FINANCE · ACQUISITION | NATIONAL

Where to Invest in Commercial Real Estate? That Was the Question.

A recent Commercial Observer forum on capital markets gathered lenders and investors, and found divergent views

BY BRIAN PASCUS AND MARK HALLUM DECEMBER 1, 2023 2:09 PM

Micro- and macroeconomic trends collided at Commercial Observer's annual Capital Markets and Opportunistic Strategies Forum on Nov. 28 at **22 Vanderbilt**, a newly renovated mixed-use office property on the site of the old Biltmore Hotel next to **Grand Central Terminal** in Midtown Manhattan.

After a few words from the building's host, **Damon Lopez-O'Dwyer** from **Milstein Properties** (and there were also a few words from **Adrienne Coyle** of **Starwood Solutions**, one of the event's sponsors), the morning opened with **Ryan Severino**, chief economist and head of research at investment firm **BGO**, holding court with **Sam Chandan**, founding director and professor at the **C.H. Chen Institute for Global Real Estate Finance** at the **New York University Stern School of Business**.

SEE ALSO: Tamares Group, Atlantic Realty Secure Loan Extension for DC-Area Office Complex

---

Severino took a contrarian view on Chandan's suggestion that the U.S. would enter a recession, first by noting that he's "probably on the more optimistic side than the average person," and then adding that he's rate hike in 40 years.

“I feel like the data has only vindicated that story,” Severino said. “I think the economy is different and far more resilient than people would have thought when the Fed started raising, especially when they were raising aggressively, and I don’t see any reason to back down from that now.”

He said that he doesn’t expect the Fed to raise interest rates in the near future, mainly because he doesn’t expect inflation to jump high enough to warrant any increases. However, he hedged that position by noting that he’s merely taking **Federal Reserve** Chairman **Jerome Powell** at his word.

“They face an asymmetrical risk structure, too: If they raise too much, they say that we needed a recession to bring inflation down; but, if they don’t raise enough, and then things re-accelerate — then they get opportunities in an uncertain market, and moderated by **Jay Neveloff** of **Kramer Levin Naftalis & Frankel** — **David Schwarz**, head of commercial real estate strategies at **Amherst**, an investment and development firm, suggested that not everything is making sense on the equity side. That's mainly because transaction volumes are down and deals are coming only through a pipeline of existing borrowers.

"My general view is you have to be in the market, and that means trying to turn over every stone," said Schwarz. "There's a lot of different forms deals can take, but once interest rates start to stabilize, there will be comfort in pricing, pricing on debt and pricing on equity, and sellers might not like it, but that's the progression things will start to take."

Shlomo Chopp, managing partner at lender **Terra Strategies**, sits at the intersection of borrowers and lenders in his real estate consulting work. Chopp noted that many lenders are only accepting extensions or up rare off-market opportunities.

“I actually think the reason why deals are happening where people don’t see them is because there are off-market opportunities,” said Chopp. “If you’re a borrower with a lender, you can transact off-market without the lender coming to market.”

In terms of specific asset classes to invest in, one panelist pointed at hospitality as the safest path forward. **Eli Sokol**, vice president of development and investment in North America for hotel company **CitizenM**, praised the New York City hospitality industry, which he said has recovered over the past two years.

“This city has enduring appeal,” said Sokol. “Regulations in place here are helping incumbents in the space perform well: zoning restrictions on new hotels have helped existing hotels, there’s **Airbnb** regulations that happened. … So the demand is definitely there.”

Nicholas Baccile, a director at investment firm **Canyon Partners Real Estate**, wasn’t nearly as effusive about an asset class on everyone’s mind: office. Baccile described office (rather derisively) as “the new retail,” which he said was “an incredibly oversupplied asset class” over the last 20 years.

