Real Estate and REITs: A Conversation



P. SHERIDAN "SCHECKY" SCHECHNER
Managing Director, Barclays

Schecky Schechner joined Barclays in 2008 from Lehman Brothers. Before that, he was managing director and national head of mortgage origination for JPMorgan Chase & Co. He started his career in 1984 at Goldman Sachs. Schechner has a double-major B.A. in economics/political science and molecular biophysics/biochemistry from Yale University and a J.D./MBA from Harvard University.

Richard Silfen, partner at Duane Morris LLP, recently sat down with P. Sheridan "Schecky" Schechner, managing director and Americas co-head of real estate investment banking at Barclays. Here is an excerpt from their conversation:

Q As measured by the metrics, the real estate investment trust sector has performed admirably over the past decade. What is the state of play for new REITs?

A The market continues to be open to forming publicly traded REITs. While the number of IPOs is lower than in previous years, IPOs were quite successful in 2016, and there is no reason that trend shouldn't continue. However, as has always been the case, REITs that go public initially trade at a discount to comparable shares, which has to be taken into account as part of the cost of taking an REIT public. So, if the discounted value is less than net asset value in the private markets, sponsors have to think harder about the benefits of being public. But that's been true since the IPO markets for modern equity REITs began in the 1990s.

With non-traded REITs, the flow of capital significantly slowed in 2016, from a high-water mark of close to $20 billion down to approximately $5 billion. The drop-off is primarily attributable to some changes in the regulatory regime, the exit of leading sponsors from the business and first-time sponsors finding it difficult to raise capital. However, capital flows will most likely change with the anticipated entry of a prominent sponsor into the sector.

Q Do you have any thoughts for sponsors considering launching non-traded REITs in this environment?

A One of the larger players in the real estate market is entering the non-traded REIT sector, making significant changes to the load structure to increase attractiveness to investors and accessing a different distribution network. This could prove an effective approach and might provide a roadmap for others considering a non-traded REIT strategy.

Q Which real estate sectors are strong right now? Which are ripe for a correction?

A Mixed-use properties near transportation hubs show promise. Whether multi-family, or office and retail, including hotels, there are projects of varying density that seem to make sense. Industrial projects also are doing well, particularly when connected to e-commerce fulfillment. (See the Portfolio article on page 39 of this magazine.)

Hotel properties have been oversold and may be due for recovery. By contrast, apartments seem to suffer from oversupply, and B-malls and power centers may struggle as brick-and-mortar operations face challenges from the online space. In urban offices, as tenants' needs shift from offices to high-walled cubicles to open spaces, floor layouts will be reconfigured accordingly. It's unclear who will benefit. //