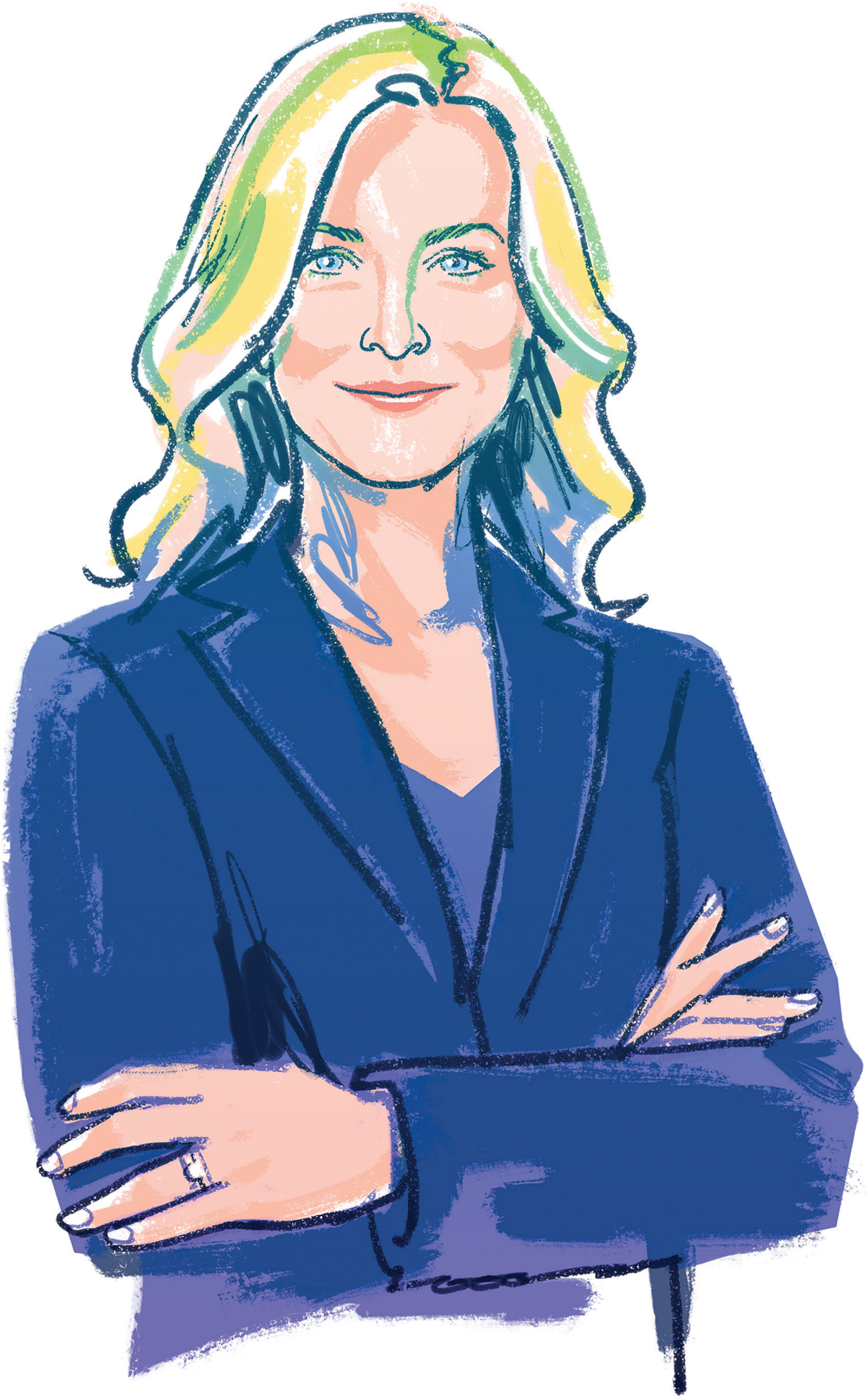

Singular focus

BentallGreenOak has built its commercial real estate lending presence in the US with SunLife's backing, and its head of debt, Abbe Franchot Borok, has her sights set on further expanding its platform, Randy Plavajka writes

ILLUSTRATION: **JONNY RUZZO**

BentallGreenOak is on an expansion initiative to gain additional market share in the US commercial real estate market during a period in which some of the biggest banks and insurance companies have shifted to more defensive strategies.