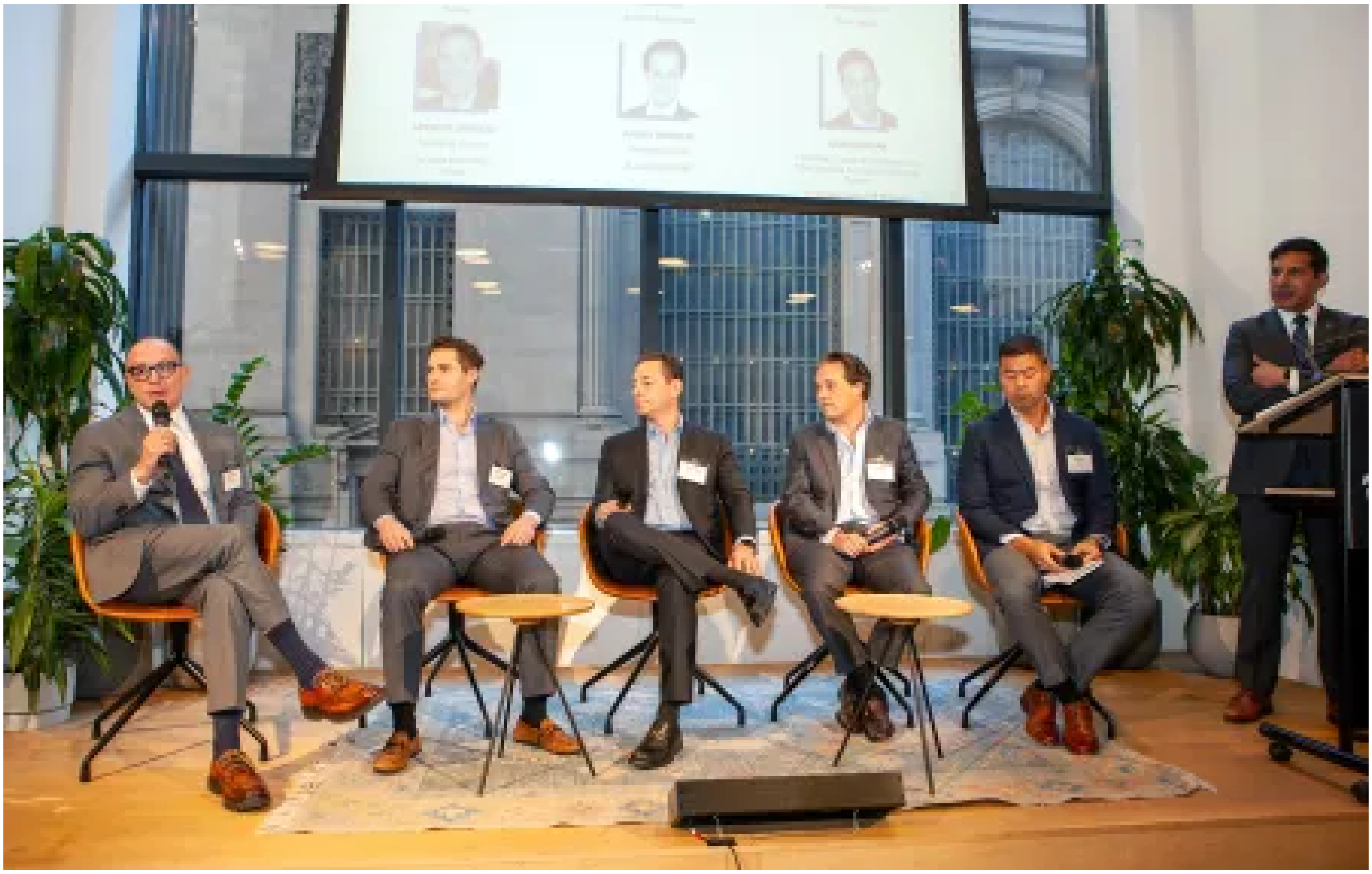
“We had millions of square feet of malls that had massive spaces and a lot are going away, a lot are being repurposed … and now office faces similar challenges,” said Baccile. “It’s a fundamental thing. It’s supply and demand, [especially] if demand has gone to three days per week.”

The final panel of the morning featured several executives holding a symposium to demystify distressed asset investment strategies. **Robert Dickey**, managing director of investments at investor **Invesco**, gave a brief history lesson.

He recalled how during the savings and loan crisis of the late 1980s and early 1990s commercial real estate was still in the “the stone age,” as there weren’t many distressed funds set up yet to take advantage of underwater loans. It was only after **Congress** created the **Resolution Trust Corporation** to sell distressed real estate loans on the market in one fell swoop that a small group of crafty firms made the first initial killings in the sector.

