

Exec: Once-in-a-Generation Opportunity for Office

"Nothing like this has happened since the early 1990s."

By Erik Sherman

Office is a plummeting disaster that has no future, and the sky is going to fall. But is it? Is everyone who was in an office going to work from home constantly and never return? Or will companies get everyone to come in at least two or three days a week and then realize they need someplace to simultaneously put them all?

Don Peebles, chairman and chief executive officer of Peebles Corporation, told CNBC in a interview, "We're an opportunistic company, so we look to develop when markets are supply-constrained, and then we like to buy when we think there's tremendous value. And what we're seeing here in the commercial office space is essentially a once-in-a-generation opportunity to buy. Nothing like this has happened since the early 1990s, when we had the banking crisis that resulted in almost 900 banks being closed in less than three years."

That was when the FDIC closed 12% of the institutions it insured. And it was a time when Peebles' company got a major boost to business. "We were buying buildings at 20 cents on the dollar," he said, noting that it was what really boosted his company into new levels of business.

"Washington, DC, real estate values are down 60 to 70 percent for commercial office buildings," he said. "Los Angeles, down 70% or more. San Francisco was down 60, 70 percent. Those are global cities that will come back at some point in time. You have to have the appetite to buy, understand how to stabilize the assets based on the current income potential, and then wait."

Other experienced CRE investors and executives have also seen office as something to keep and acquire. The California State Teachers' Retirement System, or CalSTRS, has considering a new policy of borrowing up to 10% of its \$318 billion portfolio value to preserve liquidity without dumping assets for multiple reasons, including opportunistic purchases of more properties.

BlackRock Real Estate Research has said now is the time to invest in CRE. SL Green Realty announced a \$1 billion opportunity debt vehicle targeting New York City. RXR and Ares Management formed a \$1 billion fund to buy distressed office assets in New York City. Ethan Penner and Chad Carpenter launched a new REIT raising \$1 billion to fund debt solutions for office owners and investors. Goldman Sachs has a new \$2.6 billion fund for CRE lending.

Maybe all these people and institutions are wrong. It could be that all office properties are doomed. But as unreasonable as it might seem to expect everything to return to how it once was, it is equally curious to think that all office buildings will go out of business. It is also hard to think of how those buildings, on valuable land, are will inherently never be worth more than 30% or 40% of what they once were.