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‘Today’s Debt is Tomorrow’s Equity’

By [Carrie Rossenfeld](#) | Orange County



NEWPORT BEACH, CA— Speakers at **ULI Orange County/Inland Empire**’s recent event “The Money Chase,” which featured a panel of capital experts, say that today’s **low-interest-rate environment** is like money in the bank for investors, and they’re not concerned about long-term rates.

The event, which took place at the **Pacific Club** here and was moderated by **Tom Sherlock**, principal of **Talonvest Capital**, featured MC **Bill Campbell**, principal of **Knightsbridge Realty Capital**, and speakers **Emile Haddad**, president and CEO of **FivePoint Communities**; **Bill Halford**, president and CEO of **Bixby Land Co.**; **Pat Donahue**, chairman and CEO, **Donahue Schriber**; and **Phil Belling**, managing principal, **LBA Realty**.

The panelists agreed that the market is once again getting to be priced to perfection, yet the fundamentals are still working in the industry’s favor. The concern for a disruption stems more from outside the business than within. Haddad advised attendees to “trust your institution. Stay one step ahead, and don’t ignore change.”

The panel also advised to act on the attractive **refinance** market. Halford, Donahue and Belling all discussed how little leverage they were using, which is fairly noteworthy considering that rates are the lowest they have been over their entire careers. Despite all of the noise in the marketplace about rates rising, the panel wasn’t concerned about long-term rates, making the point that as long as Japanese and German 10-year bonds are inside of .4%, they don’t have any concern about long-term rate moving up dramatically for possibly a couple of

years. As Halford put it, “With rates this low, today’s **debt** is tomorrow’s **equity**.”

Also discussed was the battle for talent. Halford said the physical workspace is one way to compete and that true **creative space** is more unique than simply taking out the ceiling grid of traditional office and putting in more open floor-plan space with enhanced common areas. However, interestingly, parking ratios really aren’t that much higher for creative office buildings than for conventional offices.

In discussing **Internet** sales, Donahue said **e-commerce only makes up 6% to 8% of total retail sales**—about twice what catalogs used to be. All agreed that talk about the death of the mall is overblown, but the speed of information is the true paradigm shift that has occurred in **commercial real estate**.

Panelists said they are winning deals because of the amount of dry equity powder they have and their ability to perform. But, if they drop a deal, they do it early. Halford said Bixby sticks with core industrial for cash flow and uses the **creative-office** flips for growth, adding the firm is now chasing those deals in L.A. and San Diego.

Most of the panelists thought office was too cyclical and said they stick to their strong suits of **grocery-anchored retail** or **industrial**. They agreed that creative-office space is not a fad and that institutional buyers are willing to be the exit for a **redevelopment/reposition**. In addition, there is still opportunity relative to rents and occupancy on the operational side of **office** and industrial properties. Also, **foreign capital** is flowing into the US, and part of the reason is to protect ownership of capital.

Flight capital is becoming a major issue as investors fear, “If I don’t flee, I may lose capital; so, if I buy something in the US that is expensive, maybe at least I won’t lose it.” IRR and cap rates, apparently, aren’t the main concern.”

Ultimately, the panelists said it takes creativity and doing your homework—and being convicted—to be a successful buyer today, and location still matters. When transacting, they work with people who they know can perform. And they advised, “Be a student of the game, do what you say you are going to do and work hard.”