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Inside

Dear Abbe ...

Find the answers to your alternative finance questions
with BGO's Abbe Franchot Borok

ABBE ROAD

It's been a journey for Abbe Franchot Borok, BGO's U.S. debt leader, and the latest turns are the sharpest

BY LARRY GETLEN | PHOTOGRAPHS BY PETER GARRITANO

Under Abbe Franchot Borok's leadership, real estate investment firm BGO's debt arm originated $1.5 billion in loans across the U.S. and Europe last year, focusing on value-add and core senior lending within the residential and industrial sectors, in addition to construction lending.

Franchot Borok, managing director and head of U.S. debt at BGO, grew up just outside of Washington, D.C., in a political family. Her father spent 16 years as the comptroller for the State of Maryland, and her mother spent 25 years as an attorney for the Federal Trade Commission.

She initially thought she'd wind up in marketing or political communications, and spent two years in media marketing and brand strategy for Discovery Communications, working with the TLC network and shows like "Trading Spaces."

But Franchot Borok, who had earned a communications degree from the University of Pennsylvania, desired a more analytical challenge, and moved to New York City to earn her MBA in real estate and finance from Columbia Business School.

Franchot Borok lives in the West Village with her husband, venture capitalist Dan Borok, and their daughter and son, ages 9 and 5. She spoke with Commercial Observer late last month at BGO's Midtown office to discuss her rise in real estate finance, and BGO's approach to lending in challenging times.

This interview has been edited for length and clarity.

Commercial Observer: Tell us about your path into real estate finance.

Abbe Franchot Borok: I was getting my MBA during the leadup to the Global Financial Crisis (GFC), so there were a lot of interesting dynamics within the global financial markets and real estate finance. My first job in the field was at a firm called CapitalSource. I started on July 14, 2008 — eight weeks before [the Lehman Brothers crash]. I entered that role thinking I would wind up in originations, but was quickly staffed on workouts and other special situation opportunities. All of that led me to conclude that whether on the equity or debt side, there are so many interesting ways to structure the capital stack. I just fell in love with real estate.

So you entered the world of finance during one of the most important moments for finance of the past century.

Yes, and I think there are a lot of parallels to today. I spend a lot of time with young folks on our team and in the industry, and many of them haven't seen a cycle before, and haven't seen a downturn like this. We had this long period of very strong growth and performance in real estate.

What I tell the young people here is that it's a great way to learn. There's really not a better way to build a foundation or cut your teeth in real estate finance than to start by seeing and understanding what can go wrong, and how important the work you do upfront is in terms of underwriting and structuring loans.

How long were you at CapitalSource?

I was there for seven years. I spent about two years doing workouts and other special situation opportunities, then I was able to build a client base pretty quickly coming out of the GFC focused on lending to groups that were buying distressed debt.

And after CapitalSource?

I went to a firm called Amherst Capital, where I was responsible for a couple of commercial real estate debt vehicles. That was my first experience being a fiduciary to third-party investors. I led a team that was originating loans on value-add projects. That was where I got my first exposure to building a real estate finance business from scratch.

You then did the same at BGO, which you joined in 2021. Tell us about that.

We've created a durable and exciting real estate debt portfolio that's relevant across the risk-return spectrum. We're investing in everything, including core-stabilized loans, bridge, transitional, value-add, all the way through to construction and development.

We have so many capabilities here at BGO and within [parent company] Sun Life Capital Management. Part of my mandate was to take the expertise and foundation we already had across our firms, and bring that to bear on our U.S. debt business.

The last few years have seen the rise of alternative lenders as banks have stepped back from lending. How big an opportunity is there for private credit to take increased market share from the banks, and which lending opportunities have you been pursuing?

The opportunity set is tremendous. The pullback of the banks has been happening, particularly with the larger banks, since the GFC. But, more importantly, there's been an acceptance of CRE managers as a relevant source of debt capital in the markets, and a belief that they're well suited to sit between the banks — who are now providing back leverage — and the equity sponsors, because we're owners ourselves, and we know the markets and asset classes and we can underwrite those.

Also, there's a particular focus for us on the value-add lending side in this most recent cycle. We really like that space here, partly because we're executing on it across our platform on a daily basis. But, too, it allows us to execute on a lot of different types of loans, whether it's acquisition financing, developing assets, taking existing assets and adapting them or redeveloping them, or taking assets that are performing, that are cash-flowing, but are in need of an upgrade to their operations and need more leasing to be done.

Given the volatility of the last five years, between COVID and tariffs and the economy in general, do you see this as BGO carving out a permanent, larger place for itself in the lending landscape? Or is the rise of alternative lenders just a stopgap until banks start lending again?

As a CRE lender, we always approach the markets with a bit of a glass-half-empty approach: How bad can it get with us still getting our principal back? So the current market volatility is something we're always looking out for and incorporating into our underwriting.

That said, the market today does feel like there's definitely runway for alternative lenders to continue to take market share from more traditional lenders, particularly the banks. Our view is that there's been a permanent shift in credit culture at many of the banks that makes it more lucrative for them to sit in that back leverage position. As a result, there's a larger piece of the pie available for managers and alternative lenders like ourselves.

You do business in both the U.S. and Europe. With everything going on in the world right now, talk about the difference between doing business with each at the current moment.

