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Dara to Know

Dara Friedman is on the defensive, and that's intentional. BGO's Core Plus manager talks about fighting back against market uncertainty.

By Cathy Cunningham | Photographs by Jim Gensheimer

The Greek philosopher Heraclitus once said, "There is nothing permanent except change." This was around 500 B.C.E., so it's unlikely he saw this current period of market dislocation coming down the pike.

Still, the sentiment holds true today.

Dara Friedman, a managing director and portfolio manager at BGO — known until recently as BentallGreenOak — studied philosophy at the University of Pennsylvania before turning her hand to commercial real estate. In her role overseeing the firm's Core Plus Fund, her studies — coupled with more than two decades of industry experience — come in handy today as her team navigates the investment playing field, assessing and reassessing the changing opportunity set.

Friedman sits in San Francisco and got her industry start as an analyst at Bank of America Securities, experiencing both the dot.com crisis and Global Financial Crisis in her first decade on the job. It's helped to inform her decision-making today, and positioned her team well for the wave of opportunity headed our way before the year is out.

This interview has been edited for length and clarity.

Commercial Observer: How has this market period been for you, and what are some of the key investment opportunities that have crossed your desk?

Dara Friedman: For me, and for us as a firm specifically, the focus has been on defense. I'm an interesting vintage of a person because I graduated college in 2001 and business school in 2007, so post-graduation I walked into two recessions.

I think that has informed our outlook on defense as well as risk mitigation — so, where can we be proactive in the portfolio when it comes to engaging tenants, renewing tenants, working with tenants, and making sure that our places continue to be where people want to be. That mindset of defense and resilience has driven a lot of what we've been doing on the asset management side over the last 18 months.

In terms of opportunities, we're looking at places to be contrarian, or where we have first-mover advantages . That's where we've really lucked out on the opportunity side. We manage investments across the risk spectrum at the firm, so we've seen really interesting opportunities in debt on the construction side, and also looked at dislocated pricing in multifamily and industrial. There's a little bit of that happening [in those asset classes], but obviously a lot more on the office side.

How much of an advantage has BGO's wider infrastructure been during this past year?

I think it's a huge advantage. We have eight offices across the country, so, for our peer set, we have one of the broadest reaches across the U.S.; and our visibility, both from pricing on the front end and what we own and manage, is pretty deep. When we were investing through the pandemic, and through that time of dislocation into early 2021, we had professionals that could drive to every asset. That gave us a huge competitive advantage.

Also, just given our office footprint here and the number of senior professionals in each office that have worked together for a long time, you have a team that really trusts each other, even though they're pretty spread out.

This is probably the first market downturn for a lot of your younger team members, or maybe the second if they were there through COVID.

Yes, I think the pandemic was extra difficult, because we weren't in the office. I worked through the global financial crisis but was in the office the whole time. I was at Morgan Stanley, the stock was going down to $6, and I remember looking around at all of my colleagues—but everyone was at least there in the office together, whereas in the pandemic you're in your house staring at dishes or children or dogs or whatever you had going on, so that was really unique.

We did have a lot of corporate culture building during the pandemic. We would do recipe-sharing across the country, workout classes across the globe and things like that, which was helpful. But, honestly, I think getting everybody back to the office has been the most transformative thing for the younger people, because you cannot replace that [collaboration], especially in a business like real estate. It's really important to be in the office together and learn with context, and overall the experience has definitely gotten better as people return to work.

For me, when you're facing dislocated pricing periods, it's an interesting time because you can be risk-off in certain areas but learn from younger colleagues about where they would be risk-on. So you have to take a step back and question yourself and vice versa. That's when people can really be collaborative.

You oversee the Core Plus Fund for BGO. We've heard a lot about distress increasing in the fourth quarter of this year, so which opportunities do you expect to act on?

We have three discretionary strategies in the U.S.: core, core plus and value-add. Each is focused on similar demographic themes, but a different opportunity set. There's a difference between distress and dislocation, and I think we're seeing — and will be investing — more in dislocation, not distress per se. They can be equally attractive, it's just a different risk profile.

