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Finding Value In Times Of Stress, With Taylor Trautloff

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Rising interest rates, negative investor sentiment, and persistent inflation are taking a toll on real estate investments.

Taylor Trautloff at StarPoint Properties joins the show to discuss where investors can find value in these uncertain times, and previews some forthcoming StarPoint Properties Opportunity Zone deals.

Episode Highlights

- A brief overview of StarPoint Properties and Taylor's career path.
- The impact that the current state of the economy is having on private real estate.
- The degree to which higher interest rates are restricting capital markets.
- The types of real estate deals wherein High Net Worth investors can find value these days.
- Opportunity Zone trends that StarPoint Properties is seeking to capitalize on as we head into 2024.

Guest: Taylor Trautloff, StarPoint Properties

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About The Opportunity Zones Podcast

Hosted by OpportunityDb and WealthChannel founder Jimmy Atkinson, The Opportunity Zones Podcast features guest interviews from fund managers, advisors, policymakers, tax professionals, and other foremost experts in Opportunity Zones industry.

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Show Transcript

Jimmy: Welcome to the "Opportunity Zones Podcast." I'm Jimmy Atkinson. Economically speaking, we are in somewhat uncertain times. The specter of negative investor sentiment, rising interest rates, and persistent inflation have put some stress on capital markets as of late. So, where are investors able to find opportunity in times of stress? Joining me today to discuss this topic and much more, all things OZ, is Taylor Trautloff. Taylor leads capital markets at StarPoint Properties, and she joins us today from Beverly Hills, California. Taylor, great to see you again. Welcome to the show. How you doing?

Taylor: Great. Great to see you, Jimmy. I know it's been about a year since we first met, and it's been a whirlwind being on some of your events, like OZ Pitch Day. So, I'm super happy to be here with you today.

Jimmy: Fantastic. Great to have you here, as always, Taylor. Now, my audience, which is mostly high-net-worth investors, advisors, and other Opportunity Zone stakeholders, they're likely already familiar with StarPoint Properties, because you've participated in so many of my events. You've been on OZ Pitch Day a couple times this year, and so a lot of people may have some familiarity with StarPoint Properties. But for those who may be unfamiliar, maybe they're new to OZs, maybe they haven't been on one of the events in the past, can you briefly explain who StarPoint Properties is, how the firm operates within the Opportunity Zones industry?

Taylor: Yeah. So, StarPoint was founded in 1995, in Beverly Hills, California. Our founder and CEO is Paul Daneshrad. He's pretty well-known within the Los Angeles real estate community. He built this company truly from the ground up, and into what it is today. StarPoint has about $1 billion in assets under management, and this is split between commercial and multifamily.

We primarily focus on the Western United States, so our target markets are Texas and Colorado, and then the states west of these. In the last couple of years, we've gotten into Opportunity Zone investing, and we can, you know, dive more into that later. And I'm sure your guests are pretty familiar with Opportunity Zone projects. So, that's how we got connected.

Jimmy: That's correct. And we will talk a little bit more about where you're investing, specifically within Opportunity Zones, a little bit later during today's program. I actually wanted to get a little bit more about you though, Taylor. I'd like to introduce you to the audience a little bit more, learn about your career arc. How did you get to where you are today, and what's your role at StarPoint Properties?

Taylor: Great. And one thing I wanna mention, too, with StarPoint is that we don't just do Opportunity Zone projects. Our investments run the gamut. So, we have, like, cash-flow, you know, current income-focused offerings, along with shorter-term, like, high-IRR type projects. So, I started out my career, I studied real estate at USC, and then I started out on the debt and equity team at JLL, here in Los Angeles, so I was focused on raising debt and institutional equity from a variety of corporate sponsors. I work with groups like Blackstone, Ares, Apollo, etc., those sorts of companies, and raised an aggregate about $1 billion in debt and equity with the team there. And then I went over to Cityview to do acquisitions. And so, I was underwriting, typically underwriting value-add and multifamily projects in the western United States. And then an executive with StarPoint actually reached out to me and proposed that I come over here to help build out this high-net-worth investor platform. StarPoint already had a pretty strong base of high-net-worth investors, and most of whom are local to Los Angeles. But there was a recent push to build this out, and so I came over here to pick that up, and, you know, it's been great.