“That proved to be the golden era of distressed investing,” said Dickey.

Dickey added that after the 2008 Global Financial Crisis, the Fed wised up to its previous mistakes, and made sure its next loan sales program



ROBERT DICKEY, MANAGING DIRECTOR OF INVESTMENTS AT INVESTOR INVESCO, HOLDS COURT.

GREG MORRIS

purchases of distressed loans. He also noted that the special servicer industry of commercial mortgage-backed securities, which is only 30 years old, realized "extend and pretend" is now the best method to recover original loan balances.

“There isn’t the abundant distress from the 1990s, both because the Fed has gotten smarter and the special servicers have gotten smarter,” said Dickey. “Selling things at the moment of heating, which is probably going to be 2024, is the wrong time to sell an asset.”

Dags Chen, head of U.S. real estate research and strategy at investment giant **Barings**, cautioned the audience that each real estate cycle is different, previous cycles set up current ones, and that humility is “absolutely necessary” when entering the world of distress.

“You could argue both sides: there’s going to be a lot of distress, there’s not going to be distress,” said Chen. “The key is how you access that opportunity. It’s going to be a combination of various things: skill, luck and timing is critical.”

Spencer Garfield, managing director at **Fortress Investment Group**, took an unmistakably pessimistic tone, arguing that we’re in a distressed market now and will be for a number of years. He noted that there’s been overbuilding across the Phoenix, MIami and Austin multifamily markets; New York City has higher expenses and political risk from anti-development local politicians; and recent legislation out of Los Angeles added political risk to future commercial real estate investment.

“We believe that we are in a distressed market, and if you’re marking a high rate of return [on that capital]," explained Garfield.

Ultimately, Garfield tried to lighten the mood by telling the audience, many of whom included young professionals, that playing the board of distressed real estate "is not an easy game."

"Having real estate experience and a bank account doesn't put you in a position to play distress," he said. "It comes from asset management experience, workout experience, understanding how borrowers respond, and it's dependent on asset type geography. … You have to have foresight, you have to take some risk."

"It's a complicated game," he added.

Also appearing on the panel with them was **Daniel Wrublin** of **Dalan Real Estate** and **David DesPrez** of **Bain Capital**.

Minerva Realty Consultants President **Merrie Frankel** moderated a

Christina Chiu, **Whitestone REIT** COO **Christine Mastandrea**, and **Kurt Ivey**, senior vice president of marketing at mall owner **Macerich**.

Bernstein spoke about how he's seen the pre-pandemic "retail armageddon" turn into an office armageddon and a retail renaissance, while Chiu added that retail in ESRT's portfolio has served as an amenity for its office tenants. Markets with high residential density — and low office density — have flourished most on days when people work from home.

"I thought we were going to have to wait for a return to office for our retail to come back," Bernstein said. "It turned out that when the residential market rebounded, so did our stores in Williamsburg, SoHo and the majority of our portfolio throughout the country. I agree that retail is a very important and profitable component of an [amenitized] office, but whether folks are going into the office three or four days a week doesn't seem to impact our retailers. In fact … Thursday's the

EMPIRE STATE REALTY TRUST'S CFO CHRISTINA CHIU.

GREG MORRIS

The next panel brought together moderator **Peter Borock** from law firm **Greenberg Traurig** with **Fundrise** CEO **Ben Miller** and **Blackstone (BX)** Managing Director **Tony LaBarbera**. The discussion was all about chasing the most bang for the buck in the marketplace. To that end, LaBarbera said Blackstone was deploying capital to assets like student housing, storage and multifamily.

Miller's investment platform, however, is cutting back on insurance overhead in Florida and high property taxes in Texas by shifting away from markets with those kinds of headwinds. Other urban problems investments in those markets.

"Both of those things have actually made deals no longer make any sense in Florida and Texas, in my view," Miller said. "Georgia, North Carolina, South Carolina, Tennessee — that's where we've been mostly buying since the end of the year."

Commercial Observer Editor in Chief **Max Gross** led the next panel, which was about detonating all the supposed dry powder on the sidelines. The panel included **Adrian Berger**, managing director at **Cypress Equity Investments**; **CIM Group** Managing Director **Jay Fischer**; **Michael Lavipour**, senior managing director at **Affinius Capital**; and **CWCapital** CIO **Gina Lubin**.