We're executing on the same strategies in Europe that we are here, with value-add lending particularly. Where you really need market-specific knowledge is for asset classes.

Office would be a good example. Here in the U.S., we've not been active at all in office in our first fund. But there's obviously more headwinds for office in the U.S. than in Europe, because in Europe, work from home is not as big of a trend. In Asia, there's been no work from home. So office in

Abbe Franchot Borok at BGO's 399 Park Avenue offices.

certain Asian markets, like Tokyo, is performing incredibly well. Having that kind of geographical diversity across the portfolio, and an ability to see the larger picture and relative value across asset classes in regions, has been really helpful for us.

Your team has also been active in construction lending this past year. Since the tariff announcements, have any projects or deals been paused or shelved?

Some deals have fallen out, but there are also a lot of deals that pushed forward. We're doubling down on things we can control, like the structure of our loans, making sure we understand where our borrowers and their subs are sourcing their materials, and what sort of potential effects the tariffs can have on our construction budgets and time to deliver.

Which CRE sectors does BGO operate in the most?

We are very focused on the residential housing market. The demographic tailwinds and supply/demand dynamics we're seeing and anticipating will continue across the U.S., making that asset class very interesting.

Any particular segment of residential housing?

We've got a foundation of Class A multifamily, but we're also active in other sub-asset classes within residential, such as student housing, senior housing and build to rent.

What about geographically?

We've been most focused on markets with strong demographic fundamentals that we felt were going to benefit from lack of supply delivering, creating some softness in the market. Two to three years from now, when the projects we're backing deliver, supply will be muted, leading to really advantageous demand dynamics for those properties.

We are focused on high-growth secondary markets and suburban primary market locations. We have not been as active in some of the primary market CBDs, given some of the challenges those markets have had coming out of COVID, but in strong suburban locations. Torrance, Calif., would be a good example of that.

Within BGO, our data and analytics team force-ranks the top 390 markets in the U.S. So we look at the quarterly output we have, and utilize those rankings and that data to inform the markets we're focused on lending into.

So you're not so focused on particular areas of the country, but rather on dialing in very specific data parameters and finding markets that match.

Correct. We take that top-down approach, utilizing the data and analytics we're investing in across the firm, and partnering that with a bottoms-up approach where we've got boots on the ground in most of the markets across the U.S., and we're tapping into those investment and asset management professionals on a daily basis as we underwrite transactions for our debt program. That really specific market knowledge drives our market selection as opposed to a more thematic, top-down approach.

What other sectors does BGO focus on?

We are active in the logistics space in both cold and dry storage, finding interesting opportunities to back groups that are investing and building state-of-the-art storage assets. There are some potential headwinds coming that way in some markets driven by the tariffs, but overall we are believers in the logistics space across the U.S. and have been active there.

A nuance to our debt investment strategy is that we're very borrower-focused. So 80 percent of the business we do is with direct relationships — groups we've either lent to previously, or have partnered with on the equity side. We're all ears to markets our borrowers have conviction on. Our debt team has a lot of expertise following those borrowers into a market and getting up to speed on the dynamics there. In a market like today's that's very volatile, you need a team that has expertise in approaching every location and asset on a granular basis while taking into account some of the macro themes we're seeing, and making sure that we're approaching the market prudently given the volatility we're seeing today.

BGO reached full investment on its first U.S. debt fund last year. Tell me about that, and the investor appetite for that strategy.

We had a very successful fundraise for our inaugural value-add lending fund. We fully deployed that, and now we're seeing realizations. Capital raising from 2022 to 2024, particularly for real estate strategies, was not without its challenges. But we were able to effectively communicate how BGO was particularly well poised to execute on this strategy. We communicated the expertise we have internally, and have become a relevant and known provider of commercial real estate debt across the U.S.

We've seen new investors gravitate toward private credit funds these past few years. What are you seeing in that regard overall? And, do you think CRE debt will be an appetizing place to park dollars for the foreseeable future?

We have definitely seen growth in the allocations to commercial real estate debt. We've also seen an increase in a more diverse investor base, and a diversity of ways in which investors are approaching real estate credit within their overall portfolio, including as a more downside-protected allocation within their larger real estate equity bucket, or a diversification of a private credit approach as their private credit bucket grows.

We're also seeing groups increasingly view private credit as a larger complement to their more traditional fixed-income portfolio, including more core-stabilized investment-grade mortgages, which we're originating as well within our U.S. debt platform.

When you mention a diversified investor base, are there specific types of investors you would rarely see before that now you're seeing more of?

I'd say we're seeing demand globally for U.S. real estate credit, so we're working with a more diverse set of investors from a geographic perspective.

There's also been an uptick in insurance companies, who also seek a more diverse bucket of real estate credit. Historically, many insurance companies, including our parent, have been active on the investment-grade core mortgage side. But we're very focused on finding ways to provide access to other real estate debt strategies in a capital efficient way.

How would you describe BGO's competitive advantage in the industry today when it comes to winning deals?

One of the most important probably has less to do with our debt platform and more to do with the breadth of our larger BGO platform and our leadership team. Those investment teams on the ground that I talked about — that's really where our competitive advantage sits. BGO's reputation in the market, and our ability to be a partner across the commercial real estate value chain whether as a limited partner, a debt provider or as an asset manager, that's really where we derive our competitive advantage. That creates really interesting and proprietary sourcing models where we can source deals through those relationships.