Where Smart Money Is Going

At our SoCal Investment Summit this week, 265 of you at the Montage in Beverly Hills found out how local and national real estate leaders see the debt and equity markets shaping up. Cautious optimism seemed to be the consensus. (But in case there was no consensus, we had out-of-work NFL refs on hand to settle disputes.)

Chuck Victor, CEO of due diligence and title insurance go-to GRS Group, moderated our debt panel. He did a similar event in Chicago earlier this year and says the atmosphere in real estate is a little brighter. He kicked off the discussion by asking how LA differs from other first-tier cities and what current market fundamentals look like.
Lucent Capital EVP Bruce Evans says the firm is on track to close $500M in transactions (75% debt, the rest equity), primarily value-add or transitional deals. One thing he's learned in his 20 years in LA is the resilience of the market: "It's a city not to be sold short." He says fundamentals are back and that "sponsorship is the most important thing with the lenders." Second is the tenancy and the predictability and sustainability of cash flow, and third is bricks and mortar.

Wells Fargo managing director Wayne Brandt runs the real estate capital market group’s production activity in the Western US, which is on track to top $5B by year-end, with two-thirds CMBS and one-third balance-sheet oriented. While there’s a long list of items on lenders’ wall of worry—the European debt crisis, elections, housing—there are also subtle improvements in the economy, such as US job growth of 151,000 per month. "The real clincher is this massive cortisone shot that we received from QE3." The recovery is slow, but its character is much more mature. (The recovery can put that quote on its eHarmony profile.)
Mesa West Capital originated $1B of first mortgage loans last year and hopes to do a similar number this year, according to co-CEO Jeff Friedman. With 80% of growth coming from QE, this is a money-induced recovery rather than a fundamentally led one, but capital needs to find a home. (We're dubbing this the E.T. Theory of Capital.) Big pension funds and other institutional investors are dealing with 1% to 2% Treasuries and fixed-income products, and real estate's crazy cap rates of 4% to 5% beats the snot out of that. “From a capital perspective, LA might not be the top-tier city that New York or DC is... but capital is always going to want to go there.”
Multifamily is the easiest to finance, Bruce said, but he doesn't see any classes that aren't being serviced. “It's fairly broad-based and largely helped by low rates.” Jeff says you're still experiencing the haves and have-nots. In doing “their own flight-to-quality,” lenders are running scared from things with no cash flow, weak sponsorship, tertiary markets. In a functioning capital markets environment, everything has a price, he says. We're still not there, but it’s getting healthier.

Bruce notes a lot of private family office and high-net-worth money is out there. Institutional funds, because of whom they report to in terms of investors, may not want to talk about anything but absolute primary cities, while the more entrepreneurial money has the flexibility to go into secondary and tertiary markets. “They only have to talk to their brothers and sisters.” While life companies are tapping out their allocations, Wayne said, a healthier bank market is emerging—Wells Fargo is seeing a lot of competition from local and regional banks, "which is a healthy sign."

**NEXT GREAT NEIGHBORHOODS?**

We all know which markets have been the magnets for real estate activity. (We're looking at you, Silicon Valley and Santa Monica). But which markets are still in the early innings, and what opportunities are being overlooked? At Allen Matkins View From the Top
program earlier this month at the Beverly Hilton, a galaxy of real estate industry stars explored this and other topics. For video highlights, as well as some of your industry colleagues’ takeaways, click here.

In coming weeks, we’ll be featuring bonus video with some of the event’s all-star speakers, courtesy of our friends at Allen Matkins. Here’s a view from Kilroy Realty president John B. Kilroy Jr.

Don’t miss additional coverage of our Investment Summit next week. And email your news to julie@bisnow.com.