Real Estate Capital USA

PTM Partners tracks rising distress, identifies short-term construction financing niche

The attainable housing specialist is seeing a push toward asset management.

PTM Partners, a developer and investor based in Fort Lauderdale, Florida, that specializes in opportunity zones, sees a need in the lending markets as dislocation rises: the filling of gaps in the capital stack related to new or future construction projects, particularly for owners who didn't intend to hold on to assets for the long term.

"We are seeing opportunities where we can participate in a position in the capital stack on sites where we believe we can add value, where we think the sponsors have a good strategy and asset and where we anticipate they will pay us back in full," said Michael Tillman, co-founder, chief executive officer and chief investment officer of PTM Partners. "And if that doesn't happen, we would be comfortable stepping into the developer role and finishing a project."

Tillman and his partners – Nicholas Pantuliano, chief development officer and chief operations officer, and Scott Meyer, chief financial officer – have been adapting their strategy as interest rates and costs have gone up. In certain markets, rents are declining or rent increases are going down.

"This is all happening against a wall of commercial real estate debt that originated at very low rates and is coming due over the next three years," Tillman said. "These loans will be reset at much higher rates, which means the appraisal will be lower. Many of these owners are first-time owners or syndicators who never had an intention of owning for a long time and will have to come up with more equity or work it out with their lenders."

Tillman and his partners formed PTM after working together for many years at LeFrak. They structured their company with a long-term investment thesis of building and managing attainable housing – and the ability to navigate development, capital markets and asset management in-house.

“The majority of our team is centered around construction and property management,” Tillman said. “At the end of the day, the only way you have real alignment is if everyone is rowing in the same direction. Third-party property managers can be fantastic, but we believe having a team member dedicated to overseeing each property is how you create tangible incremental value.”

Attainable housing is a critical need for the US, with Tillman citing an ongoing supply-demand imbalance.

“We try to build for the missing middle,” Tillman said. “It’s a lot of fun to build for the one percent, but it is more fulfilling, and it is a much better product and investment, when you’re building for the middle of the market.”

The firm’s investments include projects in opportunity zones.

“We see opportunity zones as providing the ability to identify land in urban areas that had otherwise been overlooked, but where we could build product with an eye toward the long-term and do deals with tax-incentivized dollars. The deal must make sense, no matter what, but we were able to have a longer horizon than with a three- to five-year vehicle,” Tillman said.

For the past few years, PTM has been conservative in allocating capital given concerns over valuation and the cost of debt. “We passed on opportunities because we just couldn’t get there,” Tillman said, noting the firm uses moderate leverage of 50-55 percent. “But at the same time, we were not facing any debt issues and our assets continued to perform.”

The firm expects to see more situations in which it can work with developers on projects where a capital stack is stressed.

“We want to find a position where we can create outsized returns in a securitized position while also being helpful to the sponsor. We are not looking to be cannibalistic in our investments,” Tillman said. “We work to help figure out how to create value or reduce costs, because that’s what we do every day on our own projects.”

There is one clear difference in the market today than in previous cycles, Tillman believes.

"There are a lot of folks who got into development who are very finance-focused, but I think understanding the bricks and sticks of your projects will be a big part of what differentiates the winners from the losers, especially now," he said. "For value-add players, it will come down to the question of whether they bought fundamentally good assets on which they can raise additional equity when it's time to refinance."