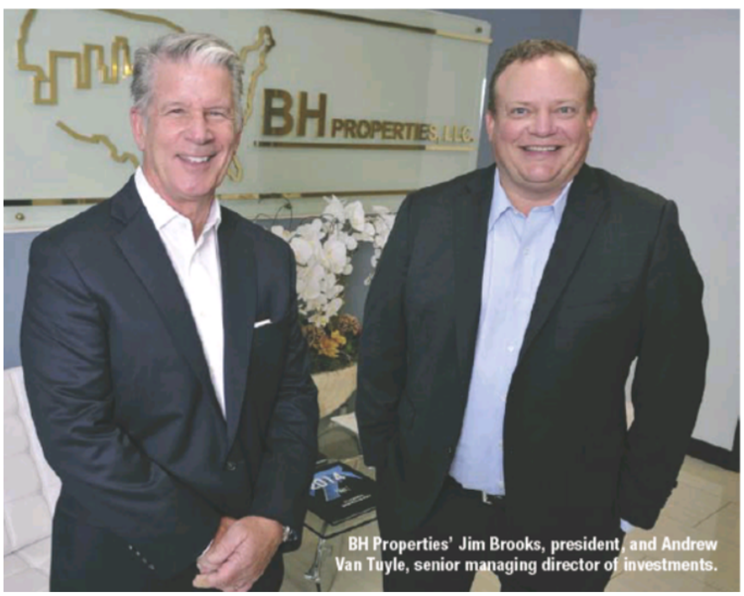
LABUSINESSJOURNAL.COM
LOS ANGELES BUSINESS JOURNAL
THE COMMUNITY OF BUSINESS™
November 8-14,2021

BH Properties Gets Creative

Real Estate: Firm focuses on expansion in Western US

By HANNAH MADANS *Staff Reporter*

Los Angeles-based BH Properties has grown rapidly since it was founded in 1994. Today, the company has around 10 million square feet of commercial assets and 2,100 multifamily units. Roughly 25% of the company's multifamily and 15% of its commercial holdings are in Southern California.



BH Properties' Jim Brooks, president, and Andrew Van Tuyle, senior managing director of investments.

It now has regional offices in Phoenix and Dallas, and a team of 55 employees.

BH Properties President Jim Brooks described the company as a "value-add investor, product agnostic," meaning it is interested in all asset types. He added that not focusing on one asset type opens up more possibilities for the company.

This approach is setting BH Properties up for increased growth in the coming year.

The company is focused on the Western United States and manages its own portfolio, including providing leasing and construction management.

"Over our 30 years, we've been heavily invested in Southern California, Arizona and Texas," Brooks said. "Our relationships in those markets are incredibly strong."

Andrew Van Tuyle, senior managing director of investments with BH Properties, added that these regions are "easy to get to" and have seen a lot of growth.

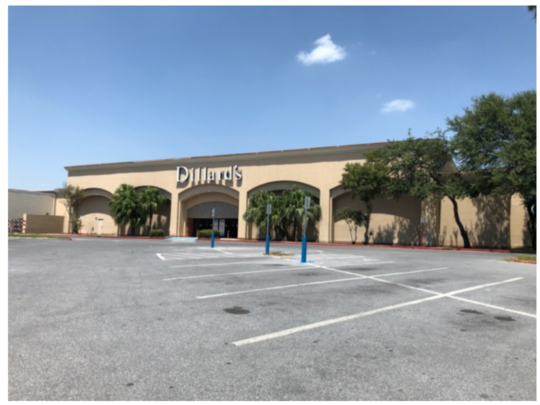
"We've seen a great recovery there and a lot of in migration," Van Tuyle said.
The company also has differentiated itself by not taking on outside investors or partners.

"One of the hallmarks of the organization is we are incredibly nimble given the fact that we have no outside partners and investors. It allows us to make decisions quickly," Brooks said.

He added that it is also appealing to companies selling to BH Properties because it can make offers quickly and does not have to run things by partners or investors.

