

Barrack Says U.S. Real Estate Market Is Getting ‘Bubblicious’



Tom Barrack, chairman of Colony Capital Inc., speaks during the Republican National Convention in Cleveland, Ohio, on July 21.

Photographer: David Paul Morris/Bloomberg

- ‘Amateurs are playing’ in property: Colony Capital chairman
- Billionaire investor advising Trump sees potential shakeout

Real estate investors could be in for a shock if interest rates rise or demand in some markets continues to fall because “amateurs” are plowing money in at high prices, betting on rent increases that may not continue, said Tom Barrack, the billionaire chairman of Colony Capital Inc.

Trends in demographics and technology are undermining traditional holdings such as hotels, office buildings and residential properties, Barrack said in an interview at Bloomberg’s Los Angeles office. Companies such as Airbnb Inc., which lets people rent out their homes like hotel rooms, and WeWork Cos., which leases space in communal work areas, are challenging the business models landlords depend on.

“It looks a little bubblicious,” Barrack said of the real estate market. “We’re printing money. More debt is available. But amateurs are playing in it.”

Tech Tenants

One of the greatest sources of new tenants for office buildings, technology companies, may pull back in a weaker economy, Barrack said. Tech firms don’t want traditional multiyear leases, and may not be able to honor the ones they do sign if the businesses fail or run out of money.

Wall Street bankers are looking at low bonuses this year, hedge fund returns are flat and some buyers of high-end real estate from China, Russia and the Middle East are cutting back.

Some young people are avoiding buying homes, preferring to rent with roommates, Barrack said. While investors have been trying to capitalize on this trend by buying up residential rental properties, 60 percent of Americans can’t afford a \$1,200-a-month rent, he said. If interest rates rise, landlords may not be able to cover their mortgage payments with rent increases.

“When there’s a rush to yield, you shouldn’t be in yield,” said Barrack, who’s looking to put his money into investments where he can add value.

There is one part of the property market Barrack said he still likes: self-storage facilities, which require little capital investment and don’t show any signs of slowing demand.

“People have stuff and they want to keep it,” he said.

