenant building and a diversified, multi-tenant roster of 100 tenants. In the latter case, "What's the likelihood that 70 are going to go out?" Eyzenberg asked. "Not likely, and so I think you're actually lending into a better situation."

Speaking of lending, how has the maturity of the current cycle affected underwriting and negotiation of terms? Butz finds that leverage has picked up and this creates market risks.



David Eyzenberg

However, he identified a saving grace: the abundance of equity capital. Furthermore, he hasn't seen any real deterioration in credit standards, even though prices have gone up, yields have gone down, and competition has increased.

What projections do the panelists have for the rest of 2018 and 2019? Eglit thinks that rising rates will have an impact, resulting in refinancings and cash flow stresses. For the transitional lender, that will lead to some opportunity. Tanna believes the rates will generate more openings for bigger mezzanine pieces.

Garfield and Butz approach commercial real estate from a credit perspective. Garfield believes distressed property offers strong prospects. "There will be opportunity to buy debt," he predicted.

Butz expressed Torchlight's assessment that "real estate fundamentals are pretty good overall." He continued: "I would say that we're still optimistic that there's going to be a pretty good run for the next year or two. The one fly in the ointment could be interest rates if they move up faster than we expect."