

By: Anna-Marie Beal
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NEWS & ANALYSIS

Thorofare sees bumps in the road amid market recovery

Los Angeles Callodine affiliate manager targets recession-resilient sectors including logistics and storage, but is also not afraid of steering away from the herd.

Thorofare Capital, a Los Angeles-based investment manager and the commercial real estate arm of the Callodine Group, is seeing supply chain dislocation and long-lasting effects of the pandemic having an ongoing impact on the speed and efficiency of closing deals, even in the most robust property sectors.

The firm this month closed a \$20 million loan for Raintree & Pima Self Storage Partners, an affiliate of Phoenix-based 1784 Capital Holdings, to complete construction of a Raintree Life Storage location in Scottsdale. The floating-rate financing carries an initial term of one-and-a-half years and includes two six-month extension options and features interest-only payments for its entire duration.

Thorofare's principal and head of originations Felix Gutnikov describes the deal as a good example of the firm's recession-resilient strategy, but says he is still seeing some bumps in the road.

"We have seen high quality construction projects delayed not due to the developer's lack of experience or infrastructure, but rather due to cost overruns from sharply rising cost of materials, a shortage of labor resulting in significant wage increases to incentivize workers or covid spreading across the construction sites, causing schedule interruptions until subcontractors can return," Gutnikov tells Real Estate Capital USA.

The recent transaction marks the third

Life Storage-operated self-storage facility that Thorofare Capital has financed in the last eight months. Thorofare has more than \$1 billion in assets under management and focuses on financing transactions of \$15 million to \$100 million, targeting value-add and opportunistic acquisitions, recapitalizations and distressed debt secured by transitional properties.

In October 2021, Thorofare Capital funded a \$24 million construction-completion loan for Hawthorne Life Storage, a 92,203-square-foot, self-storage facility in Hawthorne, California. The other Life Storage-managed self-storage facility Thorofare financed was a 70,535-square-foot, 804-unit climate-controlled self-storage facility in North Scottsdale, Arizona. Thorofare closed this \$17 million whole loan in February 2022.

On the latest transaction, Gutnikov says the firm was able to come in and help finish the project's construction completion while lowering its cost of capital by repaying the existing bank loan and by increasing the level of debt to cover the project's completion at a lower overall blended cost. But Gutnikov is concerned at how drastically aspects of the market continue to shift.

"In one of the most recent examples, we witnessed a large industrial warehouse project's hard cost budget increase by 30 percent in a matter of several months," says Gutnikov.

Although lot of projects, especially

in smaller secondary markets, are being placed on hold, Gutnikov says logistics, warehouse and storage sectors are still a strong bet in most markets.

"Although there are unavoidable inflationary pressures on many development projects across the country, a significant amount of construction debt and equity financings are still closing in desirable markets that demonstrate resiliency due to demand from users, rising rental rates and an under-supply in certain tighter markets where vacancies are low and newly-delivered spaces is leased quickly upon completion," he says. "Demand for self-storage and the supply demand fundamentals in these sectors are strong. We also think that this deal is a small part of a greater thesis for us: that we should be positioning our portfolio for recession resilient collateral."

Not going with the herd

"We tend to not go with the herd, in the less-trafficked areas where we can extract some increased yield," says Gutnikov. "We seek out credit opportunities in attractive markets with quality properties and experienced sponsors, but there is typically a nuanced story, or a special situation with complexity in a transaction – that's our targeted sourcing strategy, and that's where we execute in today's volatile marketplace."

Gutnikov says this includes instances where there are complications in the capital stack that require a one-stop

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senior mortgage plus a mezzanine loan. Another example could be working with outside preferred equity or institutional JV counter parties and a quick-close rescue opportunities where Thorofare steps in to

close a loan after another middle market lender was unable to due to their reliance on CLO securitization or back-end A Note syndication.

Thorofare has closed \$585 million

in transactions year-to-date as part of its strategy. Since inception in 2010, the firm has originated over \$3.7 billion in transactions across more than 12 property types throughout 32 states. ■