Where we're really focused — both in terms of portfolio construction and the opportunity set in general — is defense and optionality. We're looking at some dislocated pricing in the multifamily and industrial spaces, but also some really unique opportunities in low-density office. There are obviously a lot of distressed office opportunities and we have other strategies looking at that, as well as distress in other select pockets. I don't think the distress is as broad as during the GFC, but the cost of capital going up and the cost of debt is definitely making its way through people's minds. So it's an interesting time to see how people are investing around that.

What are some of the key opportunities you're seeing to fill capital stacks today?

We're looking at what we broadly call "special situations," but for our equity strategies that's generally preferred equity, or participating mezzanine financing where we're coming in as a capital solution, but also an asset management partner. We do see a fair amount of that flow, and we have a debt fund in the U.S. that's very active in that space at a higher attachment point — so, senior stretch-type investments.

The banks are very much on pause, so that just creates a gap in solutions for good investments, and a really interesting time where fundamentals are strong but there is a high cost of debt for real estate.

You mentioned multifamily and industrial opportunities, which I'm sure some investors are very happy about, given how competitive those asset classes have been the past few years.

Yes, but because there is so much of an appetite, you now have to bifurcate what you mean by those in terms of all the subtypes of multifamily, and of industrial. We will take on more product risk, given the fundamentals, and then try to underwrite market risk using data science. Like you said, they are, by far and away, the two darlings right now, but I do see a deeper level — on a relative basis — of overpaying for each of them, with people just trying to have access to them. And I think that's where asset selection gets pretty important.

You speak with a lot of investors. Do you think that U.S. real estate is high on their wish list right now, and what are you hearing from them more generally?

For investors who have not filled their real asset bucket or are looking to get deeper into real assets, I think we are seeing a lot more interest. That's really picked up through the summer, and, as the equity market stabilized a little bit, I think we're seeing more investors understand the value of the inflation option that real estate provides. Fixed-income is attractive, but you don't have access to that option.

So we are seeing investors think more about growth, accessing that growth and not capping that growth today, especially if rates stay where they are or go lower. I think that's the mindset on continuing to allocate to real estate.

What's the most challenging part of your role today?

Continuing to be innovative about how we're viewing real estate. Real estate has significantly institutionalized over the last 25 years and it's managed by well-capitalized big managers. The way that people have defined the opportunity set continually changes, so the most challenging part is continuing to try to stay in front of that: So, what are the new ideas? How do we think about this differently? What are we missing? What aren't we seeing that's spurring growth that no one's talking about? Those ideas are what we want to be investing in. Because you can invest in that idea, but being able to inform a thesis that is acyclical is the hardest thing to do because that's both qualitative and quantitative.

We have our data science, we have our people on the ground, you have your own experience, you have your colleagues, it's a combined motion to search for the best ideas across our U.S. platform that we can continue to invest in, regardless of the strategy or cost of capital.

I was a philosophy major, and, for me, it's very engaging, because there's a continual refinement and assessment of what we're doing. I'm happy to be somewhere where that type of thinking is accepted and debated and also challenged.

How did you go from philosophy to real estate?!

It's a funny story. I was an arts and sciences philosophy undergrad, and I went to the University of Pennsylvania. All the Wharton kids were getting these investment banking jobs, and I just didn't want to have to ask my parents for money. So I was like, "OK, I'll probably interview with some of these investment banking

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firms,” and I was fortunate enough to get a job.

At the time, they said, “You can do M&A In New York,” and I was like, “I don’t even know what that means.” I was a liberal arts philosophy major who had never touched an Excel spreadsheet. I said, “Well, how about California? Can I go to California?” I felt like I would work better there than in New York.

They said, “Well, if you go there you can do tech or real estate.” At the time, I didn’t know what a network or a drive was. I wrote my papers on my desktop, and that was the extent of my computer knowledge. I’ve always been a late adapter, and I chose real estate because I was like, “OK, it’s buildings. I can have some opinions about the place, not just the numbers.” So that was how I landed it, and I was an analyst with B of A Securities here in San Francisco, in their real estate group.

