Event Coverage

Apollo Partner Warns Of US Asset-Price Deflation At NAI Global Summit In Philly

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"In all candor, we see more opportunity in Asia for risk-adjusted returns than we do here," says Philip Mintz with Apollo Global Management's US and Asia real estate equity business..

From left: Fred Meyer, SIOR and executive vice president, NAI Mertz; Philip Mintz, partner & CIO, Apollo Global Management; and NAI Global President Jay Olshonsky FRICS, SIOR (Photo by Gary Marsh/NAI Global)

PHILADELPHIA, PA—Asia presents better risk-adjusted returns than the US right now, and asset-price deflation is likely in the US, a partner with Apollo Global Management told members of the **NAI Global** network gathered in Philadelphia earlier this month for the firm's annual leadership summit and a global look at the economic factors driving the market around the world.

"In all candor, we see more opportunity in Asia for risk-adjusted returns than we do here," says keynote speaker **Philip Mintz**, partner and CIO with **Apollo Global Management's** US and Asia real estate equity business, based in New York. "I just see a correction coming with asset-price deflation as part of that trend in the US."

Mintz compared the outlook for the US economy with Japan's, during that country's dive into deflation in the 1990s. **Mintz,** an Asia investment expert, lived in Japan while working for **Asia Pacific Land** as the chief investment officer and earlier as a partner with **Warburg Pincus** focused on Asian real estate investing, and before that as the chief executive officer of **General Electric Real Estate Asia**.

Mintz predicted a significant correction in U.S. asset prices of both commercial and especially residential real estate prices.

Some of his bullish position on Asia comes from the fact that there are very few firms in Asia that do the type of business the real estate arm of **Apollo** does—structured credit with $275 billion in assets under management.

Mintz also participated in a panel co-moderated by **NAI Global** president **Jay Olshonsky**, **FRICS, SIOR,** with **Fred Meyer**, **SIOR,** executive vice president and director of brokerage and corporate services with **NAI Mertz**, based in Wilkes-Barre, PA.

When one of the moderators suggested that there is an abundance of capital on the sideline to be deployed in a variety of asset classes, including commercial real estate, **Mintz** responded with a warning that "when the markets compress, that dry powder will get scarce."

Wealth inequality in the US will affect business in the future, Mintz says.

"The inequality of wealth in the US is going to be destabilizing for a long time," he says.

While **Apollo** is currently a net seller of industrial property in the US—the firm recently sold industrial assets in Atlanta and is in the process of doing the same in other markets, **Apollo** is not sour on all aspects of the global economy, or real estate investing. The firm recently acquired a manufactured home community in Morgantown, West Virginia, and Mintz says that Europe is in the best shape that it has been in years, particularly Germany.

"Money is made in markets where people have extreme informational value and granular expertise," he says.

The recently passed tax reform legislation is the most significant in more than two decades, says guest speaker **Bill Burns**, tax office managing partner with **BDO United States. Burns** provided an overview of the recent tax code changes in the US and what it means to commercial real estate investors and operators.

The Trump administration's mandate to federal agencies that they eliminate two regulations for every new regulation is delaying the IRS from issuing guidance on the new tax code, **Burns** says. "Essentially, the IRS is working to identify which regulations in the tax code to release as new regulations are added," he says.

Andy McCulloch, managing partner with Newport Beach, CA-based **Green Street Advisors,** was the other keynote speaker during the Global Market Outlook session of the conference. He, too, was a bit bearish and thinks asset values will fall but not by much. He said the growth in jobs has not yet translated into meaningful income growth, but it will, and be fueled by the tax reform, which "is good news for the economy, individuals and real estate."

Andy McCulloch, managing partner with Newport Beach, CA-based Green Street Advisors (Photo by Gary Marsh/NAI Global)

Approximately 80-90 percent of individuals will get a tax cut, McCulloch predicts.

In terms of asset values, over the last year the winners have been:

- Industrial property +11 percent
- Manufactured homes +10 percent
- Apartments + 4 percent

And the losers were:

- Storage – 1 percent
- Office -1 percent
- Strip malls -5 percent
- Malls -11 percent

Speaking of malls, **McCulloch** says that the e-commerce disrupter and its impact on real estate is only in the "3rd or 4th inning and that we have too much retail real estate, some of which needs to go away." He believes about half of the 1,200 malls in the US will be shuttered or substantially repurposed in the next 20 years.

McCulloch also observed that "low supply has been one of the defining positive characteristics of this cycle." He says supply has mostly been concentrated in high-barrier, gateway cities, but is making its way to secondary and tertiary markets.

By asset class, new industrial developments tend to be absorbed quickly while multifamily may have reached a point in which it is getting over-built in select markets, he says.

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