Berger said there's no easy process for identifying where opportunities lie. Instead, they often come out of states like Texas where land can be developed to suit a particular need or in targeting the assets of question but are still a long shot.

"It's an asset class that has a lot of issues and nobody knows how deep it is," Fischer said. "With the retail apocalypse, it was like only the top 300 assets will survive, then it was the top 200 and then the top 300. I think the office market is trying to figure that out right now. I think from our perspective, yes, office is investable for us but it's highly dependent on what and where it is, the structure and basis we're coming in at. There are a lot of nuances that would make it acceptable."

The day's final panel, which **Kasowitz Benson Torres** partner **Jennifer Recine** moderated, had more to say on capital deployment.

For those playing the long game, malls and regional shopping centers are likely a good bet, according to **Lemore Czeisler**, vice president of development at **Pacific Retail Capital Partners**. Czeisler was on the vice president of franchise development for **Choice Hotels Extended Stay**.

"There's going to be moderate but solid growth, leasing activity is through the roof — I mean, sure, it's because there was a ton of vacant space — but still … [net operating income] is projected to grow 4 percent roughly over the next five years," Czeisler said of shopping centers. "The only thing that needs to occur are a couple of years of sweat through entitlements and getting through this debt market where you can do new construction. … I think that the mall space and regional shopping centers are really undervalued."

Up on the seventh floor of 22 Vanderbilt, **RXR** CEO **Scott Rechler** and **Bob Knakal**, head of **JLL**'s New York private capital group, led the closing keynote over cocktails.

While commercial real estate has been a challenging environment over the last few years, Rechler and Knakal's views were that of old industry veterans: that it's not the first time the market has been at a crossroads, and people found their way from the 1980s and early 1990s — not to mention the financial crisis in 2008 — when tax reforms turned valuations on their heads to interest rates being 18 percent at times.

"You have to keep that parallel in mind," Rechler said. "The difference is that we've lived through almost two decades of a near-zero interest reset their capital structure, and that’s a painful process.”

KEYWORDS: Bob Knakal, Jay Neveloff, Jerome Powell, Nicholas Baccile, Robert Dickey, Ryan Severino, Scott Rechler, spencer garfield, Acadia Realty Trust, Affinius Capital, Amherst, Bain Capital, Barings, BGO, Blackstone, Bonaventure, Canyon Partners Real Estate, CIM Group, CitizenM, CWCapital, Cypress Equity Investments, Empire State Realty Trust, Federal Reserve, Fortress Investment Group, Hoya Capital, Invesco, Macerich, Milstein Properties, Pacific Retail Capital Partners, RXR, Starwood Property Trust, Terra Strategies, Whitestone REIT

People in this story

Bob Knakal
Chairman, New York Investment Sales, JLL

Jay Neveloff
Partner, Kramer Levin Naftalis & Frankel

Scott Rechler
Chairman and Chief Executive Officer, RX...