Backed by SunLife, BGO's commercial real estate lending team is headed by Abbe Franchot Borok, managing director and head of US debt. The New York-based investment manager sees the current volatility as an opportunity to sharpen its lending focus and widen BGO's stateside presence further.

"BGO identified US lending early on as a strategy [in which] we as a firm had expertise and an existing foundation in place and wanted to grow," Franchot Borok says, noting the firm's foundation started with its management of the SunLife general account.

BGO's European business lines already boasted track records in the transitional and value-add lending markets, so taking a similar hold in the US was the logical next step. The journey stateside started with the market dislocation brought on by the ongoing covid-19 pandemic dating back to the first quarter of 2020 continuing through 2022.

"The dislocation in the market was requiring existing managers to be more focused on asset management rather than originations," Franchot Borok says. The firm saw a window to take market share by deploying capital with its existing debt platform, and tapping into value-add lending opportunities especially.

Since Franchot Borok joined BGO in May 2021, the firm has built out its talent roster to support a vertically integrated commercial real estate debt platform spanning underwriting, originations, capital markets, product development and asset management. BGO's global debt platform totaled $17 billion as of December 2022.

The singular focus today is real estate and leveraging BGO's existing $30 billion-plus US real estate equity platform to delve deeper into the debt markets and source consistent credit deals in its target geographies.

Endurance racing

BGO – like every other active and inactive debt market participant in 2022 – has had its debt strategy tested through 2022 and into the new year by a market coping with several ups and

Layering sustainability

Key to BGO's growth initiative in the US has been the incorporation of analysis around ESG factors and bringing those elements into the firm's structure itself.

Channeling existing practices on its equity side, BGO is now layering in ESG analysis into how it evaluates investment and lending opportunities coming into the pipeline. At a basic level, the focus is more on how durable and sustainable assets will be within their geographies, while also considering any management practices in place, the local demographics and community impact the financing could have.

"We believe backing sponsors and business plans focused on improving or developing an asset to meet sustainability standards and therefore meet the demand of the future tenants at that property is the winning strategy," Franchot Borok says.

Applying the ESG lens inward, BGO has been more focused on attracting and retaining diverse professionals to effectively build a team where 80 percent of the managing directors on the US debt team are now women. Atop this, more than 70 percent of all BGO's new hires have been women or visible minorities.

downs. Despite this, the firm is still bullish on the prospects for the debt markets.

"We do think it is a particularly opportune time in the market to invest in debt," Franchot Borok says. "Spreads have widened, [loan to value] levels have decreased and we continue to focus on loans in the floating rate, value-add lending space, which has allowed us to benefit from the rising interest rate environment."

The firm has its sights on financing the future of real estate while other lenders are looking backward to try and theorize how cashflow, occupancy of a given property and use cases for properties may pan out for stressed and stable deals today.

"In today's environment," says Franchot Borok, "it is much more important to look at where real estate is going and changing consumer preferences – whether those of commercial or individual tenants – are requiring many real estate asset classes to evolve. We are focused on being a lender that is at the forefront of those trends."

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As a lender, BGO is always looking at the downside, evaluating how much protection can be built into any available deals and what makes for a durable asset in an ever-changing environment where the word 'stability' seemingly applies to fewer sub-sectors than in previous years.

Secular tailwinds

Multifamily, industrial and select sub-segments of both groups top BGO's list of asset class priorities for lending based on prior and current perspective from its equity platform.

On the residential side, for example, BGO views single family rental, student housing and senior housing as segments of the overall asset class where it is aiming for more debt origination activity. On the industrial side, BGO is finding tailwinds behind the cold storage sector as well as interesting opportunities in the outdoor storage space.