Jimmy: No, it's great. You were headhunted, it sounded like. That's awesome. Good for you.

Taylor: Yeah, I mean, it was more personal than that. It was, I have a personal connection with the head of development at StarPoint. We met through the USC community a couple years back, and so we typically would get coffees every quarter. I have several mentors that I keep up to date with. And then, when the opportunity presented itself, I jumped on it.

Jimmy: That's awesome. Well, let's dive into the meat of our discussion today, which is, hey, what's going on with the economy? What's going on with interest rates? What are investors to do? Where can you find some value and some opportunity, given all of the macroeconomic headwinds or uncertainty? Taylor, how exactly would you characterize the current state of the economy, based on your expertise and who you've been talking to, and what impact is that having on private real estate?

Taylor: I mean, my short answer, I would say it's complicated. I think what's interesting about the economy right now is that the unemployment rate is pretty low. I think it's around 3.6%, you know, across the U.S., somewhere in that ballpark. But then you have this dynamic where interest rates are at all-time highs, I mean, at least in the last 10 years, and just, rates have not

come anywhere close to where they are today, and this is putting a strain on the overall financial economy. I mean, it's really affecting venture capital, private equity, in real estate. And I would say it's predominantly affecting the real estate industry the most. Granted, maybe I'm, you know, know this industry more because this is what I work in. And I don't think we've fully seen, like, the full effects of the rise in interest rates, and I think that this is a story that's gonna keep playing out over the next year.

Jimmy: Yeah. Totally agree. It is, the time that we're in right now, the macroeconomic environment that we're in, it's unlike anything that, I think it's unlike anything we've ever seen, really, in recent memory at least, with interest rates as high as they are, and having risen as quickly as they did. And yet, still, we have GDP growth, positive GDP growth, we have very low unemployment, very tight labor market. I think you're right, though. I think, you know, these indicators do have somewhat of a lag. These effects have somewhat of a lag. I think you're exactly right. This is gonna continue to play out over the next several months and into 2024, these interest rate hikes. I think they will have an impact eventually, but maybe we just haven't quite gotten to where the Fed wants the economy to be just yet. What impact, exactly, are interest rates having on private real estate?

Taylor: Yeah, I would say that the main impact is that they're, you know, an expansion of cap rates, we've seen a little bit of cap rate expansion, but we're still in a dynamic today where if you're underwriting value-add multifamily assets, which are existing multifamily, you know, apartment buildings, that are typically built 1950s and newer, you know, some of them could be early 2000s, but it's typically an existing multifamily asset, where you're going to buy, renovate, raise the rents, and that's typically the business plan. And the problem with these types of investments, and not just multifamily, but value-add existing assets in general, and especially core deals, is that you're going to be entering into a negative leverage. So, if your cap rate, you know, if you have a 3% cap or a 4% cap, and then your debt, all-in, is north of 7%, I mean, you're in a negative leverage environment. You're essentially losing money, at least for the first year, until you effectuate the business plan, and then, you know, raise NOI, etc.. And so, a lot of sponsors don't wanna take on that risk of entering into, like, a negative leverage type of deal with the hopes that they're going to, you know, turn around the business plan, and it'll work out in two, three years down the line.