TRENDING STORIES

FINANCE · CMBS | WASHINGTON DC

Tamares Group, Atlantic Realty Secure Loan Extension for DC-Area Office Complex

PARTNER INSIGHTS

How RIPCO Real Estate Prospered as a Challenging Year Played To Its Strengths

PRESENTED BY: RIPCO - REAL ESTATE

FINANCE | LOS ANGELES

BridgeCore Capital Launches Mid-Market CRE Financing

FINANCE | NEW YORK CITY

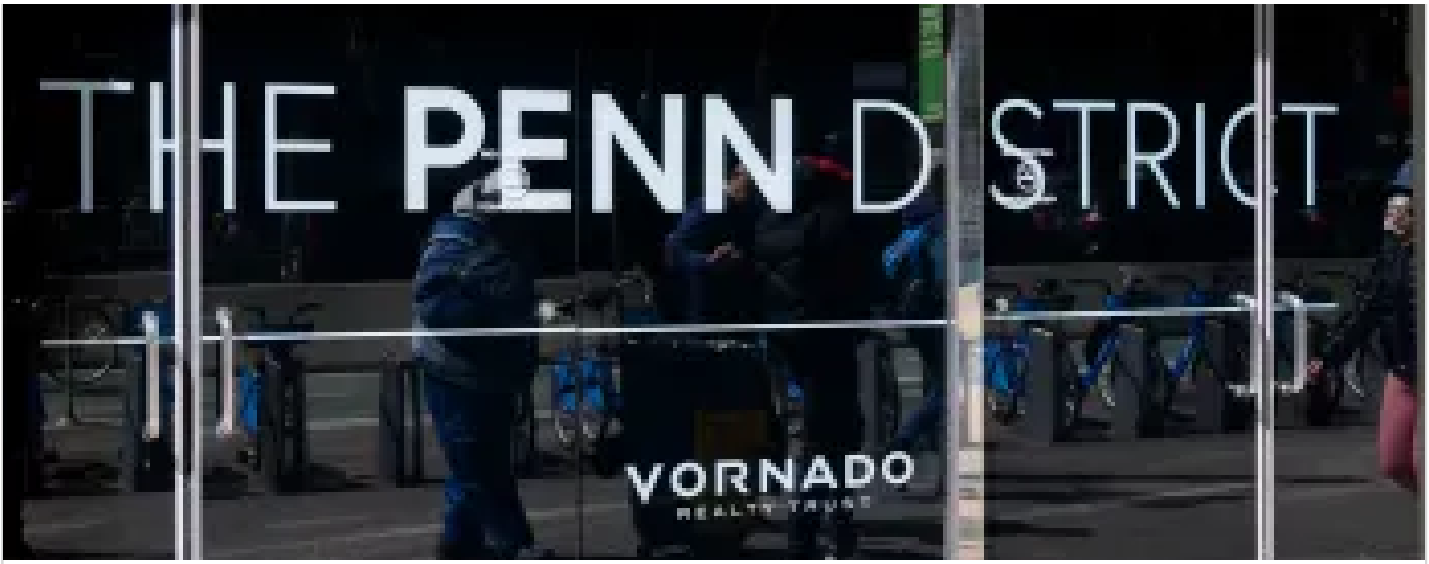
CRE Markets Poised for Growth in 2024: Newmark CEO

