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# Panelists Say Fear of Missing Out Is Replaced by Fear of Overpaying

By Gary Marsh
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Photo L-R: Kevin Wachter (Pine River Capital Management), Michael Eglit (Blackstone), Justin Pattner (KKR)

SAN FRANCISCO—The **EisnerAmper** Real Estate Private Equity Summit West held last week in San Francisco shed light on the current state of the market for investment, private equity lending, value add opportunities and the latest technology in newly constructed buildings. The one-day event took place in the

Julia Morgan Ballroom on California Street with more than 40 panelists, moderators and presenters speaking to a crowd of well-over 300 people.

While none of the panelists think it is time to run for the hills, as **Matt Field**, chief investment officer with **TMG Partners** put it, there is some caution in the wind, and for a variety of reasons according to him and other panelists.

“FOMO, or fear of missing out, has been replaced with FOOP, fear of overpaying,” Field said during the session, “What is Smart Money Telling Us About the Market?”

Speaking on the same panel, **Stockbridge Capital** managing director, **Mark Carlson**, said “in the next 12 months if you have a property to sell you should probably get it on the market right away—remember, pigs get fat, hogs get slaughtered.” However, Carlson did acknowledge that his firm and many other investors buy and sell property in every cycle so his advice was motivated by prudence, not fear.

“The difference in the current market, versus a year ago,” said **Justin Pattner**, co-head of real estate acquisitions with KKR, “is that we have markets now that are redlined and we haven’t seen that for some time. Houston is redlined, Miami may be next.”

Indeed, some 119,600 oil and gas jobs nationwide have been eliminated—22% of the total since 2014, according to the Federal Reserve Bank of Dallas, with many of those job losses coming out of the nation’s energy capital, Houston.

While **Michael House**, Founder of House Properties, was generally upbeat on the opportunities in the market (he likes housing in tertiary markets, repositioning malls and retail, selectively), speaking during the ‘State of the Value Add Market’ panel he did deliver perhaps the most sobering comment of the day during a discussion about the debt markets: “When you can borrow for about 100 basis points over treasury, that’s when you know the game is almost over,” he said.

One of the shifts in the market has less to do about real estate—for now at least, and more about the occupiers driving not just the demand for space in the San Francisco Bay Area but in numerous US cities and markets that are fueled by the technology industry. For years, Mark Carlson noted, tech companies have had so much capital that they focused on growth and achieving scale; now they are zeroing in on profitability and sustainability which is likely to generate some industry consolidation. The impact on the property markets in tech cities could be reduced demand for offices.

From **Melinda Ellis Evers’** perspective, the managing principal with **Ellis Partners** said that her firm is hearing about steady leasing activity from big tech companies and startups alike, however, there appears to be some softness in the middle of the market for Bay Area office space (generally meaning demand for office space between 10,000 and 40,000 square feet).

During the panel, the ‘Rise of Private Equity Lending and Credit Services’, **Kevin Wachter**, a director with **Pine River Capital Management** said that capital is still coming through the system but that some of the deals, in order to get done, look more like corporate loans than real estate loans.

Private equity is stepping in to fill the lending pipeline because banks are getting more conservative with their lending, according to **Michael Fleischer**, a SVP with **Related Fund Management**, yet in **Paul Rahimian’s** mind, the CEO of **Parkview Financial** said that banks are outright pulling back on construction loans.

After Rahimian noted many secondary and certainly all of the tertiary markets are still coming out of the 2008 downturn—versus urban core/primary markets, Blackstone's managing director **Michael Eglit** predicted that secondary and tertiary markets will struggle the most, from a capital markets perspective, when the broader economy eventually softens.

On the broader economy—particularly the tech economy, **California Bank & Trust** executive vice president **Jake Lehmkuhl** said "I don't think it is going to be like 2001 all over again when the end of this cycle ends."

During "How are Investors Planning for an Uncertain Future" panel, which was the final session before keynote speaker **Luis Belmonte**, a partner with **Seven Hills Properties** took the stage, managing partner **Marc Perrin** with **the Roxborough Group** pointed out that while the current market fundamentals are still good (modest GDP growth, employment still strong, vacancy rates low), we may be entering a period when investors should focus less on the fundamentals and more on capital flows.
On the same panel, **Rick Brace**, a director with **AEW Capital Management**, may have made the most pragmatic and optimistic comment during the entire EisnerAmper conference in one short sentence: "volatility also creates opportunity," he said.

*Based in Marin County, CA, correspondent Gary Marsh has been writing about the commercial real estate industry since the 1980s and formerly covered the beat as a reporter for the San Jose/Silicon Valley Business Journal.*

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