So, I have a lot more confidence right now in… And it's not to say this is the case with all deals. You know, of course, like, you can find, there's still deals to be had, and if anything, you know, because of the overall market sentiment, there could be some great, like, needle-in-the-haystack opportunities to be found. I will say that I think it's a different dynamic with development, because with development, you actually might be benefiting more from what's going on, because, you know, construction financing's harder to come by today, and so some, not every group's able to get their construction projects built and underway, and you have projects that if they're starting today, depending on whether, what asset class it's in, if it's multifamily, they might not be fully built and stabilized for another two to three years, you know, I would say two years. And so, that could be interesting because it could be coming out, it could be coming online as we're coming out of this current environment, and if you have less

supply and less projects being built now, then you could be pretty competitive by getting a development project going today. I would say, you know, there's still great opportunities on the value-add space, but they're just becoming increasingly challenging to find.

Jimmy: Yeah, some… So, there's some great opportunities if you're a developer and you're willing to take on that development risk, given the challenging economic conditions currently. But if you come out of it on the other side, you're in good shape, then, well, you might be one of the only ones around delivering new product, because development's been tough to come by lately. Any predictions for where you think interest rates might go next? What do you think the Fed has up its sleeve or in store for the rest of this year, or 2024?

Taylor: Well, that's the…

Jimmy: And right now, just to paint a picture, we're recording this episode toward the end of September 2023, and interest rates are, I think they're 5.25% is the federal funds rate.

Taylor: SOFR, as of yesterday, SOFR was 5.3%. So, yeah, you're right on the money there.

So, I will say that's a million-dollar question. Whoever can accurately predict rates, I mean, you, that's all you need to do to succeed, if you can predict rates right now. That's what's on everyone's mind. I think if you look at groups like Kensington and Chatham, it's their job to create SOFR forward curves, you know, to predict movements in rates. And at times, oftentimes these are, at best, predictions, because sometimes there, if you look back, the curve that they project, it does not always materialize. So, as of right now, if you look at the SOFR forward curve, it's projected that SOFR will increase to about, it'll increase another 50, I wanna say 30 basis points, in December, and then it will stabilize and then start to drop off. But it looks like it will remain around 3.9% to 4.2% over the next 10 years. And it's very surprising to see that, so, you know, that may or may not materialize, but that, you know, that's one group that is projecting SOFR to remain elevated over the next decade. And that would have huge implications throughout the real estate industry. I think, mainly, there would be, like, a reset in valuations.

At the same time, though, however, I think the long-term fundamentals of real estate are really strong, meaning that, on one hand, the high interest rates almost helps, at least the multifamily side, because as interest rates rise, you're going to have less homeowners selling their houses, because then they're going to have to leave and take on new financing. So, they might be locked in at a 2%, and now, if they sell, they'll end up, you know, the rate could be tripled. And so, that prices them out of, like, getting a better-quality home or equivalent home, so that people are remaining in their homes for longer. And then if you're a buyer, and you're looking at taking on a mortgage, then, you know, your rate's going to be substantially higher. So, that, just, that drastically impacts your buying power, so more and more people who could have became homeowners are going to be long-term renters, or permanent renters, at the rate that we're going. And so, the fundamentals for multifamily are there, and I'm very confident in real estate long-term. I just think that we have some more short-term kinks to work through.

Jimmy: Yeah. Totally agree, and totally understood there. You know, you mentioned that we might have these high rates for the next decade. And it sounds strange to us, because I think we've been trained for the last 15 years on a very low interest rate environment, but, in fact, if you look back over the course of the 20th century, the last 15 years have actually been the anomaly, right? I mean, the amount of free capital, so to speak, or free cash, has been pretty amazing, with the quantitative easing that the Fed had to implement in the wake of the Financial Crisis of '08-'09. Now we're getting to a point where, wait a second. We've got some actual cost on cash here, some cost on debt, is, we don't have zero interest rates anymore. We've got interest rates north of 4%, 5%. We've got, you know, mortgage rates are creeping up, you know, well above 7%. They're about to touch 8%, potentially, in the next, any day now, really, possibly in the next few weeks. But, isn't it just a return to the old normal? How the heck did we ever get deals done in the 1970s and '80s and '90s? I mean, there must be some trick to it. And maybe you're right. Maybe all of this is to say that, "Hey, we have to have a repricing at some point in the market. We have to have some values adjustment." Is that what you're anticipating if interest rates do stay elevated?

