Amherst Capital Management

Staying the course with an analytic approach, while finding opportunities in out-of-favor sectors

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David Schwarz is head of Commercial Real Estate Strategies at Amherst. In this role, Schwarz leads Amherst's commercial real estate business, further developing the existing credit business while leveraging the firm's industry-leading expertise to launch new products and business segments across both real estate debt and equity. Schwarz joined Amherst from Colony Capital Inc. (now DigitalBridge Group Inc.), where he spent the previous 10 years, during which he held a number of leadership roles across Colony's debt and equity businesses.

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, Americas, spoke with **David Schwarz,** head of Commercial Real Estate Strategies for Amherst. Following is an excerpt of that conversation.

You recently joined the Amherst team. Tell us about your previous experiences and what drew you to Amherst.

I have been in real estate private equity and investment management for nearly my entire career and have had the opportunity to invest in debt and equity in most real estate sectors throughout different points in the cycle. An industry trend that has really accelerated in recent years has been the movement toward vertically integrated operators and funds. I was drawn to Amherst for many reasons but was especially excited to have the power of an established vertically integrated platform behind me as we invest and explore new growth initiatives. At Amherst, everyone is working closely together toward the same long-term goals.

I was also intrigued by Amherst's research-driven approach to investing. Every opportunity is looked at on a relative value basis, and investments made to-date have all been through rigorous review from a dedicated research team that helps form our theses. The firm has three primary businesses today — commercial real estate credit, mortgage-backed securities and single-family residential — with ambitions of entering new complementary real estate sectors and products. This combination of a vertically integrated platform driven by analytical capabilities creates a compelling position from which to make some disruptive moves in the market.

What is your role, and what are your ambitions for the commercial real estate platform? And what immediate priorities and initiatives are you planning as you look forward to 2022?

My mission at Amherst has three components. First, I am focused on growing our existing business in commercial real estate lending. We have significant dry powder across our various real estate credit platforms, so our focus is on deploying capital — and we are seeing interesting opportunities as this market evolves in the post-pandemic environment. To best position our platform for future growth, I am expanding our team with some key hires in the coming months.

On a parallel path, I'm hoping to diversify the overall commercial real estate business. I'd like to add new products that have some adjacency to our existing businesses and can take advantage of Amherst's strengths. Most likely, this will involve the residential space, or other types of credit or credit-related products where we have a competitive edge. There are also many opportunities in housing infrastructure where we can partner with our new-build vertical.

Lastly, I'm designing and implementing a strategic plan for capital raising and investor relations. We have global ambitions and plan to diversify our investor base substantially over the next five years. We also have a strong collection of investors today that have been highly supportive of our business. We remain aligned with, and dedicated to, these investors and are excited as they continue to grow with us.

How is your team applying data and technology to your vetting process?

We use a thesis-based, analytical approach to everything we do. Amherst has a large platform, and we manage a lot of data points. The history and origins of the business come from mortgage-backed securities, and we keep a repository of millions of data points across thousands of assets that we utilize to make better-informed investment decisions. We have spent more than $100 million on technology over the past five years, and this, importantly, allows our business leaders to utilize data in real time to guide decision making.

As it relates to our commercial real estate business specifically, we utilize a proprietary model that assists us to value commercial real estate assets and loans on a risk-adjusted basis across sectors and asset types. The model takes into account items such as likely outcomes, default-risk drivers and inputs that allow us to calculate potential losses. This proprietary system allows us to have confidence in our investment approach.

As we emerge from the pandemic, there are many compelling investment opportunities in the transitional lending market. Are there specific asset types you plan to focus on? More specifically, where do you see the best opportunities?

Before answering the question directly, it's important to describe the current real estate transaction market landscape. Coming out of the pandemic, nearly two years after the onset, property owners are now faced with the decision of whether to sell or refinance their holdings, which could lead to extended hold periods. Given this dynamic, coupled with a healthy capital markets backdrop, we are seeing sales activity tick up and pricing across asset classes rising and reverting toward 2019 levels. The other dynamic we are seeing is the emergence of "winners" and "losers" in various asset classes. This can be evidenced through public-market performance, where industrial, residential, storage and digital infrastructure assets have outperformed during the pandemic compared to office and hotels, which have been trailing.

We are currently using a barbell approach toward our lending efforts. We are in a period of immense change, as COVID-19 has impacted how people work, travel and operate day-to-day, and we are closely watching the market trends with our research team. Given our collective experience and conservative underwriting approach, we are not redlining any asset classes and think there are opportunities throughout. For the in-favor sectors, such as multifamily and industrial, we are setting ourselves apart from the competition by gleaning insight from our extensive market data and analytics. On the other end of the barbell, we are willing to take lease-up risk and transitional risk with financially aligned sponsors in markets we know well. We are seeing select opportunities in the more out-of-favor sectors, including hospitality and office.

How is Amherst thinking about ESG across the business?

We have been considerate of environmental and social impact in the past, but the importance of systematically advancing and measuring our efforts has never been more apparent. We are working to advance our impacts in these areas and to increase transparency around ESG initiatives and results. We believe it is the right thing to do, and we are holding ourselves accountable to our commitments. A lot of our ESG initiatives originate from the SFR business, focused on improving our environmental and social impact across the 40,000 homes we have acquired through our platform. Our ESG strategy is championed by a task force comprising representatives from different areas of the business, including supply chain and design, so the effort is embraced broadly.

As it relates to the application of ESG processes across the commercial real estate business, and particularly the lending business, we are in the process of devising a scorecard to evaluate what our borrowers are doing — for instance, a green-building certification, energy efficiency, or climate and natural-hazard risk mitigation. We are making this a top priority and have scoped out dedicated resources internally to make sure we have a cohesive strategy and plan for advancing it across the company.

What is a recent investment you are excited about?

We recently closed on a deal that we think is emblematic of our investment thesis. We financed a boutique office building located in an opportunity zone within a strong submarket where office has been an out-of-favor sector. The loan was made to an existing borrower on a direct basis, and the property is in initial stages of lease-up after construction. This property caters to smaller tenants and is designed with a post-pandemic workspace in mind — a lot of open air and space, nearby amenities, and a LEED certification. While office is an out-of-favor asset class, we see value in the real estate and believe in the sponsor's business plan. We feel this investment symbolizes what Amherst is trying to do across all the businesses, positioning ourselves as a thought leader on the front end of change in this post-pandemic world and bringing flexible, creative solutions to market.

CORPORATE OVERVIEW

Amherst Capital Management is a wholly owned subsidiary of The Amherst Group LLC (Amherst), and is a registered investment adviser responsible for managing Amherst's Commercial Real Estate and Mortgage-Backed Securities strategies. Amherst is a real estate investment, development and operating firm with a full suite of products and services designed to unlock broader access to real estate opportunities for institutional and retail investors across the globe. Underpinned by proprietary technology, battle-tested data and a deep understanding of U.S. real estate markets, Amherst's vertically integrated platform seeks to provide investors a more efficient model to price, finance and manage real estate, with full-service execution capabilities across the firm's debt and equity strategies. The firm's in-house team of data scientists, paired with its rigorous modeling program, enable the platform to predict behavior, simulate outcomes, and develop innovative investment vehicles to capture returns in the public and private residential, commercial, and mortgage-backed securities markets. Headquartered in Austin, Amherst and its affiliated funds have acquired, renovated and operated more than 40,000 homes during the past decade. Amherst, including its affiliates and subsidiaries, has more than 900 employees in 28 markets across the United States, with $10.9 billion of assets under management as of June 30, 2021. For more information, please visit: www.Amherst.com and www.amherstcapital.com.

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