Van Tuyle added that the lack of outside parties involved allows BH Investors to be more creative.

"Taking advantage of our flexibility and creativity is where we are going to see the most opportunities," he said. "Without a hard mandate, our ability to pivot is exceptional."



Acquisitions: (Top) A 187,392-square-foot warehouse in Laredo, Texas. (Bottom) A big-box anchor building at a mall in Harlingen, Texas

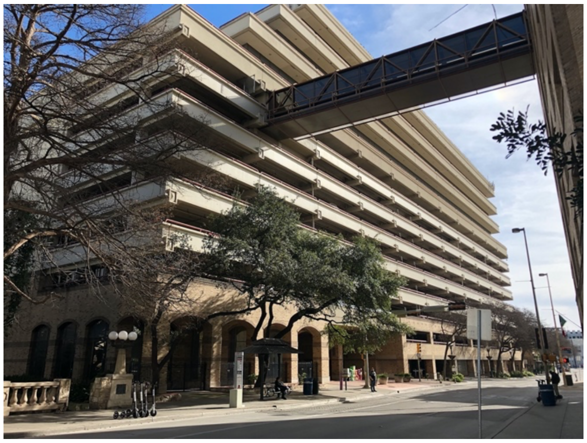
Now, the company is working on value-add transactions as well as increasing the number of deals it does in asset types some companies shy away from: retail, distressed debt and ground leases.

Best buy

The company is betting big on retail and acquiring properties, even those with high vacancy rates.

"We can oftentimes be a contrarian investor," Van Tuyle said. "We buy vacancy or pending vacancy or partial vacancy. We don't know a lot of people that are buying those kinds of transactions."

One of the company's recent acquisitions is a vacant 103,000-square-foot big-box anchor building at the Valle Vista Mall in Texas, which the company sees as an opportunity to reposition.



Vacant Site: BH Properties acquired the Navarro Building in San Antonio earlier this year.

Van Tuyle said the company looks at creative ways of changing these malls, such as by converting big-box stores into several small stores to house multiple retailers, converting stores to call centers or even industrial conversions.

"We anticipated a few years ago that retailers were going to be struggling over the next few years because of the Amazon impact, and the pandemic accelerated that. We've seen malls really go downhill," Van Tuyle said.

Brooks added, "Covid really exasperated all of this, including the accelerated demise of brick-and-mortar retail," and BH Properties was able to benefit from the trends.
Van Tuyle said when deciding whether to invest in an asset, BH Properties looks at "what another use might be" for the center.

For example, the company converted a vacant manufacturing building acquired by a nonprofit into a call center.
"Being able to look at a building and say what is the highest and best use today, not just historically, is important," Van Tuyle said.

This view enables the company to acquire retail property types others don't want.
"Big-box retail right now … there aren't a million buyers for that kind of an opportunity," he added.

Distressed debt

Another area that interests BH Properties is distressed debt.

"We've done a lot of distressed debt-type assets throughout the years. In the last three to six years, we've seen that heat up," Van Tuyle said.

One of the most recent such deals came in August when BH Properties provided California-Nevada Methodist Homes with $5 million worth of debtor-in-possession financing. CNMH filed for Chapter 11 bankruptcy protection in March.

The money came from BH Properties' $200 million debtor-in-possession platform.
But Van Tuyle said distressed debt assets haven't been as easy to find lately as BH anticipated.