Taylor: I think it's a combination of, yeah, maybe a slight expansion in cap rates, but at the same time, I think that what we're seeing now will be a return to the fundamentals. Over the last 15 years, I mean, growth investing was much more popular than value investing, which is what, you know, Warren Buffett, you know, was raised on, and Benjamin Graham, if you're familiar with "The Intelligent Investor."

Jimmy: Oh, yeah.

Taylor: And I think that not just with real estate, but with all investing as a whole, I think you're going to see, really, a return to the fundamentals, where people are going to be looking at, does this make sense? The supply and demand side, like, projecting out cash flows. The spread over the risk-free return rate has narrowed, and it just, taking on the same level of risk today just doesn't necessarily make as much sense. So, I will say, this might even position real estate favorably, you know, in relation to venture capital investments, private equity investments, because I think the fundamentals really are there.

Jimmy: Good. Shifting gears, for a moment here now, let's talk private capital markets. Related, of course. With interest rates having gone up, you know, it's become a little bit more difficult to secure financing. Also, investor sentiment seems to have turned negative in the last 12 to 18 months. Anecdotally, I can tell you it seems like a lot of deal sponsors and fund managers have had tougher time raising equity this year, compared to previous years. How has that impacted you? How has it impacted the industry more broadly, with these, I call it private capital markets freeze-up, essentially? And where are you finding sources of financing, and how has that changed over the last year or so?

Taylor: I wouldn't call it necessarily a freeze-up. I would say, actually, I've still, I've actually been actively raising money, equity, from high-net-worth investors, and typically, you know, on a weekly, monthly basis, we still have new investors coming in to StarPoint, so, and I would say

that retail investors, it's one of those things that people know that you can't time the market, and that's, like, a general consensus. And so, yes, maybe there's some uncertainty, but you can't really predict the future. And it's, I would say it's still better to be in the market and invest, versus just waiting it out and not investing, because you don't know, like, you might be waiting for a bottom that never comes. It's one of those things.

And then if you're going to invest, typically you want a diversified portfolio, so you want a portfolio with bonds, equities, and alternatives, primarily real estate. So, I don't think it's as much of a stress on the, you know, retail capital-raising side. Where I see the biggest impact is on the debt financing side. For example, the regional banks are having a lot of trouble right now, and have largely pulled back. And so, that was a huge source of funding before. Now, I would say that the debt funds are more active. But across the board, banks are much more diligent on their underwriting. They're sizing to higher debt yields and debt service coverage ratios, and so a lot of deals that maybe could have obtained financing three years ago, they can't obtain financing today, because they might not be able to cover the debt service at the right, like, DSCR ratio.

Jimmy: Yep. That's gone up, and it's been more challenging for certain borrowers to cover that debt. How has it changed for you, or for StarPoint Properties? Are you putting less debt into new deals? Are you having to raise more equity?

Taylor: No, no. I would say that we, I think StarPoint's unique in the sense that, you know, this is a well-established sponsor. StarPoint has been around for about 30 years. StarPoint owns two of the largest and tallest office properties in Beverly Hills, and has, you know, several marquee, like, legacy assets. And so, this is just a different situation, where, given StarPoint's reputation and diversified holdings, we're able to obtain financing that other groups may not be able to necessarily obtain. And then, we also have strong relationships with our existing lender, and a few different lenders that we work closely with. And, in terms of the leverage, we'll typically underwrite to anywhere from 55% LTC up to 65% LTC. And then, as part of our due diligence process, we will usually obtain term sheets from a variety of LifeCos, banks, debt funds, and we will model out each scenario, and then we will go with the option that makes the most sense for the deal.

Jimmy: So, have your sources of financing not really changed all that much over the last 12 to 18 months?

