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## Experts Shed Light on \$1.7T of CMBS Maturities on Horizon

By Natalie Dolce

LAGUNA BEACH, CA—"The trends we saw in 2011, are likely the trends that we will see in 2012." So said **Richard Brace**, director at **AEW Capital Management LP**, when talking about **investment opportunities**. "It will be a slow growing slow yield environment."

Brace joined others in a panel on macro-economic trends and a **real estate** economic review and outlook titled: "View from 30,000 Feet: Assessing the Domestic and Global Macroeconomic Environment and the Implications for the US Real Estate Market" at **Information Management Network's** Ninth Annual Winter Forum on Real Estate Opportunity and **Private Fund Investing** Conference held here in Laguna Beach, CA.

In some markets, Brace told the 1,000 attendees, there has been some over-aggressiveness in pricing, but for the most part, "people are willing to pay a liquidity premium to be in the coastal markets." He added that an investor's willingness to go outside of the deeper liquid markets has to be for a very good reason.

**James Kuhn**, president of **Newmark Knight Frank**, said that it is okay to go out of the safe zone from time to time, pointing to the Meatpacking district in New York City as an example, where 10 years ago, that neighborhood as an investment opportunity, "wasn't really there."

Kuhn calls those opportunities "spillover opportunities," and encourages investors to "find the next location that hasn't been totally gentrified." He added that "you have to be a visionary enough to figure where that is."



Nearly 1,000 were in attendance at the IMN conference in Laguna Beach, CA.

When moderator **Robert Ivanhoe**, chairman of global real estate practice at **Greenberg Traurig LLP** asked panelists about the risk factors that are out there for top tier markets, Kuhn said that the general economic and political risks impact every market, but the big risk, he said, "is the inability to underwrite properly in a supply constrained market."

According to **Edward LaPuma**, a senior managing partner at **LCN Capital Partners**, "a particular place isn't more valuable than another place, and a particular asset isn't more important than another asset." LaPuma said that "it is about income and about values based on income."

As for the expectations of job growth over the next few years, **Jim Costello**, a principal at **CBRE Econometric Advisors**, noted that there are challenges out there that are limited job growth, adding that there will be growth, but it will not be rapid.

Job growth will continue, agrees LaPuma, "which will drive real estate values across the country." He adds that it gives great opportunity for people to invest now, a point that was also echoed by **Michael Lehman**, global head of real estate at **BGC/Newmark Knight Frank**, earlier in the day, as GlobeSt.com previously reported.

As for cap rates, **Chris Fraley**, managing director at **Rockwood Capital LLC**, said that "As greed overcomes fear again in 2012, we will start to see the cap rates creep down a bit as the capital re-enters the market."



Leonard O'Donnell, president & Coo of USAA Real Estate Co., said that "given the flow of capital we are looking at in the industry, you've got to believe that there will be pressure on those cap rates going forward. I think we may still see come cap rate decline."

AEW's Brace said that there could be valid arguments for cap rates going up or down in 2012, and pointed out that "Cap rates are a little less of an important variable," adding that "It is a price per pound that you are looking at."

In regards to great opportunities for real estate investment in 2012, most panelists pointed to medical office and technology markets. Multifamily was another panel favorite.

In a fund manager outlook panel, **Sean Armstrong**, principal at **Westport Capital Partners LLC**, pointed out that 2011 was an incredibly strong year from his perspective in terms of the amount of capital put to work. Westport is now completing the fundraising on a third fund in the half billion range, that he thinks that they will go through it very quickly. "We really think that the fattest part of the opportunity sits in front of us rather than behind us."

According to Mark Zytka, co-founder of Mesa West Capital LLC, a few things have happened over the past year: "there has been a need or desire to put capital to work, but I also think the ask has come down a bit." He added that there are a lot of maturities on the horizon, "so there is a huge set of opportunities ahead. "



As for where those opportunities might be, Armstrong says that he hasn't simply stuck to primary markets. "We are looking at an asset in a secondary; maybe some might even call it a tertiary market."

In another session, titled: "Receivers' Perspective Panel," panelists said that about 65% of the \$1.7-trillion of **commercial mortgage-backed securities** maturing between this year and 2016 will not qualify for **refinancing** at maturity. "Most of this debt was originated when values and rents were at all-time highs, but now prices are about 35%-45% below market peaks," said **Candice Grant**, a principal of Newport Beach, CA-based **Real Estate Receiverships**.

If refinancing cannot be obtained, there will be a dire impact on office buildings and values will be driven down, she added. "In this distressed scenario, receivers are going to play a major role" because: Selling through receivers optimizes proceeds and reduces risk; Additional funds can be borrowed or advanced by the plaintiff to complete the construction of a property; and with the court's assistance, receivers can play a role in restructuring existing, complex CMBS debt which can assist in increasing the loan recovery."

Attorney **Jess Bressi**, panel moderator and partner at **Luce Forward**, added, "Due to REMIC (Real Estate Mortgage Investment Conduits) rules and the complicated structure of CMBS loans, court assistance and court appointed receivers can benefit all parties." Since the start of the commercial real estate downturn, he said, receivers have been spearheading the development of new approaches to address troubled CMBS loans.