They were one of the few firms that had a real estate group on the West Coast, so that was where I started. I was there for two years and then moved over to Capital Source, which at the time was a high-yield lending firm. And that was great. Lending and brokerage are really great trades, because the volume of deals that you see is just unmatched.

By the time I went to business school, I had a lot of conviction that I wanted to stay in real estate, and I knew that I wanted to come back from San Francisco. I also knew I wanted to work for Morgan Stanley. I was laser-focused on that job, and was fortunate to get hired into that group. I spent over 10 years there before I came over to BentallGreenOak.

Why were you so focused on Morgan Stanley at the time?

In 2005, they were one of the two biggest real estate private equity investors in San Francisco. It’s not a big market, and they were definitely a blue chip name in San Francisco. The other thing that was really great about that group was the people running the business had also started the business, and the culture was amazing. Sonny Kalsi and John Carrafiell [now co-CEOs of BGO] were leaders there, as were and other members of GreenOak Real Estate.

There was a pride of ownership within the business and in what the business did, which was investing in amazing places. I thought that was really attractive.

How would you describe your experience working through the GFC?

When you’re able to work through a period of that much distress, it’s very formative. I graduated in 2007, I closed a very big land acquisition in late 2007, and then immediately started working on a restructuring. I got a ton of restructuring experience, which I think allows you to walk that knife’s edge between defense and offense.

That was really helpful to me. I was able to work on restructurings between 2008 and 2011, then was given the opportunity to start bottoms-up investing between 2012 and 2015. So, I was lucky enough to get wide-ranging experience from it, both going through the GFC and then coming out of it.

What drove the move to BGO in 2016?

I had spent five of my 10 years at Morgan Stanley working with Amy Price [now president of BGO]. Amy was here in 2011. I followed her, and she gave me an opportunity to have a larger scope of work. So I went from acquisitions to portfolio management during that time, and then was also helping her grow the platform with Sun Life [which acquired a majority stake in BGO in 2019].

There are very few opportunities in San Francisco where you get that type of experience with a global company, so the draw for me was both working with Amy and the amazing scope of work in my role. I was happy to come join her, but very sad to leave Morgan Stanley because I grew up there. It had been 10 years and a very formative time, but I was really happy to have the opportunity to work with Amy again.

How has your role with BGO evolved over the years?

I basically moved a little bit away from acquisitions and more toward portfolio management. Across our industry, portfolio management is defined differently at different groups, but at BGO it includes strategy, capital raising and asset management. So, you have three scopes of work. I did work on the merger point, supporting Amy and the Sun Life team and going through that execution.

But, as we were going through that, we saw in the U.S. some gaps we had as a manager in terms of strategies, and also that the capital markets had some gaps in terms of players. That really led to the genesis of the Core Plus Fund.

I spent a lot of time working with my co-portfolio manager, Jonathan [Epstein], on defining the strategy, knowing that we’re adjacent to core and value add. It’s been a nice soup-to-nuts execution and experience for me.

There have been a ton of negative headlines about San Francisco, and its doom loop. As somebody who sits there, what is your take on it?

Don’t bet against San Francisco. People underestimate the fabric of the city. It’s innovative, it’s creative, and it’s resilient. Yes, there are parts that are certainly tough right now. But I sit in 475 Sansome Street, and the activity here has picked up significantly. There’s a mural being painted, and the city’s investing and really making it more of a pedestrian experience that ties into the Embarcadero.

So I think there’s a lot of will and wealth and human capital that will stand behind the city and work on its recovery. Driverless cars are also happening here. My children balk at driverless cars when they’re crossing the road, asking, “Should we cross?!” [laughs]. I think there are very few places that have that innovative backbone so integrated into the culture, and I think that has always made it a resilient city from the gold rush to today.

Any big goals you want to achieve, personally or professionally, by the end of the year?

I’d say by the end of the year we would like to be a major participant in what we see is a massive wave of really interesting opportunities coming to light in the fourth quarter — and I think we will be. We want to be a first mover in some spaces where we see a lot of value, and I think we’re on track to do that, too.