Taylor: No, I would say, yeah, it might take a little bit longer to procure financing, but it's not really, I wouldn't say that we're having an issue. Like, we're still able to get construction loans closed. We're still able to get acquisition financing. So, I think that there are other sponsors that are really grappling with this, though.

Jimmy: Okay. Given all that we've talked about, the macroeconomic uncertainty, the interest rate environment, negative investor sentiment, some challenges for real estate, in general,

broadly, where are you finding value these days, and where should investors look for opportunity or value, these days?

Taylor: Yeah, I think that you wanna look at, you know, if it's an existing asset, so, if it's something with a value-add strategy, you want a healthy cash-on-cash, so you don't want all of the return to be made on the back end, meaning you don't want it to be all predicated on a great exit at a optimistic exit caps. You wanna see that the deal makes sense, kind of, year-by-year, as well. And then, I think how we're able to find value and differentiate ourselves is just our strong broker relationships. So, you know, we're getting shown deals that other groups may not necessarily be shown, and we're able to get, like, a first look at some of these potential investments, just because groups know and brokers know that we will close. Like, if we put in an offer, we can, we're 100% going to come through and close. And that's not true necessarily for every sponsor across the board. A lot of sellers are looking for, like, certainty of execution.

Jimmy: Good. And let's zoom out a little bit more. Or no, let's zoom in. Getting my zoom out and my zoom in mixed up. Let's zoom in now to exactly what StarPoint Properties is doing, and in particular, in the Opportunity Zone space, where are you guys investing, and which sectors are you most bullish on? What markets do you like?

Taylor: So, we primarily focus on industrial development and multifamily development, when it comes to Opportunity Zone projects. We actually just wrapped up our raise for two different projects, and we're under construction now, so it's very exciting. One of them is called Lotus Point, and Lotus Point will be a 245-unit multifamily garden-style community in Phoenix, Arizona…in Mesa, Arizona, actually, but on the western part of Mesa, and close to Tempe, if you know that pocket. And I'm really excited about that project. We just broke ground a couple months ago. And then we also closed our equity and debt financing on Point Central. And Point Central will be a 157,000-square-foot industrial project in North Denver, in the central North Denver sub-market. And this is about a 10-minute drive north of downtown Union Station and that urban core. So, it's pretty unique to even have an Opportunity Zone project so close to a downtown core like downtown Denver. But Denver is one of the more, like, Opportunity Zone-friendly cities, so we were able to tie that up…

Jimmy: And that was the project that you presented at OZ Pitch Day, back over the summer.

Taylor: Yes, yes. That was that project, and we actually had a really successful raise, and so we brought in at least 10 new investors, new investors to StarPoint, through our efforts over the last few months. So, we closed both the construction financing and the equity financing for Point Central and Lotus Point, and then we broke ground on both of them.

Jimmy: Good. So, industrial, multifamily, in the West, primarily, the industrial in Denver, the multifamily in Mesa, Tempe, Phoenix region. What is StarPoint Properties focused on next? What are you raising for next? What other markets and sectors do you like?

Taylor: We have another land site that we own, and it's fully entitled, and that is in Mesa, Arizona. And we have plans to potentially build 550,000 square feet of industrial, which would be a pretty large project. And that total project capitalization is about $85 million. We have not formally launched that one yet, and we're still working through some diligence on the opportunity. We are also actively reviewing and underwriting Opportunity Zone land sites. So, we're still evaluating potential opportunities. I would say we're going to be focusing on industrial, multifamily, and then, in our target states, which are Texas, Colorado, Arizona and Nevada and California.

Jimmy: Very good. Taylor, it's been a pleasure speaking with you today. We're kind of wrapping up our episode here. We're running out of time. Kind of a catch-all, grab-bag, choose-your-own-adventure question for you here, to kind of wrap things up. Any other trends that you're keeping an eye on, either in Opportunity Zones, or maybe more broadly, private equity real estate investing? What are you keeping an eye on? What do you think investors should keep their ear to the ground on?