Sign up for daily updates

Receive insights straight to your inbox

Your

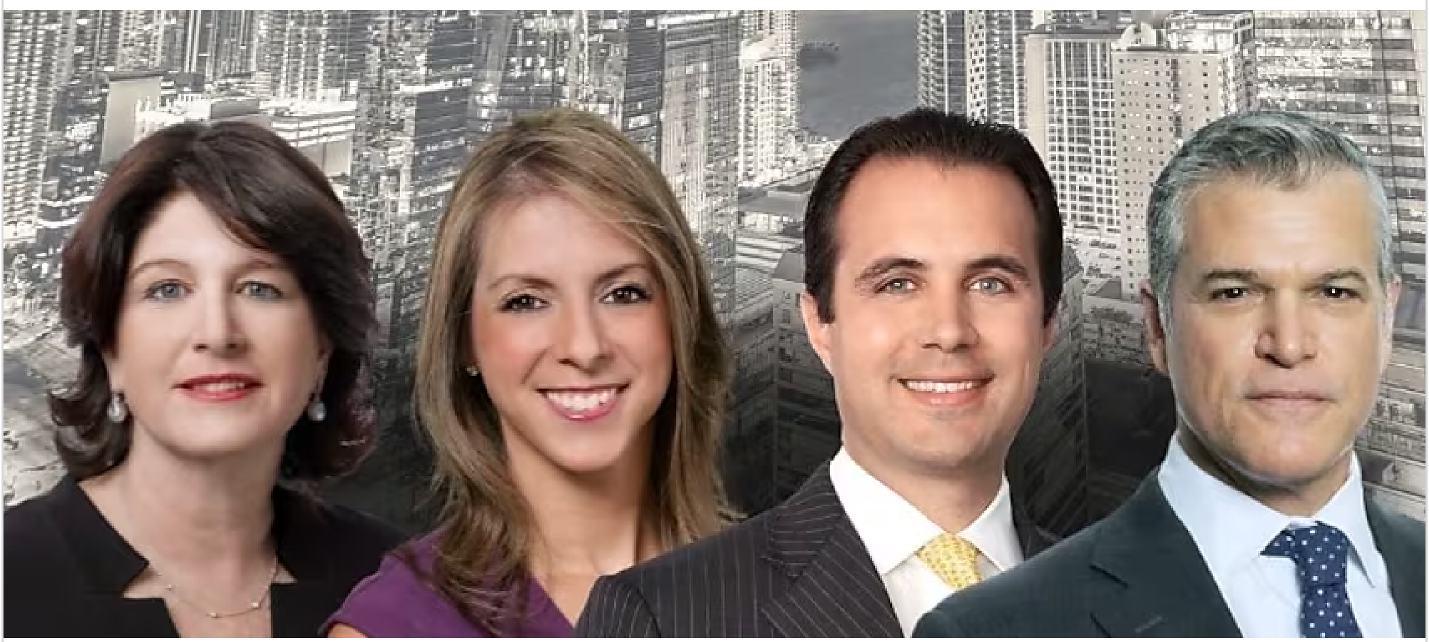
Sign Up



FINANCE · INDUSTRY | NEW YORK CITY

Vornado’s Debt Rating Downgraded to Junk Category by Moody’s

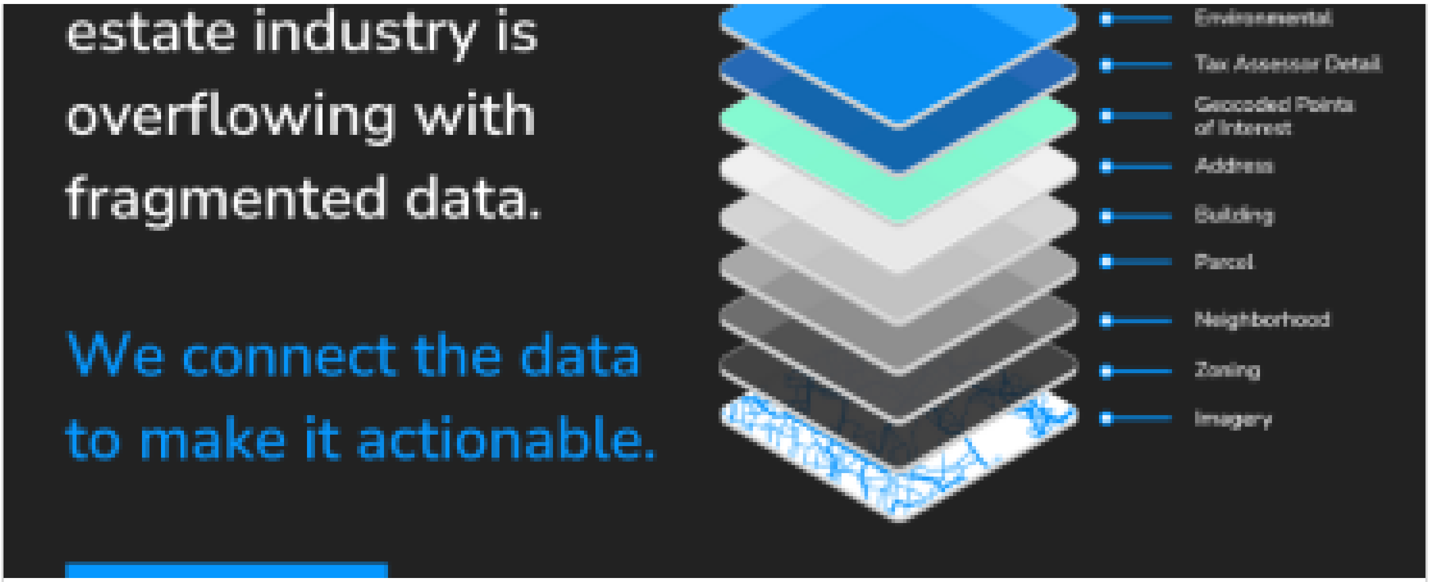
BY: ABIGAIL NEHRING



PARTNER INSIGHTS

4 Predictions for Florida Real Estate in 2024

PRESENTED BY: BILZIN SUMBERG



NATIONAL

The Challenge for Lenders: Uncertain CRE market driving lenders to superpower portfolio analysis

PRESENTED BY: LIGHTBOX

MORE

Read the latest edition of the Commercial Observer online!

© 2023 OBSERVER MEDIA

TERMS

PRIVACY

COOKIES SETTINGS