**Saul Ewing real estate in 2016 conference report**

By George Rice

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I would like to first thank the real estate department and Dr. Iyer for the opportunity to attend this conference and gain insight from professionals in the field who shared their experiences both good and bad. This conference was made up of a very diverse group of professionals, together on and off the stage including but not limited to investors, property managers, land acquisition specialist and lenders. There were many breakout sessions but the focus of this report is on the multifamily sector moderated by ***Andrew S. Kadish President of CAPREIT*** who comes from a family business that has grown to over 13,000 units that spread across the nation and into Canada. His moderating style was casual but intuitive which made the information easy to captivate and retain interest. The panel was made up of four distinguished real estate multifamily professionals:

* ***Hillary B. Provinse is the Senior Vice President and Chief Production Officer for multifamily properties at Fannie Mae in Bethesda Maryland.*** Ms. Provinse is in charge of all Fannie Mae production of multifamily lending products like senior housing, student housing and affordable housing.
* ***Benjamin Horn is a partner in the private equity firm Core Real Estate Capital*** out of Ohio whose focus is on the acquisitions of mid-to high-class buildings in commercial structures. Core Real Estate Capital has in the range of $600 million in assets under management with a combination of multifamily, medical office and hotel sectors.
* ***Jonathan Stern, Managing Director at Fundamental Advisors based in New York City on Fifth Avenue***. Although Fundamental Advisors are more focused on corporate and distressed liquid assets they also recognize the value in the real estate market specifically five core sectors senior care, student housing, affordable housing, hospitality/urban renewal and energy/infrastructure.
* ***Mark B. Van Kirk, Executive Managing Director, Head of FHA Programs at Berkeley Point Capital in Bethesda Maryland*** is responsible for an asset and risk management portfolio of over $27 billion. His responsibilities also include overseeing FHA programs that include affordable housing, hospitals and healthcare including senior development.

The moderator started out asking about the multifamily housing option in today’s market the private equity firms both seem to be more focused towards the primary market and Class A products which brings more stable returns. This market also has its challenges and as Ben Horn said “just because you’re in the primary market doesn’t mean you can’t get crushed”

The next question was “what is the best execution on the street is right now” and the first response to that was from Ms. Provinse at Fannie Mae. She explained Fannie Mae provides liquidity in all markets and in the past third quarter they recorded $32 billion in multifamily products.

Another question was is there interest in affordable space and Ms. Provinse responded that the past year has been one of the biggest and affordable space with a lot of demand for preservation capital. She was very excited about one of the new products they offer that will lend up to 150,000 per unit for preservation.

Mr. Van Kirk handled the next question which was where the GSE’s will be in the next year. He responded with the fact that the GSE’s were able to pay back $10 billion in the past year to the government. Fannie and Freddie provide invaluable service to the industry and although they will be getting over an election next year things will be relatively stable for the next two years with the GSE’s. The moderator then asked Mr. Van Kirk if the GSE’s were to crumble who would pick up the debt? Mr. Van Kirk said hopefully the government will adjust the rates to the market so the GSE’s can still provide liquidity. Ms. Provinse then said Fannie and Freddie are 40% of the market and it is unlikely there will be any change in the near future for the GSE’s from a lending standpoint.

Mr. Kadish then asked what are some of the new deals cash on cash or IRR? John then answered IRR is just part of what they look for they also look for real estate with an attractive cap rate. Mr. Horn added they don’t use institutionalized cap rates, and when it comes to IRR there looking for mid-to high teens.

Moving on to the next question the moderator asked, what will happen when the rates do increase? Mr. Van Kirk said there is a lot of money in these deals so not much will change in the way they operate. Ms. Provinse added one of the main things Fannie Mae is looking for is sustainability and they factor in the possibility of a rate increase when they underwrite. They figure out what the interest rate will be 7, 10, 12 years out so they can make sure the deal can be refinanced keeping their base rate around 7.5% percent upon exit. Clearly rates are going to go up and Fannie Mae will build a cushion to assure market fluctuation doesn’t make it difficult to exit the deal. Right now only 25% of Fannie Mae’s portfolio is at a floating rate.

Mr. Kadish was ready with the next question, which was what markets worry you? John responded there is risk in all markets and hopefully the rent growth will aid in the erosion from rate increase. What worries me now in the primary markets are the low interest rates and low taxes and the potential for increased along with the economy pulling back. The long term might be all right but it could get choppy in the short run. Mr. Horn said the real question is what the cap rates are going to do. He added they take a top-down bottom-up approach when analyzing the deal.

The next question was directed to the agencies, have you heard from the regulators any talk about change in rates? Ms. Provinse and Mr. Van Kirk responded much the same way in that the agencies will not change much for at least the next two years.

The next question came from the audience and was somewhat personal for Mr. Kadish being a Baltimore native. How do you view the Baltimore market? There was a long pause and John responded “we really don’t” which got a lot of laughs and then he responded “favorably”. Mr. Horn stated they look at all markets and they happen to have a recent project in Randallstown and they also like Towson and the Inner Harbor. He said as long as you produce clean, dry and safe properties they will maintain value they have had great success in Baltimore.

There’s been a lot of talk about generation Y what about the baby boomers? Ms. Provinse reiterated this has been one of the biggest years in the senior market and there will be more urban high-end development competing with generation Y. The risk associated with senior property comes with operation and how much direct care management is responsible for. Mr. Van Kirk added they are excited about senior space but again you must be mindful of the healthcare aspect.

Another question was there is a lack of affordable housing and low-income housing and how do you make that work? Ms. Provinse said this is very challenging and most current affordable housing is for the working class. Mr. Kadish stated yes that’s our firemen, policemen and paramedics. I have a paramedic in my family and it is very difficult for them finding housing they can afford.

It is obvious from the history of the GSE’s and the increased interest from private equity firms that multifamily housing is lucrative and necessary. We are seeing tremendous activity in the market and the low vacancy rates continue to push rent increases which make their way from high-end down to affordable housing. Hopefully there will continue to be developers focused toward the population most in need which is low-income housing.