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Crittenden Panelists Fear Rent Control

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Crittenden National Real Estate Conference opening panel.

COSTA MESA, CA—"We have been in a good run, but what are we going to do in the next downturn? And will tax return extend the cycle?" That was the first question posed by moderator Thomas Farrell, director of business development at Landmark Capital Advisors, at the opening session at Crittenden's National Real Estate Conference Wednesday in Costa Mesa, CA.

"I was a big fan of tax reform and am a big believer…at least it fell my way," said panelist William Shopoff, president and CEO of Shopoff Realty Investments LP. "I think it will add and is already adding some GDP lift."

Overall, he said, "The tax reform is bullish and it is being very favorably received for our investors and for most people in the industry," said Shopoff. "It is a positive for the REITs because now they have some tax preference on their distributions."

In looking at affordability, Matthew A. Doerr, VP of Buchanan Street Partners, said that his company is very disciplined in its underwriting. "We pay a lot of attention to untrended NOI. We focus some on cranes in the air and the supply side but we are focused on the long term gain and we are in this for the long hall."

In looking at new opportunities, Shopoff says he has to look at deals with discipline, but the headwinds he looks at is construction costs, among other things. “My No.1 anxiety inducing issue today is rent control. That is terrifying for me for my California holdings. It is a disaster for the long-term viability of the State. Show me one market in the country where rent control was good for the market.”

Shopoff said the housing cycle could go much longer and will not drive us into a recession like last time. “I think we are going to have a normalized economic recession ahead and housing will ride right along through it.”

When talking about interest rates, and building down sight scenarios, panelist Michael Singh, executive VP of A10 Capital, said that all of his deals are “stress tested and have some cushion built in.”

When you factor in how much rates have moved, explained panelist Eric Boyd, principal of CrossHarbor Captial Partners, there has been a repricing. That trend is hitting in a significant way. “Spreads have tightened.”

More borrowers are looking for fixed-rate alternatives, adds Singh.

“I agree and am seeing that as a trend,” Shopoff added. Another thing Shopoff continued on was how construction pricing is extremely high and feels like it should slow, and “it has to slow or you can’t build…it just doesn’t pencil. The multifamily business is starting to plateau combined by construction costs and the lender effects—advance rates. Something has to change. Your equity did get cheaper so land price either had to go down…some part of the formula has to change.”

And it is so different across markets, explains Boyd. “You have a supply demand balance occurring in certain places, but there is dramatic impact in coastal communities like California.”

Shifting to the debt markets, in terms of the competitive landscape, Singh said that there were about 60 bridge lenders last year and now that number is closer to 100. “Certainly there is no shortage of capital. It isn’t a shortage of seeing deals, but there are still new entrance coming into the market.”

He continued that “As long as the capital is out there, the question is how much risk you want to take. Discipline was a problem in the last downtown and we are seeing lenders get ‘creative’ if you will but we are down that slippery slope again a little bit.”

Check back with GlobeSt.com for more from the Crittenden National Real Estate Conference.
