The Evolution of Private Debt Funds

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The Evolution of Private Debt Funds panel at MBA

SAN DIEGO—Private debt funds and other non-traditional sources of CRE capital have become established parts of CRE finance, sometimes with the backing of traditional financial institutions. Panelists at MBA's CREF/Multifamily Housing Convention and Expo 2018 on Monday morning, discussed private debt funds, how they have evolved and matured as **a source of CRE capital**, and what impacts they may have on the CRE finance landscape going forward.

Before the panel even began, moderator Jack Cohen, CEO of Darkknight Ventures LLC, asked the audience a number of questions. By a show of hands in the audience, a majority agreed that US and the global economy were both growing, and also agreed that real estate as a business was stable or growing. On the capital side of the business, a majority of the audience indicated that things were growing in 2018. When asked about "volume at your institution," the show of hands showed zero raised for "declining" with a few for "stable" and again, the majority was for growing.

When asked to describe one to three words about the industry at the moment, panelist Jimmy Yung, managing director, Blackstone, said that the industry is very competitive right now. Panelist Greta Guggenheim, CEO and partner at TPG Real Estate Finance Trust, revealed that the industry "has some cracks." Tom McManus, president of strategic accounts at A10 Capital, said that the industry "has too much capital."

Those short comments and audience sentiment set the stage for the topics that followed. When asked about the biggest surprise of 2017, Yung said that it was that spreads had continued to grind way tighter than they had thought they would. McManus agreed that the unanticipated tightening "was more severe than people anticipated."

When asked about the biggest risk areas to the industry, Yung said that the economy is growing to a shock that could create dislocation would be geopolitical. Brexit, he said, is still a focus for Blackstone.

As for which property types are the most vulnerable to higher interest rates, McManus said it is a function of available capital but guessed that it would be retail or even perhaps multifamily. Moderator Cohen's view was that the most vulnerable would be class A multifamily property "because people have overvalued and overpriced it."

Adding to the topic of rising interest rates, as for who would get hurt the most if interest rates rise, McManus said that "anybody is subjective to a rapid move in interest rates."

According to Yung, "most of our businesses here are floating rate based, but anyone that is exposed to long term fixed rate will be hurt by that."

In a **recent article** on GlobeSt.com, Jamie Woodwell, VP of commercial real estate research at the Mortgage Bankers Association, said that rising interest rates, slowing NOI growth, pressure on capitalization rates and fewer loan maturities are some of the factors that keep origination volumes down this year. "At the same time, continued economic growth, large amounts of investment capital looking for a home—and liking the looks of commercial real estate—and the recent tax reform legislation may all push the transaction markets forward. The magnitude and opposing impacts of some of these changes, however, raises the level of uncertainty."

Stay tuned in the next day or so for more from MBA's CREF/Multifamily Housing Convention and Expo 2018
