Banker Says Foreign Real Estate Capital Could Look Beyond Gateways

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Jeff Horowitz, global head of real estate, gaming and lodging at Bank of America Merrill Lynch, joined REIT.com for a video interview during REITWeek 2015: NAREIT's Investor Forum, held in New York. Horowitz discussed the trends he is seeing regarding foreign capital flows into the United States.

"The fundamentals are always the same. The U.S. is a liquid market and a very high-quality institutional market," he said. In 2014, almost $50 billion of foreign capital flowed into the U.S., about double the level seen in 2011, he pointed out. Foreign capital flows into the U.S. so far this year top $40 billion, Horowitz said.

Horowitz added that foreign capital flows in the past have tended to favor gateway markets such as New York, Los Angeles and San Francisco. In the next few years, however, Horowitz said he expects to see a broadening to other markets as investors continue to seek out quality assets.

Horowitz also discussed the current level of property valuations and the implications for deal-making.

He noted that REITs in most property types today are trading below net asset value (NAV) and that the disconnect between public and private market values has "frustrated" some companies. Many REITs are having a hard time competing against private players or institutions for single assets, Horowitz said.

Given the current environment, increased privatization of assets is likely to occur, according to Horowitz.

"We've had more conversations with boards about strategic alternatives in the last six to 12 months than in the prior four years. There's been no other time like this since 2006 and 2007," Horowitz said.

He explained that whereas many of the large buyers in 2006 and 2007 were opportunistic players, returns today aren't necessarily opportunistic, given the level of pricing. As a result, core and core-plus funds are needed for deals, which is both cheaper and slower, Horowitz said. "That's made it hard to get some of these deals effectuated, but I think there will be more to come."