Panel Summaries Fall Symposium

NYU Stern Center for Real Estate Finance Research
Friday October 18, 2013

Based on the notes of Yoni Pessar, Lindsay Kugel, and Edwin Guyandi

PANEL 1 | INVESTING IN LEGACY PRIVATE-LABEL RESIDENTIAL MORTGAGE-BACKED SECURITIES: IS 2013 THE 9TH INNING?
PANELISTS:
> Laurie Goodman, Director of ULI's Housing Finance Policy Center, Amherst Securities
> Greg Lippmann, Principal, LibreMax Capital
> Nancy Mueller Handal, Managing Director Investments Department, Metlife
> Steve Abrahams, Managing Director and Head of Securitization and Mortgage-Backed Securities Research, Deutsche Bank
MODERATOR:
> Russ Parentela, Global Head of Structured Product, Bloomberg LP

The panel discussed investing in private-label residential mortgage-backed securities, which has evolved from a market-timing to a security-selection trade. PLS are extremely non-generic: different pools have different borrower attributes, servicing arrangements, servicer-specific performance, and modifications. The panelists differed in opinion on whether the PLS market is fully priced and in the 9th inning or whether it is in the middle innings with strong expected returns in the next few years.

The panelists discussed the amount of data and analytics available to them, and how they have increased the competition in this space. One problem that is still out there is the lack of good reporting on cash flows and the lack of models to deal with cash flow interruptions (e.g. time in default). It was interesting to note that Bloomberg's new PLS platform was appreciated, yet posed a threat for those who invested heavily in their own analytic systems.

RMBS 2.0 still needs work to get the trustee and servicer alignment right and the space needs to get independent due diligence providers and collateral managers. One challenge for investors going forward is that PLS are still being perceived by the market as negative duration securities but are changing into positive duration securities in today's low-interest rate environment.

PANEL 2 | GSE REFORM: ARE THE MULTI-FAMILY RISK SHARING PROGRAMS THE WAY TO GO IN THE SINGLE-FAMILY MARKET?
PANELISTS:
> Mitchell Resnick, Vice President Pricing Costing and Capital Deployment, Freddie Mac
> Michael Shaw, former Chief Credit Risk officer, Fannie Mae
> Mark Willis, Resident Research Fellow, NYU Furman Institute

> Steven Boyd, Portfolio Manager, Blue Mountain Capital Management LLC
MODERATOR:
> Brian Lancaster, Adjunct Professor of Finance at NYU Stern & Managing Director at RBS

The panel discussed the new pilot programs launched recently, whereby the GSEs are selling part of the default risk that they bear on a pool of single-family mortgages back to the market place. This is akin to reinsurance, taking place via a form of credit-linked notes. Freddie Mac's STACR program was launched this summer and Fannie Mae's CAS program earlier this fall. Both programs were well received by the market and multiple times oversubscribed.

The panel drew analogies to the successful risk-sharing programs in the multi-family space: Fannie Mae's Delegated Underwriting and Service (DUS) program and Freddie Mac's K program. In both programs there is a risk-sharing element where the private sector (originator) takes some credit risk and the government guarantees only the senior portion of the loan.

The panel made the observation that the large legal settlements between the GSEs and the banks in the single-family space were a form of ex-post risk sharing, so that the time may have come to formalize this risk sharing from an ex-ante point of view. The main question that was debated is whether the pilot programs are scalable. In particular, how deep is the pool of money managers, hedge funds, pension funds, etc. that is willing to take on single-family mortgage credit risk? With the winding down of the PLS trade over the next few years, more capital may flow into this space, but will it be enough to absorb a substantial chunk of the credit risk in the single-family mortgage market?

PANEL 3 | MULTI-FAMILY AFFORDABLE HOUSING IN NEW YORK CITY: IS IT APPROACHING A FISCAL CLIFF?
PANELISTS:
> Lisa Gomez, Executive Vice President of Development, L+M Development
> Fredrick Harris, Executive Vice President for Development, New York City Housing Authority
> Marc Jahr, President, New York City Housing Development Corporation
> Barry Krinsky, Director, Citi Community
> Mordecai Rosenberg, Managing Director, Greystone & Co.
MODERATOR:
> Drew Fletcher, The Greystone Bassuk Group

Maintaining the supply of New York City public housing requires a coordinated effort between the City, third party investors, and this panel discussed the current environment for new affordable housing construction.

Lisa Gomez of L+M Development cited both market forces (the price of land) as well as government policy for the trend of a decreasing rate of affordable housing construction. She argued that increased land prices have slowed new construction, but also that the New York City Housing Development Corporation has shifted its focus to preserve units rather than to construct new ones.

Marc Jahr from NYCHPC added to that, citing that the current financing system leaves the developer with significant interest rate risk. Under current financing terms, landlords can only get a maximum of a 10-year constant permanent financing on these developments, but are required to maintain the affordable units for 30 years under the 421-A program.

Drew Fletcher from Citi Development agreed and mentioned that he works with the city to try to match the financing options with the commitments that landlords must make when building affordable housing, because, after all, the city depends on third party capital to develop these units and the third party capital depends on the 421-A abatements to be able to build on today's market.

Fredrick Harris of New York City Housing Authority jumped in by citing that NYCHA has 30 million square feet of development rights around the city and is able to tap into that resource if market forces are not creating enough housing.

PANEL 4 | THE CHANGING FACE OF THE NYC LUXURY RESIDENTIAL MARKET
PANELISTS:
> Harry Macklowe, Principal, Macklowe Properties
> Philip Milstein, Principal, Ogden Capital
> Daria Salusbury, Senior Vice President, Related
> Bonnie Stone Sellers, CEO, Christie's International Real Estate
MODERATOR:
> Edward Glickman, Clinical Professor of Finance, NYU Stern

The New York City luxury residential market was analyzed by top players in the market and described their forward looking perspectives.

NYU Stern Professor Edward Glickman introduced the topic by putting context around the demand for luxury residential real estate in New York by citing that 70 of the top Forbes 400 live in New York City, and that the city is home to the highest concentration of high net worth individuals in the world.

Bonnie Stone Sellers, CEO of Christie's International Real Estate suggests that New York City still has room for ultra-luxury real estate by making two observations. She first noted that New York prices, while very high, are not the most expensive properties in the county. Second, when compared with other like cities in the world, London and Hong Kong, New York City still trails in list of the most expensive apartments constructed.

Phillip Milstein, **Principle of Ogden Capital** pioneered the full-service amenities packages in his luxury rental buildings. He has strong hopes for the luxury rental space as it offers luxury hotel and condominium-like amenities in a rental context. He sees renters being anyone from empty-nesters who don't want to pay a down payment for a luxury, to young couples where both spouses work to afford the rent.

Daria Salusbury, Senior Vice president of Related reaffirmed the strong demand for luxury product, but added the strong need for community as well. In introducing the giant Hudson Yards project, Ms. Salusbury detailed the effort and intention to making the complex family friendly, very livable, and have a neighborhood community feel.

Harry Macklowe, Principle of Macklowe Properties revealed that the buyers of his 432 Park Avenue, of which 55% is sold, truly represent a diverse mix of buyers from across the country and across the world. Additionally, the impressive sale price of about $7,500 per square foot indicates that the demand for New York City is strong and global, but does say that no sale comes easy.