Senior housing, outdoor storage and cold storage have all fared well during prior instances of volatility affecting the market, such as during the global financial crisis and the early days of the pandemic, supported by the institutional backing through peer lenders steeped in the spaces.

"We benefit from the firm's top-down approach to research," Franchot Borok says. "Data and analytics allow us to be very forward looking in the types of asset classes and business plans that we are lending upon."

Life science assets similarly garner a favorable view from BGO on par with the multifamily and industrial spaces. Franchot Borok says the firm has an in-house life science asset management team and construction professionals that tack on an additional boost when purely looking at the asset class from a holistic point-of-view.

Surmounting maturities

The dial-back in bank lending momentum arrives at a time when a record level of commercial real estate debt is set to mature in 2023 and 2024. According to data from New York-based MSCI Real Capital Analytics, an estimated $600 billion of CRE debt will mature in the next eight quarters, with more than a third of the amount issued in the last three years.

"The retrenchment by certain segments of the traditional lending community – particularly banks and securitized lenders – has really allowed for groups like ourselves, alternative lenders and also insurance companies, to take market share. We believe that trend will continue going into 2023 and 2024," Franchot Borok says.

BGO anticipates investment activity will be down in 2023, on track with other market participants. While new originations may slow, existing debt will require creativity to not falter as their term dates approach. "We believe the need for structured refinance solutions will allow us to continue to build market share as we grow our platform," Franchot Borok says.

Where the firm is originating new debt financing, BGO is doubling down on its core lending strategy with prudent underwriting and tight loan structures as well as lending to borrowers who have performed well across multiple market cycles, Franchot Borok says.

"We are laser-focused on basis, alignment and downside protection when we are underwriting new transactions today," she says. "Structurally, we are including performance milestones and ensuring we have the loan structure in place to allow us to track the progress of our borrowers and sponsors over time."

Key strategies

BentallGreenOak's US commercial real estate debt platform revolves around two primary strategies, including value-add and core approaches.

For BGO's US value-add lending strategy, the firm typically originates loans sized between $20 million and $250 million spanning acquisitions, refinancings, opportunistic recapitalizations, capital improvements, lease-ups, redevelopments and new construction.

The firm is active in primary and secondaries US markets across all asset classes with an additional lens on niche property types including self-storage, cold storage and senior housing, among others. BGO looks for loan-to-value of up to 85 percent with term in the range of one to five years.

BGO loan types include senior and senior stretch whole loans, as well as mezzanine loans featuring competitive pricing structures in primarily floating rate vehicles.

For BGO's US core lending strategy, the firm originates senior stabilized loans to core properties ranging between $5 million and $50 million in debt capital. Core lending is aimed toward industrial and multifamily assets primarily within secondaries and primary US markets.

LTV can reach up to 75 percent for a BGO US core loan with term lasting between five to 25 years. Pricing is competitive for BGO's US core loans and are primarily fixed rate in nature, contrasting with the value-add's standard model.

New deals

Future quarters of commercial real estate debt activity are expected to look quite different from the origination-focused strategies of quarters past for BGO, as for its fellow insurance-backed investment managers and peers across the landscape.

Franchot Borok says the firm is particularly excited about the inbound refinancing wave, which will include new chances to participate in opportunistic recapitalizations and cash-in refinances.

"Given we are an active borrower on our equity side, we feel we are well-positioned to anticipate what our borrowers will need from a structure and flexibility perspective," Franchot Borok says. "We are able to be nimble and flexible in today's market for our borrowers and help them meet the challenges caused by the volatility that we are currently experiencing."

Having an equity business to take cues from and feedback into allows BGO to look across the risk-return spectrum with a lens toward relative value, Franchot Borok says. The firm sees the combination as an information advantage when underwriting new transactions and keeping with its forward-looking thesis for financing the future of real estate.

"BGO has and will continue to have a bias toward institutional-quality borrowers with strong balance sheets," Franchot Borok says, noting the firm has been able to see its way through volatile markets thanks to maintaining such an approach. ■