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The advantages of real estate debt

Real estate debt has become more accessible to everyday investors. Sterling Global's **Stephen Tiller** tells *WPC* how it can help protect capital and drive returns

FOR MANY years, real estate debt investing has been limited to major banks and institutional investors, but the rise of boutique firms like Sterling Global Financial has opened up its benefits – namely, the ability to provide consistent returns while protecting capital – to a wider swath of investors.

"Real estate investing is considered more conservative because there is a large cushion of borrowed equity that has to be lost before it affects the debt," explains Sterling president and COO Stephen Tiller. "Our current loan-to-value is 47%, so there would have to be a 53% loss to equity before it touches the debt."

Sterling has a wealth of experience in this sector. Its team members boast expertise in a variety of relevant backgrounds, including major bank lending, development investing and debt restructuring. Tiller explains that capital preservation is one of the firm's key tenets. "Every deal we structure is around safety and protecting that capital," he says.

In addition to its conservative nature, real estate debt has the ability to produce

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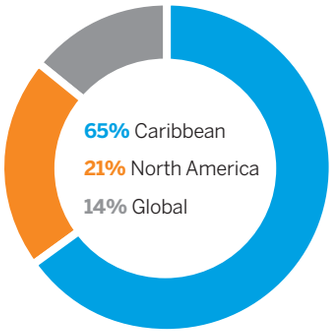
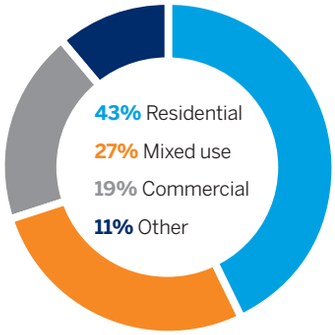
ALLOCATION OF THE STERLING MORTGAGE INCOME FUND

Geographic exposure



Asset class exposure



consistent returns thanks to its lack of correlation to the stock market. "Our current fund, the Sterling Mortgage Income Fund, was started in February 2012 and has averaged a return of above 12% annually for our investors," Tiller says. "We are most proud of the fact that, even during the 2008 financial market crisis, we experienced zero capital losses."

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>
> Stephen Tiller, Sterling Global Financial

Tiller also points out that real estate debt comes with the benefit of liquidity. "You can always syndicate or sell down," he says. "We look for multiple exit strategies in all of our loans so we aren't stuck to one exit, and we also take a macro approach to markets Sterling wants to be in. We have found that you can generate above-average returns while maintaining liquidity, multiple exit strategies and low leverage on a relative basis."

Unlike traditional long-term lending, which can span 10 or 20 years, Sterling looks for properties that are going through a material enhancement to value, then structures short-term loans to help finance the project. The principals at Sterling invest in the fund, and they won't participate in a loan if they wouldn't own the asset themselves. Deals the firm tends to avoid include unzoned land and specialized buildings that don't have alternate uses.

Tiller notes that investing in real estate projects can help Canadians diversify their portfolios. "It is a diversification strategy out of the Canadian real estate market," he says. "As a Canadian, it is a way that you can participate in a more global investment."

Now that more clients can access real estate debt, Tiller believes it's a good time for advisors to look at the sector for their clients, but he stresses the importance of making sure the funds and firms they're working with understand the investment.

"I think the benefits of real estate debt are its conservative nature, its diversification and the fact it is not correlated to the stock market," he says. "However, you really need to have an understanding of the asset, because these are not like commodities. Alternative lending is more sophisticated and focused on different aspects of the market." WP

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