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For Some Family Offices, Now Is the “Buying Opportunity of a Century” When It Comes to CRE

The question is which property sectors look safe as long-term picks?

John Egan | Mar 26, 2020

As America grapples with the coronavirus-impaired economy , family offices are feeling the same uncertainty as other investors are. In some cases, it means it’s time for them to selectively search for commercial real estate opportunities. In other cases, it’s time to pause investment activity.

For investors who want to act rather than stand still, execution of acquisitions and sales has been hampered by market volatility and illiquidity, says Randy Hubschmidt, managing partner of Fortis Wealth, a multi-family office in King of Prussia, Penn. He’s seen deals extended or canceled altogether due to the inability to wrap up previously approved financing.

“So, despite the historically low interest rate environment, attractive financing is difficult to execute now,” Hubschmidt says.

Part of that difficulty stems from a hesitance to lend right now. Data provider Trepp LLC predicts commercial real estate loans made by banks will hit a loss rate as high as 2.5 percent over the next five years due to coronavirus-induced economic troubles. That would add up to $57.5 billion in losses.

However, Fannie Mae and Freddie Mac are still originating a substantial volume of multifamily loans, points out Ari Rastegar, founder and CEO of Austin, Texas-based real estate investment firm Rastegar Property Co.

Despite the disrupted flow of financing, Hubschmidt says few investors have lost their appetite for real estate investing. “If anything, investors are eager to get out of the public equities markets and into income-producing real estate,” he says.

Rastegar echoes that sentiment. If family offices and other investors enjoy a hefty amount of liquidity and can make cash purchases, he says, “there’s an amazing buying opportunity.”

“This is the buying opportunity of the century to be able to go in and buy stuff at fractions of replacement costs, hold them on your balance sheet and wait.”

On the flip side, family offices that invested heavily in the stock market have taken a beating and might be leery of jumping on that buying opportunity, according to Rastegar.

Indeed, not everyone is chasing these “amazing” opportunities for the time being.

Wil Ward, managing director of direct investments at Boston-based multi-family office TwinFocus Capital Partners LLC, says his firm is retaining its focus on current real estate investments and is temporarily halting its hunt for new opportunities.

“This pause is more a result of physical restrictions on our due diligence processes , than it is a result of the current public health situation and its fundamental impact on real estate and capital markets,” Ward notes.

For family offices that are proceeding with deals, some sectors of commercial real estate have largely fallen out of favor—if they weren’t already undesirable. It’s no surprise that two of those sectors are retail and lodging, both of which have been battered during the coronavirus-triggered slowdown.

Many segments of U.S. retail have sagged further since the coronavirus pandemic set in. For example, an analysis of 11 of the country’s biggest malls by Placer.ai , a platform that tracks retail activity, all but one notched year-over-year decreases in foot traffic of 3.4 percent to 34.2 percent during the first week of March. At the same time, traffic at grocery-anchored and pharmacy-anchored shopping centers has skyrocketed.

The lodging sector might be particularly treacherous territory nowadays.

Commercial real estate services company CBRE forecasts a 37 percent drop in RevPAR , a key performance metric, at U.S. hotels in 2020. As noted in a blog post from Green Street Advisors Inc., a commercial real estate research and advisory firm based in Newport Beach, Calif., the lodging sector would bear the largest brunt of any sector in terms of lost property value—an estimated 14 percent—caused by a permanent 1 percent decline in U.S. GDP.

Hubschmidt also expects the office sector to be largely unattractive to family offices, at least in the near term. The sector is suffering from the temporary work-from-home shift and could feel long-term pain as employers consider whether to permanently adopt telework policies, he notes. As such, Hubschmidt doesn’t foresee investing in the office market anytime soon.

Data from the U.S. Bureau of Labor Statistics shows nearly one-fourth of Americans over the age 15 worked from home at least some of the time in 2018. Experts predict the share of telecommuters in the U.S. will rise in the post-coronavirus environment. That trend would translate into decreased demand for office space.

“It is much cheaper to have people work from home,” Hubschmidt says. “And doing so provides the added benefits of less commuting time, lower emission impact on the environment, and more time to either work or to spend with family and friends.”

While the retail, lodging and office sectors might not draw interest from family offices these days, other sectors hold some appeal. Among them are multifamily, student housing , seniors housing and industrial.

Although near-term rent delinquencies might rise, the multifamily sector still holds promise because it’s been “remarkably resilient during recessions,” says Hubschmidt. A report from CBRE says demand for multifamily assets remains solid.

Ward is a fan of the multifamily sector as well as the adjacent student housing sector.

He believes student housing will continue to perform well because demand for higher education won’t budge. In fact, enrollment at colleges and universities might rise following the coronavirus crisis, as it did after the Great Recession, Ward says. He doesn’t envision on-line learning, which has been widely embraced during the coronavirus pandemic, will jeopardize growth in student housing.

“The multifamily and student housing sectors … are areas of the real estate market that we believe are poised for continued long-term growth and success, and we’re excited about the future prospects for our projects.”

At Fortis Wealth, Hubschmidt views seniors housing as another sought-after sector, in light of the growing need for facilities that cater to the aging U.S. population. According to the Urban Institute , about one in five Americans will be age 65 or older by 2040, up from about one in eight in 2000.

Experts say industrial assets are also maintaining their luster. While the sector will experience a short-term slump in leasing, CBRE research indicates rents will hold steady and the sector will gain from strong e-commerce growth and diversification of retail supply chains.

“For many sectors, the recovery should be underway before the end of this year, driven by pent-up demand,” said Richard Barkham, CBRE’s global chief economist and head of Americas research, in a statement . “Although the near term looks brutal, the medium-term outlook is more favorable because there are no structural flaws in the macro economy or in commercial real estate.”