IMN Interview with Robin Potts

Co-Head, Real Estate Investments, Director of Acquisitions
Canyon Partners

Robin Potts is the Co-Head of Real Estate Investments and Director of Acquisitions for Canyon. Ms. Potts supervises originations and acquisitions of all real estate transactions. Ms. Potts previously worked in the Financial Institutions Group of Credit Suisse in Los Angeles and focused on equity, debt, and M&A transactions in the mortgage real estate investment trust sector. Ms. Potts is a graduate of Harvard University (B.A., Economics).

IMN: Can you tell me a little about Canyon, what you do there and your multifamily strategy?

Canyon is a global investment firm with over $20B of assets that has been in business since 1990. We began making direct real estate investments in 1991. I've been with the team since 2006 and serve as Co-Head of Real Estate Investments, overseeing originations and acquisitions across all regions, property types, and investment strategies. We invest in multifamily across a number of our platforms in debt and equity as well as value add and opportunistic strategies. Multifamily has been a focus for us across most of our platforms due to its demonstrated resilience during times of stress and the stabilizing role it can play in our portfolios.

IMN: How has your portfolio rent performance been? Any surprises?

At the moment, we oversee a portfolio of $1.7 billion of multifamily assets. Rent collections across our portfolio have averaged about 4-5 percentage points lower than pre-COVID-19 levels. While I might not use the word "surprised", I think the stability of our portfolio has exceeded expectations. Notably, there is quite a bit of dispersion beneath the surface of these figures with certain submarkets performing better than others, depending on local economic and regulatory factors.

IMN: What are you looking for in an investment now? How has that changed?

Given Canyon's roots are in distressed investing (our Founders previously worked at Drexel in the 1980s before founding Canyon), it is in our DNA to focus on return of capital in addition to return on capital. As a result, across market environments, we seek opportunities to invest in real estate at both a discount to value and to cost in order to enhance the probability that we preserve principal. Often, we find these types of opportunities present themselves in less trafficked corners of the market, where for a variety of reasons capital is more constricted. Prior to the COVID-19 crisis, we identified many of these opportunities in ground-up development where we saw greater demand for high quality assets in certain submarkets where structural impediments existed (either due to capital availability or entitlement challenges). Although we are only a few months into this crisis, funding limitations have been exacerbated as many developers have been "left at the altar" by capital providers facing their own challenges. This capital supply-demand imbalance presents a compelling opportunity, specifically with respect to the development of multifamily assets which if chosen correctly, have proven more resilient in down markets. With so little capital available for development, we believe the go-forward new supply pipeline is likely to be much lower than in a normalized environment. Additionally, building from the ground up allows for an adaptation to the new world order of social distancing and other wellness considerations difficult to accomplish when repositioning an existing asset.

IMN: What do you think of construction and development at this point of the cycle?

We are probably somewhat contrarian in our view, but as discussed above, we think it offers one of the best risk/reward profiles across both debt and equity, particularly in the more resilient asset classes like multifamily. We are now seeing opportunities to capture development sites at improved price points relative to pre-COVID-19, and on projects currently being bid with contractors, we are starting to see hard costs savings in certain markets relative to pre-COVID-19 pricing as subcontractors are faced with rapidly shrinking forward-looking pipelines.

IMN: Which risk management practices that you were taking pre-pandemic have paid off?

On the debt side, avoiding the use of platform-level leverage has proven to be the single most important decision we made entering the COVID-19 crisis. Also, the presence of our in-house asset management team has proved critical in mitigating underwriting risks as well as the challenges that invariably occur when making complex investments. Lastly, remaining vigilant during underwriting and not compromising on fundamentals, such as quality of sponsorship and focusing on areas with diversified employment drivers.

IMN: I see you've participated in a few opportunity zone multifamily projects over the past few months… Can you give us some details and tell us how big of a focus is that of Canyon?

We've closed on five Qualified Opportunity Zone transactions to date and continue to be active in the space. All five of these investments have been to finance multifamily ground-up developments, which we believe remains an attractive area to invest in (tax benefits notwithstanding). While this platform represents a relatively small part of our overall real estate platform, it has grown quickly and is an area where we bring particular expertise and are excited to be a long-term hold investor.

IMN: I also see both of these opportunity fund deals were joint ventures: What are some of the key attributes you look for in a JV partner?

As we've been investing in real estate for 28+ years, we have established a robust stable of sponsor partners that we seek to transact with on a repeat basis. When engaging a new partner, we typically look for highly institutional, capable, and transparent groups with a depth of track record in the specific product type and appropriate financial resources depending on the nature of the investment. As discussed above, we believe the due diligence performed on our partners is one of the most important ways we mitigate risks and therefore we enter into JV partnerships with great care and consideration.

IMN: How does Canyon think the pandemic will change the multifamily market?

From a financial perspective, the aggressive monetary easing by the Federal Reserve in response to the pandemic has resulted in more favorable pricing for debt financing for multifamily, which is supportive of a continued strong cap rate environment for multifamily and in certain markets may lead to cap rate compression.

From a product type perspective, while the potential long-term ramifications of the pandemic are largely unknown and continue to evolve, we expect the multifamily market to adapt in some or all of the following ways post COVID-19:

- Broader adoption of technologies that minimize unnecessary contact, such as "virtual tours" for pre-leasing and the replacement of elevator buttons with touchless technology;
- An emphasis on wellness, including cleanliness, greater square footage, and open-air space (where possible) in common areas, such as gyms and other shared spaces;
- Increased focus on features/amenities that enable tenants to comfortably work from home (cutting edge Wi-Fi, designated home office space, co-working spaces); and
- Continued demand for projects located in lower cost cities (such as Charlotte, Nashville, Dallas, etc.) that offer more space and value.

We believe that new construction will be better equipped to address these changing preferences.

IMN: Tell us one thing the market doesn't know about Canyon.

Canyon's real estate investments are run by two female Co-Heads, myself on the acquisitions side and my Co-Head, Maria Stamolis, who has been in the real estate business for 30+ years and oversees our asset management efforts.