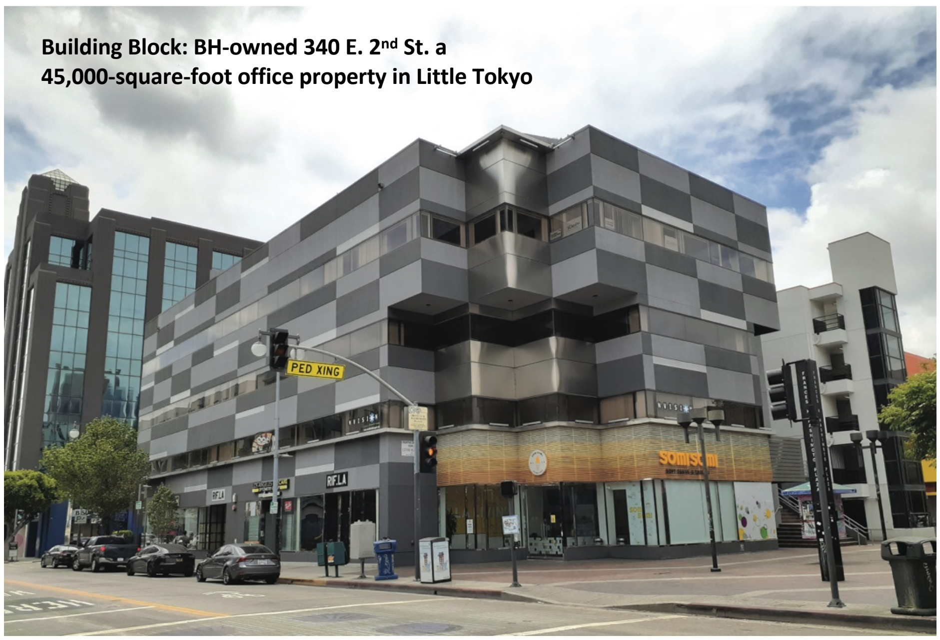
"There was an expectation in the entire industry that we were going to see this flood of loans come for sale like we did in 2009 and '10, and it didn't happen," he said.

Now, however, he is starting to see more as eviction moratoriums are lifting, and "lenders (are) not wanting to deal with going through the foreclosure process."

"We are seeing more loans come out to the marketplace and think that will be a vibrant market the rest of this year and into 2022," he added.

Ground lease

Van Tuyle said there was "a little bit of a pause" in the ground lease market, but he is seeing it pick up, so the company remains interested in these deals as a growth opportunity as well.



Building Block: BH-owned 340 E. 2nd St. a 45,000-square-foot office property in Little Tokyo

In a ground lease, a company leases the land a property sits on instead of all or part of a building. The group with the ground lease can develop the property and even lease the building out, all while still paying to lease the land itself.

"The tenant or the developer that's been hired builds the property at their own cost and expense," said Chris Maling, a principal with Avison Young Inc. "If they don't renew (their lease), that building reverts to you as the owner of the land. The reason why people like ground leases is that it is a lower rent structure that's sustainable for the tenant."

"The backend benefit is that the improvements can revert to you for free to the owner," he added. "In the meantime, the benefits are that the tenant pays all the property taxes, all the maintenance of the property, the utilities, so there is zero landlord responsibility. The negatives are that you can't depreciate for tax purposes any of the improvements because you don't own them."

BH Properties did its first ground lease in 2015. Today, it owns a ground lease under the Element Times Square hotel a DoubleTree Hotel, both in New York City, as well as a multifamily property in Fort Myers, Fla.

Van Tuyle said he thinks ground leases will become more common now as companies "are going to need to get creative" in how they do deals.

Maling agreed.

“I see it being more and more an alternative deal structure if you have owners that are reluctant to sell their land and therefore engage in a long-term ground lease,” he said.

Around 20% of BH Properties’ holdings are now ground leases.
“It’s a nice offset for risk,” Van Tuyle said.
He added that ground leases provide the company with an income stream it can use to offset the risks associated with buying vacant buildings.

“It’s nice to have these as a bond-like return,” he said.

And the company is looking to continue to grow in the next few years with more than $2 billion worth of new acquisitions.

“A target for us would be (increasing by a few billion) in (assets under management) over the next several years,” Brooks said.

BH PROPERTIES

BH PROPERTIES
HEADQUARTERS: Los Angeles
FOUNDED: 1994
BUSINESS: Real estate investor
CEO: Steve Gozini
EMPLOYEES: 55
PORTFOLIO: 10 million square feet
MULTIFAMILY UNITS: 2,100
L.A. PORTFOLIO: L.A. makes up roughly 25% of the company’s multifamily properties and 15% of its commercial holdings