

## KEYNOTE INTERVIEW

## Using data to paint a more accurate picture of risk



*As inflation and interest rates rise, Trimont believes there are mitigants to the volatility and uncertainty being seen in the market today, says [Robert Brasfield](#)*

Trimont believes volatility makes it difficult to forecast trends and manage risk – key concerns for commercial real estate lenders and investors.

However, the Atlanta-based asset management company also believes accurate, current data is a critical piece of data that allows more sophisticated market participants to continue to underwrite loans and participate in the current period of distress.

We spoke with Robert Brasfield, a senior managing director and head of the firm's credit and asset management services platform, about what his firm is seeing in the market.

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**Q Where has Trimont seen the most growth and innovation of late?**

Over the past 18 months, our business has enjoyed rapid expansion across all three regions: the Americas, EMEA and Asia-Pacific. Our clients have been particularly active as we recover from the early impacts of the pandemic. While activity has been significant across all regions, lenders have been selective in their asset selection with multifamily, industrial and more recently,

hospitality being the most sought after. Construction, mezzanine and preferred equity have been particularly busy markets for us.

While market activity has rebounded strongly from the early days of the pandemic, one legacy of the uncertainty of early 2020 is our clients' thirst for accurate and timely data supported by experienced service providers.

This is the area where we see the most innovation. How we collect, generate, analyze and share data is changing rapidly. In 2020, we launched our proprietary cloud-based intelligence solution, Triview, to provide real time data access to our clients, and we

continue to build out its capabilities.

If organized and presented correctly, data paints a picture of the market and how an asset is performing allowing clients to forecast trends that help minimize portfolio risk.

### **Q We have seen rare volatility in the financial markets, with higher rates and rising inflation. How is it informing your business?**

We view ourselves as an extension of our clients' team, so we are focused on being flexible to adjust to our clients' needs in a rapidly evolving market. With our service offering ranging from underwriting and advisory to servicing, asset management and loss mitigation, we can shift resources to meet those changing needs of our clients. So, our conversations are around where we can help the most and add value.

As a result of market volatility, origination underwriting virtually dried up during the summer. However, that has opened the door for bridge lenders and, more specifically, preferred equity. We have seen substantial activity from our preferred equity clients as they bridge the gap on refinances and acquisitions.

Volatility, also known as uncertainty, hinders the ability to forecast trends and manage risk. During periods of high volatility, it becomes challenging to size, underwrite and close new commercial real estate deals, as well as provide accurate collateral surveillance which is where our many years of experience operating in these markets counts.

### **Q Do you see more distressed opportunities emerging? And how will they be different or similar to what happened in the past?**

We are starting to see the early cracks forming. This cycle will be different in that it is not just over-supply in certain products or markets or a liquidity crunch, but also secular shifts in behavior emerging from the pandemic. We

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do not yet know the degree of the effect of hybrid work environments on office and retail, temporary shifts in population that become permanent, or retail habits altogether.

Today, it is important to determine whether the market challenge is temporary or a permanent market and demographic shift. Different asset resolution strategies are implemented if a challenge is temporary versus permanent. For example, luxury hotels experienced a temporary setback due to pandemic related travel restrictions while suburban office may have permanent challenges due to the remote-first work environment trend embraced by many companies.

On the underwriting side, we have not seen the distressed opportunities flowing through to NPL transactions. However, we can certainly anticipate it based on the deals we are working on presently.

### **Q How is servicing evolving and changing?**

For years, servicing companies viewed themselves as people-centric service

providers with technology being a bit of an afterthought. That mentality has changed completely. Data and technology are now central to everything we do. Data is the critical piece that will drive this evolution to the next level of risk management – but not data for data's sake. It is critical how that data is organized, analyzed and presented to our clients.

During times of stress in real estate and financial markets, there is a more heightened awareness of income and, more importantly, the underlying value of the real estate. Accordingly, our clients have more incentive to really understand their deals. We can support them based on our extensive experience through several market cycles, as well as a deep understanding of both valuation and underwriting.

### **Q What sectors are seeing the most activity?**

Multifamily, and its sub-category of student housing, as well as hospitality are seeing the most transactional activity. Multifamily is the sector with the most available information and the one most insulated from market dislocation. Industrial is still active with the least activity coming from office and retail.

Office is where many are looking for distressed opportunities, and multifamily is where most are looking for margin of safety. Valuations have been high but fundamentally there is still a supply and demand dynamic that provides plenty of support to certain performance.

### **Q Are you surprised by some of the activity you're seeing, like in retail or office? What is the outlook for these sectors?**

Generally, it's a story of the haves and have-nots. Great office and retail assets are performing strongly; the rest are not. Retail and office are being affected by some of the permanent market/demographic shifts mentioned earlier.



**Q As loans come up for refinancing, what kinds of potential trouble or opportunity do you see?**

Takeout financing is tougher to find today, at least at anything attractive to borrowers. Liquidity is tight for a lot of lenders who are financing through warehouse lines, so current options for borrowers are not as plentiful as they were recently. Well-capitalized sponsors will be fine but those who are not could find themselves in a real squeeze.

It ultimately will depend on how volatile the market is at the time of refinancing. Volatile markets will pose significant challenges for refinancing. However, if the

market stabilizes – regardless of where it stabilizes – we will be able to more accurately forecast market trends allowing us to size, underwrite and close these refinancings.

Currently, lenders have tightened credit metrics, so there is a bigger gap between sponsor's opinion of value and lender LTVs. This puts more focus on appraised values. The appraisal community has not seen the anecdotal evidence of declining sales prices in the market, as it's still relatively early in the cycle.

However, from the financing side, with higher interest rates and lower leverage, appraiser's cap rates will likely increase.

For example, we are seeing strength in Class A office with significant amenities. It is clear companies are recognizing the need to provide attractive work environments to compete against the benefits of remote-only work and strength in Retail that's part of a mixed-use work-play-live environment.

**Q What are the biggest topics you're talking about today with clients?**

The main topic of discussion with our clients is how we can better leverage data to forecast trends and minimize risk within their portfolio. We are closely monitoring rates, rate caps, financials, sponsors' business plans and construction budgets. It really is all about data and providing it in a way that clients can absorb and leverage to

make the most informed investment decisions they can make.

Discussion always includes rates and where they are going. And the lack of financing available from their warehouse lenders. It is still early in the cycle, so nobody really knows what the fallout, if any, will be when rates peak. We have seen volatility in previous years, but equity returns tightened, which ultimately offset any interest rate movement. The net result was that cap rates continued to be low and values high. We will see how it plays out this time.

**Q What's next?**

We wait. We watch inflation, interest rates and employment statistics. And be prepared for anything. We could see the market stabilize, absorb the move in rates, recover and continue

with this market for some time. Employment is currently holding firm and that creates a healthy buffer and support for stable markets. We could also see inflation and rates move higher than the market expects and be in a really tough environment for the next 12-24 months.

We have seen a pick up in acquisitions. We have one client in the 55-plus space, and they have signed up for four deals in recent weeks, after signing up for only two deals in the first half of the year. Also, our feedback indicates that originations will pick up now, after Labor Day, as lenders try to close deals by year end. There will just need to be a capitulation of borrower and seller expectations to make deals happen. Loan maturities are still out there and rates aren't going lower. ■