Taylor: Yeah, I would say I'm looking at the RIA space, because I see it kind of as almost a gateway into, you know, it's, the retail high-net-worth investor channel, it's pretty fragmented. But the RIAs, you know, have kind of a hold on this. And something that's really interesting is I've heard from multiple groups that in the last couple of years, there's been a huge shift, where RIAs are increasingly becoming more interested in looking at alternatives, specifically real estate, versus, you know, historically, RIAs were more focused on equities and bonds, and now they're looking for more real estate opportunities. And I also am seeing that more so, too, with the retail investors that I'm speaking with on the phone, how they're trying to shift more of their portfolio into real estate, and less so into equities. And I think that we're only seeing the beginning of the shift, and this shift could be transformative for the real estate industry.

Jimmy: Well, I think you're spot-on there. That's actually the entire thesis behind why Andy and Michael and I founded WealthChannel, is that very point that you just made, was that there's this huge surge in popularity and in growth of alternative investments within the retail space, high-net-worth, direct, individual investors, and their advisors, RIAs in particular. It's becoming much less institutionalized. Real estate investing, the types of projects that we're talking about, this used to be solely the realm of institutional investors, family offices, and the ultra wealthy. And it's really come down-market, in a good way. These types of products have become very democratized over the last 10-plus years or so, and I think there's a lot more room for growth there. So, I love that sentiment, Taylor and I…a hundred percent …

Taylor: Yeah. I like to say that I'm…

Jimmy: That's exactly why we exist at WealthChannel, and kind of as an offshoot of our Opportunity Zones platform.

Taylor: Definitely. And that's why I love what I do so much, because when I say that I'm helping investors build generational wealth, like, I mean it, and I wanna stand by that. And I think that

it's a really exciting time, that, we're in this dynamic where we can actually help people access commercial real estate projects that historically, even five years ago, majority of people would never have been able to access these kinds of investments.

Jimmy: Absolutely. That's not to say that the 60/40 stock/bond portfolio is dead, but I think there's definitely room, or a case to be made, that maybe a 50/30/20 should be considered, 50% stocks, 30% bonds, 20% alternatives, such as real estate.

Taylor: I think we'll be seeing…

Jimmy: By the way, that asset allocation…

Taylor: I think we'll be seeing more than 20% going into alternatives over the next few years.

Jimmy: I was just about to say, that asset allocation I gave, just an example. Make up the numbers however you want to. There's no real right or wrong way to put together a portfolio, and it definitely depends on your risk tolerance and your investment horizon as well. And none of this is investment advice, so consult with your advisor before making any investment decisions or portfolio construction decisions. Taylor, this has been awesome. Thank you so much for sharing all of your insights. Before we go, can you tell our audience where they can go to learn more about you and StarPoint Properties?

Taylor: Yeah. So, our company website is starpointproperties.com, so it's pretty easy to find. My email is taylort@starpointproperties.com. And then you could also add me on LinkedIn, which is Taylor Trautloff, my LinkedIn, and I post updates on our projects, and, you know, what we're working on, so I'm looking forward to connecting with you.

Jimmy: Excellent. Yeah. Please do go connect with Taylor Trautloff. We're connected on LinkedIn, as I am with most of my guests on this show who accept my invites. You accepted mine. Thank you. For my audience out there, as always, I'll have show notes available, as always, at our website, opportunitydb.com/podcast. I'll make sure to link to StarPoint Properties, to Taylor's email address, and her LinkedIn account as well. We'll have links to all of the resources that Taylor and I discussed on today's show. And please be sure to subscribe to us on YouTube or your favorite podcast listening platform, to always get the latest episodes. Taylor, again, it's been a pleasure. Thank you so much for taking some time to spend with me and my audience today. I really appreciate it.

Taylor: Thank you so much, Jimmy, for having me. Have a great rest of your day.

The original article can be found here.