Veteran lender talks strategy in 'bizarre' political, economic climate
Wednesday, January 25, 2017 4:48 PM ET
By Tom Yeatts
January 25, 2017

- It could be late in the commercial real estate cycle, but the final "inning" may last a long time.
- Impact of Trump's election on real estate market still unknown, but sentiment is more positive than negative.

Warren de Haan is managing partner at ACORE Capital, a commercial real estate finance company he helped found in 2015 with other senior management from Starwood Property Trust Inc., where he had served as chief originations officer. He has more than 20 years of experience in commercial real estate finance and capital markets.

S&P Global sat down with Warren de Haan of ACORE Capital at a recent conference to talk late-cycle strategy in the early months of the Trump administration.

Warren de Haan, managing partner, ACORE Capital.
Source: ACORE Capital

S&P Global Market Intelligence: There seems to be a good deal of uncertainty about the economy at this event, but at the same time some excitement about what may be coming.

Warren de Haan: It's the strangest time. The distribution of potential outcomes is very broad. There is a sense of optimism, reflected in the public markets. And that optimism, provided it's backed up with economic growth, infrastructure spending and the like, can only be good.

On the other hand you have some very sizable risks — geopolitical risks — and it's frightening. It can hinge on 144 characters, right? It's bizarre. And we don't know yet how social policy will play out, and what it means for real estate.

Ultimately, whether or not President Trump can effect change remains to be seen. Take bank deregulation: Can he really deregulate the banks? It seems more realistic he'll simply provide a framework for deregulation.

At ACORE we have a defensive strategy. We have to keep our eye on the horizon. But we're generating very good risk-adjusted returns for investors. It's not surprising to hear capital is flowing more into debt-related products.

Last year was a tremendously successful year for our firm. We'll see how 2017 pans out, but I have no reason to believe it's not going to be a great year.

Has there been a notable shift in transaction flow in your business since the election?

There is still a lot of demand for transitional assets. But some guys are pulling back on acquisitions, waiting to see what happens during the first 90 days of the Trump administration. In the near term, people seem to like Trump's cabinet picks.

What does it all mean? We won't know until we see some action. I'm hopeful, but I'm not betting my livelihood on it.

Many of the panelists have argued that we are very late in the real estate cycle. Do you have that same sense?

People are always talking about what "inning" the market is in. We very well could be in the ninth inning, but it could turn out to be a very long inning. So although it feels late, based on how many years have passed and where property values are, there are additional factors to consider. The so-called Trump bump could evolve into real economic growth, and if supply stays in check, real estate fundamentals should continue to be strong.

We're debt guys, so we're focused on defensive strategies, yield strategies. That is proving to be a successful strategy.

There's been a lot of love expressed for industrial at this conference and, conversely, a lot of caution expressed about retail.

Warren de Haan: We would love to do more industrial. The reality is that most of the assets are very small. Our average deal size is about $70 million, so we only play in industrial when it's a portfolio.

Retail constitutes less than 4% of our portfolio. We are very specific about what we like and don't like in retail.

Regulators have warned about vulnerabilities building within commercial real estate lending. Are we in dangerous territory in your view?

Warren de Haan: Regulators are worried about banks' exposure to commercial real estate as a percentage of their overall portfolio. But banks, if anything, have been more cautious with their lending this go-round. The market is healthy.

I don't see lending standards, though, in any way, shape or form approaching 2007 levels. There is lot of equity in the deals, a lot of cash. I think borrowers learned their lesson and they don't seem to be over-leveraging. They're prioritizing pricing and structure, which has kept the market healthy.

Notwithstanding the Trump noise, I still think U.S. real estate is a great asset class.