Hotel Investment Today

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H3 Management Founder and Co-CEO Greg Freedman

BH3 Co-CEO Freedman on Raleigh deal, lending dynamics

Florida-based developer, investor, lender talks about why it is working with SHVO in Miami Beach, offers his perspective on hospitality lending trends and more.

Developer, investor BH3 Management in late July provided a $190 million loan to SHVO for the first stage of construction in ongoing redevelopment of Miami Beach's iconic Raleigh hotel and Rosewood-branded residences expected to reopen in 2026. For Founder and Co-CEO Greg Freedman, the opportunity ticked many

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of the boxes BH3 looks for – an irreplaceable asset, a visionary borrower and a low leverage attachment point for the last dollar of their loan.

With a total investment of approximately $1 billion, including an equity contribution of over $300 million, the restoration and expansion of The Raleigh by SHVO - in partnership with Deutsche Finance America and a group of German institutional pension funds - represents one of the single largest investments in Miami Beach.

To date, Fort Lauderdale, Florida-based BH3 has deployed more than $2 billion in capital and has developed more than 4 million square feet of commercial and residential real estate with an additional 3 million square feet pending. Notable recent transactions include the acquisition and upcoming development of Miami's Watson Island (April 2023); Bloom on 45th in New York City; Privé at Island Estates in Aventura, Florida; 125 Greenwich in New York City; Icon Las Olas in Fort Lauderdale, Florida; and Trump Hollywood in Florida.

Freedman oversees investments, financial analysis and capital markets across all BH3 transactions, and has an expertise in financial analysis, credit, and underwriting. Prior to cofounding BH3, he was a principal in a private lending company based in South Florida that financed bridge loans on commercial and residential real estate, and oversaw capital markets relationships, loan/special servicing, and workouts. Freedman also serves as co-portfolio manager of the BH3 Debt Opportunity Fund II, L.P.

Rendering of The Raleigh and adjoining Rosewood-branded residences in Miami Beach

The firm and its partners place a strong emphasis on value creation and making a positive impact on the communities where they invest.

Hotel Investment Today talked to Freedman about the details of The Raleigh deal and his take on the current hospitality M&A environment.

Hotel Investment Today (HIT): What aspects of the deal truly helped seal the loan for SHVO?

Greg Freedman: When it comes to debt and credit placement, BH3 Management has always been focused on identifying opportunities to add value to projects that already benefit from strong real estate fundamentals, and this loan is a great example of that mindset. What really attracted us to the opportunity was a combination of: (i) truly singular, irreplaceable real estate consisting of 3 oceanfront acres in the heart of Miami Beach, including not just the hotel, but also the residential condominium tower, (ii) a low leverage attachment point for the last dollar of our loan, and (iii) a borrower/sponsor team that has incredible vision, expertise, and capital depth.

HIT: We are starting to read about some softness in Miami. How strong of a bet is the market for loans and what challenges are emerging as the market softens and/or becomes overbuilt?

Freedman: While South Florida continues to outperform other major MSA's thanks in large part to the continued inbound migration of people, businesses, and capital, we believe that softness across markets is overdue after the unprecedented run-up in values and costs during and coming out of COVID. This 'softness' is due primarily to the current dislocation of capital markets resulting from increased cost of capital and liquidity constraints. This creates opportunities for funds that have liquidity and can be opportunistic, such as ours. We are able to pick our spots in terms of best-class real estate, sponsor quality and conservative leverage attachment points.

HIT: Compare Miami's debt and equity market opportunities/challenges versus other markets where you are active.

Freedman: Florida, and in particular South Florida, continues to see daily inflows of both people and capital, whereas other markets in the Northeast continue to see outflows. Put simply, smart capital invests where people are going, and it is undeniable that they are going to Florida. Thus, the debt and equity markets, while asymmetrical and dislocated at the moment, are still significantly more active across asset classes in South Florida compared to other markets.

HIT: What is your current perspective on hotel lending and investment versus other CRE, and how do you expect it to evolve over the next 18 months?

Freedman: For pure hotel debt and equity, it is challenging as there are billions in loan maturities around the corner on assets that can't meet debt-coverage ratio testing requirements at the now-present cost of capital (and corresponding loan-to-value ratios at now-present cap rates). This has created some havoc within the industry already and we believe that there will be forced selling of assets (and underlying debt) over the next 18 months, which will create pain for some and opportunity for others. On the opportunistic side, we believe that current pricing levels on existing stabilized hotel assets presents what may be a generational buying opportunity to aggregate great product at a basis well below replacement costs and this is something that we continue to evaluate on the financing side. In terms of new development, we are of the opinion that only hotels that also contain a residential component (as in the case of Raleigh) can obtain financing in the current environment.

HIT: What is your forecast for availability and pricing for hospitality-related debt?

Freedman: We believe the market is liquid with financing for opportunistic acquisitions at present valuations with pricing depending on location, flag, performance, and most importantly the last dollar attachment point for the lender. For refinancing of existing assets, in most cases borrowers will need to contribute additional equity to rebalance the loan to the appropriate loan-to-value based on current valuations.

HIT: What is the status of your current fund and how much more might you allocate to hotels? Are there plans for another fund raise and, again, how much do you see potentially earmarked for hotels?

Freedman: Our current fund, BH3 Debt Opportunity Fund II, which financed the Raleigh, launched early this year, is purely opportunistic and can originate and/or acquire whole loans and loan participations across all commercial real estate asset classes including hotels. Our predecessor fund, BH3 Debt Opportunity Fund I, also mirrored this strategy and had acquired the senior leasehold mortgage from the original lender on the Ace Hotel Brooklyn.

HIT: How many assets does BH3 have in its portfolio at the moment, what is the value and how many are hotel related?

Freedman: Since inception, we have deployed more than $2 billion in capital. The specific breakdown of assets and values is proprietary and not something we share publicly.

HIT: Our readers are hotel investors and developers. What is your message to them about the state of market opportunities and challenges today and through 2024?

Freedman: For new development, in most instances, we believe that new hotel-only assets will have to wait for the capital markets to stabilize and that those that are financeable are those hotel deals that also contain a residential component that de-risks basis in the hotel. Financing is still available for mixed-use developments comprising hotels alongside complementary uses, especially those located in growth markets.

For acquisition and refinancing, we are of the opinion that there exists an amazing opportunity for new capital to acquire existing assets at below replacement cost, that equity and debt is readily available for same, and we are here to support this investment thesis with capital from our fund for great assets and sponsors.