Finance and Capital Markets: Equity Perspectives

On April 18, 2018, CREW Chicago was privileged to hear from four different Chicago-based stellar women panelists, each representing a different type and strategy of equity investments in commercial real estate. The panelists included Alfreda Delle, Senior Vice President in the Strategic Investments Group at LaSalle Investment Management, Tracy Treger, Principal at Syndicated Equities, Elena M. Walsh, member of Barings Alternative Investments, and Eteri Zaslavasky, Managing Director at Next Realty, LLC. The panel was moderated by Ingrid Carlino, Principal at Wrightwood Financial.

Each woman is responsible for choosing and managing equity investments on behalf of her respective firm. Ingrid started the program with a presentation on the different types of equity available in today's commercial real estate capital stack. Ingrid then asked each panelist to describe the unique and different types of investments and investors they work with in raising and investing equity capital.

For example, Barings, which is affiliated with Mass Mutual, raises funds primarily through open-end comingled funds, but also invests on behalf of Mass Mutual through closed-end funds. Barings may invest either as a general partner or a limited partner in various types of products, including multifamily, retail and industrial. Syndicated Equities raises capital from individual investors separately for each investment, providing equity as a general partner, as a limited partner, or preferred equity. Syndicated also frequently assists investors to reinvest their equity from another investment through the use of Section 1031 exchanges. LaSalle Investment Management primarily raises co-mingled institutional funds to invest as debt or equity, including investing in development projects. Next Realty raises equity through their own fully-discretionary real estate private equity funds that they invest in targeted retail and parking investments.

All of the panelists agreed that in today's marketplace, it is easier to raise funds and harder to put the money to work. Returns have declined due to increased competition for assets, which drives up prices. They will pass on investments where the going in price is too high for the risk they perceive. For those who do not have a fund distribution date, they will analyze each asset to determine whether it is better to hold the asset for the cash-on-cash return or sell and invest in another opportunity. If the cash-on-cash return will be lower, holding the asset may be the best alternative.

Investors are still wanting the same yields on their investments, which means they must work harder to identify good opportunities. Some of their clients have altered their investment profiles to obtain higher yields, such as multifamily housing and industrial, including speculative investment industrial. Investing in value-add opportunities with properties having higher vacancies that need repositioning is another avenue to obtain higher returns, although that comes with a higher risk profile. Self-storage and student housing are areas that some are venturing into, although the transaction size of self-storage can prove challenging unless one can find a portfolio of assets to acquire. One of the panelists used to invest in government-related buildings, including ICE, Social Security Administration and border patrol offices, but the returns have declined on those assets, so they are moving away from them. Instead, they have invested in select service hotels due to the reduced overhead, making the projected returns less risky than full-service and luxury hotels.

Each of the speakers then shared a case study highlighting one of their successful or turnaround projects to illustrate their investment strategies. Eteri Zaslavasky shared how Next Realty was able to turn around a former Sports Authority/MC Sporting Goods retail building at 620 North LaSalle in Chicago after Sports Authority filed for bankruptcy and rejected its lease. Her company reviewed many different alternatives and eventually decided to reposition it as a timber loft office building. They signed a lease for the entire building with a European co-working company ("Spaces"). She thanked their lender (the relationship person is a fellow CREW member) for refinancing a conduit loan and the construction loan to get them through the rough patches.

Elena Walsh highlighted a new multifamily high-rise housing project in St. Petersburg, Florida underwritten in 2012 and constructed in 2015. What made this project unique was that there are no comps in the MSA where the project was to be constructed, or anywhere close by in Central Florida. They had to look at condominium projects and mid-rise buildings, but eventually were persuaded to invest by the walkability of the area where the project was to be constructed and the fact that this was the second deal they had invested in with the developer. Ultimately, it was a success.

Tracy Treger reported on a downtown Pittsburgh, Pennsylvania office building acquired in 2017 as limited partner investment in the general partner. An institutional investor was providing the lion's share of the equity, which means her company's investors would have no control over operations at the building, but they have invested with this partner before, and are comfortable relying on them to do the right thing. They also recently invested in a medical office building in Aurora, Illinois with some of their 1031 exchange investors, which requires a unique structure in order for the 1031 exchange investors to qualify as owners of the real estate for IRS purposes (tenants in common, Delaware statutory trusts or land trusts, but the IRS only recognizes land trusts in 6 states for 1031 purposes).

Alfreda Delle highlighted a speculative new construction seven building industrial development in Orange County, California for which they started construction without any tenants. The developer acquired the land from another developer that had tried for many years to obtain entitlements for a residential development that was ultimately denied. While they anticipated that their project's entitlements would take six months, they actually took only 4 months. Their project was successfully completed on time, they are discovering that rents have gone up more than they had originally projected, and bids they are receiving for sale offers have reached levels that they thought they would not achieve for another 4 years.

All of the speakers commented that construction cost increases mean contractors are having a harder time making any money on their project if they lock in a price too early. Instead, developers are hearing from contractors that the bids or pricing they are receiving from subcontractors is only good for 15-30 days. There is a lot of concern over what effect the tariffs on imported steel will have to the cost of steel.

After briefly addressing the types of control provisions they attempt to negotiate in their transactions, they each provided some information on the organizations where they tend to find partners who they might ultimately do business with. All of the speakers said they welcomed introduction to opportunities from CREW members because finding the right opportunity is all about relationships. Those speakers who were CREW members explained how their businesses have benefitted from their CREW connections in the past, and how important they will be to their future.

Click here to view more photos from the event.

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