

BH Plans Acquisitions With New Line of Credit

By Bob Howard

BEVERLY HILLS, CA—BH Properties has launched a campaign to acquire underperforming retail and industrial properties and has arranged an eight-figure unsecured line of credit with Wells Fargo Bank to fund the acquisitions. BH Properties EVP Steve Jaffe tells GlobeSt.com that the company, which hasn't made any acquisitions in about two years, is targeting properties in the Inland Empire, Phoenix and Las Vegas. Jaffe calls the unsecured line of credit "a concept that has been unheard-of during the past 18 months" and "a tangible sign of economic recovery," adding that BH is "cautiously bullish on today's market."

BH has already launched a campaign to acquire retail strip centers in Phoenix, which it will likely follow with a similar campaign in Las Vegas and then the Inland Empire, Jaffe says. In terms of industrial properties, the company is looking in those same markets and favors warehouse/industrial space—the company's portfolio is about one-third industrial, one-third retail and one-third office.

Jaffe explains that the BH Properties acquisitions program will be something of a departure from the model it has traditionally followed, in which it typically bought vacant buildings, obtained bridge financing and then stabilized them, usually over a period of about 18 months. Although that model worked well for many years, changes in the lending markets have made it difficult to place bridge financing on empty buildings, so BH is now looking for properties that are 30% to 50% occupied, meaning there is some cash flow, Jaffe says.

Historically, BH has looked at buying vacant big boxes with strip centers attached, but today, he says, "It's hard to backfill a 100,000-square-foot big box in this market, even if you cut it up, which is what we historically did." On the other hand, he says, "If we find a strip retail center that has managed to survive the past couple of years, it is probably pretty good real estate because it doesn't sink or swim on the basis of the occupancy of the nearby big box."

At the same time, however, those strip centers are very hard to finance and are typically owned by smaller operators who may be suffering some significant vacancy, Jaffe points out, so BH believes it will be able to buy at favorable prices. As Jaffe explains, BH has historically been able to offer sellers speed and certainty of closing, which is even more important in a market like today's where financing remains difficult, and the new line of credit will help BH to offer that certainty of a quick close.

BH was able to obtain the line of credit thanks to a longstanding relationship with Wells Fargo, "which understands our investment program," Jaffe says. "We spent a lot of time with them, bringing them up to speed on what we think we want to do and how we want to go about it, and we see them as a partner."

Although its portfolio of 85 properties in 17 states now stretches to the Eastern US, BH has been actively marketing many of its East Coast properties, with the idea of redeploying the capital in western markets. The company started in the West and then moved eastward as "the pricing out West was unsustainable," Jaffe says. Now, he explains, BH believes the time is right to return to those western markets. In addition to the Inland Empire, Phoenix and Las Vegas, the company also likes places like Salt Lake City and some markets in Texas.

BH sees a lot of opportunity in its targeted markets, according to Jaffe, who says that although those markets have been hard-hit, they are areas where the population is growing and they hold the potential for job growth once the economy recovers. The Inland Empire region of Southern California, for example, "always seems to bounce back," he says.

Jaffe explains that BH stopped buying when it could not get deals to pencil out and because the company was anxious about where the market was heading. Instead of buying, it focused inwardly on its portfolio, for which occupancy increased last year. BH has not closed on any new deals under its new investment program as of this writing, but Jaffe says that when the company finds the right deals, it will move quickly. "We haven't bought anything in two years, but when we are a buyer, we are fairly aggressive and fast," he says.