



Drew Fung and
Thanh Bui.

The Debt Duo

Longtime business partners Thanh Bui and Drew Fung run Clarion Partners' debt practice. Here's how they see commercial real estate lending changing.

By Cathy Cunningham | Photographs by Sasha Maslov

Thanh Bui and Drew Fung have been business partners for more than 25 years and the powerful dynamic between the two is abundantly apparent in their professional successes as well as their personal rapport. The pair has transacted through numerous cycles and industry highs and lows, learning lessons along the way, and watching the mezzanine lending sector grow and evolve as they progressed through their careers.

Today, they run Clarion Partners' debt business, originating and structuring subordinate debt investments for core, value-add and development properties via mezzanine loans, B-notes and preferred equity interests. COVID threw the industry for a loop — to say the least — but the pair got to work, leveraging Clarion's behemoth equity holdings and expertise to better inform their own credit decisions, and bolster the already air-tight relationships they had with their borrowers.

As members of the AAPI community, Fung and Bui spoke, too, of their experiences as Asian American professionals in an industry dominated by white males, and gave their perspectives on whether or not we as an industry are making real advances in diversity, equity and inclusion.

Commercial Observer: Looking back at the past year and the changes it brought in our industry, what's most notable in your eyes?

Drew Fung: Historically, real estate and real estate finance have been very slow to change. But since COVID hit, the pace of change within real estate finance has really accelerated. There are things that you typically look at as a lender, but now you have two new, more rapidly changing things to keep an eye on: one is the tax and regulatory legal environment, then there's the transfer from LIBOR to something else.

On top of that, there are ongoing changes around how real estate is used, and those have also been accelerated by COVID. This is all very different as opposed to the slow, sleepy real estate market changes in the past, so it's nice to have a platform like Clarion where we can be nimble. Today, we often have to make credit decisions on less-than-perfect data, or rapidly evolving data. Clarion has local offices in different markets and a large portfolio of buildings that we own, and that has been vastly helpful in helping us make good credit decisions.

Thanh Bui: I would just add that the experience over the last year feels like it's been 10 years' worth of real estate experience, in a lot of ways. These past 14 months, we've experienced a full cycle, because when COVID hit in March,

everyone took a really deep breath — thinking back to the last downturn in 2008 — and really prepared ourselves for the worst-case scenario.

COVID has been very traumatic as well as sad for a lot of different reasons, of course, but in real estate, it feels like we've gone full circle. There was a pause that everyone took, and now coming out of COVID, real estate has come back in a way that has been really resilient. Things that were already in a downturn pre-COVID were accelerated in a lot of ways: retail needed to be redefined, e-commerce was hitting its stride, and the pandemic created even more demand for industrial assets.

How would you describe your portfolio today, in terms of asset types and markets?

Bui: We're big investors in the debt space in multifamily and industrial, which are obviously two favorite asset classes, but they're also asset classes that Clarion Partners knows very well, because we have large holdings on the equity side. So, we can underwrite those asset classes and really stress the underwriting. On the mezz side, we don't have a lot of holdings in office or retail, but we have a little bit of a hotel exposure.

Fung: A lot of lenders are very interested in the industrial and multifamily asset classes right now, and for good reason, because throughout the pandemic, they've held up reasonably well and continue to grow. Clarion is a very research-based organization, and our house research is fairly bullish on those two sectors.

One thing that's important to note is that, even though office and retail are more difficult to underwrite, I don't think it's right to paint the real estate industry with a broad brush. I think there will be attractive opportunities — and plenty of them — in those sectors. But you're going to have to view and underwrite those assets through a different lens.

Do you think the fact that Clarion has such a massive equity footprint has strengthened your relationships with borrowers over the past year, in terms of being able to offer additional expertise?

Fung: Yes, 100 percent. We're somewhat unique as a lender in that regard. First and foremost, we like to use that equity experience to help us make better credit decisions. We have a lot of insight from the properties that we own that relates to values and rents we're receiving in those particular markets.

Thanh and I have worked in the subordinate debt space for 20-plus years, and the industry continues to be very relationship-driven in general. So, we have strong, broad-based and deep relationships with not only existing borrowers,

but potential borrowers, and the flexibility to provide capital in a way that if a particular owner is looking to structure something as preferred equity — as opposed to a straight partnership and joint venture — the firm as a whole has the flexibility to do that.

Bui: Because we invest anywhere from core all the way through to opportunistic construction, we're creative in terms of problem-solving; and because we have both debt and equity perspectives, it helps us understand business plans a little bit better, from an owner's perspective. So, if a borrower comes with a value-add proposition of some sorts, we're really able to dig deep in terms of whether or not the repositioning plan is appropriate, and set the level of credit criteria to protect the investment, but also to meet the borrower's needs.

There were multiple shocks over the past year, but what surprised you most about our industry?

Thanh: I feel like the real estate industry has been really creative over the years, and through various market cycles, it has been able to come back in creative ways that meet the financing needs of borrowers. Over the last 10 years, since the last cycle, there have been all kinds of financing options, and that creativity is really a testament to the industry. We just keep evolving in terms of developing tools to meet the needs of borrowers and owners. Mezz financing has remained a flexible financing tool for borrowers, and is an increasingly evergreen strategy for investors.

Fung: I would think that — especially now, given the very, very low yields in other asset classes and even other alternative asset classes — real estate debt would be even more attractive to investors. There's a yield component and there's security, as actual real estate is involved as collateral.

One of the things that we've been actively trying to do is come up with a performance index that investors can use to benchmark performance for debt funds and the performance of the asset class, which doesn't really exist.

Do you anticipate launching that index this year?

Fung: Yes, we're in the process of aggregating the data now. I don't want to get too far ahead of ourselves, but it should be very soon, and we're hoping for an initial launch this year.

Do you think we're going to see the "Roaring '20s" comeback that people are hoping for?

Bui: I don't know that 2021 will be the Roaring '20s, but the market is resilient. And you can see it now in terms of pent-up demand for various things. That said, people have been inside for a very long time and there's some hesitancy in terms of returning back to normal. But, with cities like

New York and San Francisco, you can see people missing the energy of the city, and with that comes a reinvestment of capital back into the city. So, in that sense, it is going to be roaring back in terms of people trying to figure that out. We are investors who want to see strong demand in certain things before we make the leap.

Fung: And not to be a Debbie Downer here, but as a lender, you always have to keep the potential risks and the downside in mind. We are keeping a close eye on certain things, for example, in the office space and how those office buildings here in Manhattan will fare in terms of tenant demand.

I'm a boy from Queens, born and bred, so I'd never bet against New York City. But there could be at least a medium-term shift in how much office space and demand there is. And we need to keep that in mind as we look forward and try to underwrite office loans. And the same thing goes for lots of other sectors and gateway cities that traditionally have been almost bulletproof.

Drew, you said you grew up in Queens. What was your path to Clarion?

Fung: I've been on this path with Thanh for 20-something years. I worked for a large, New York-based insurance company and did a management training program there. You did six months in all these different rotations, and the one that I liked best was real estate. I was fortunate to have some really good mentors there who helped take me under their wing. They taught me both the equity side of the business as well as the debt side of the business, but the neat thing was they brought me to all of these meetings with these real estate giants of New York City. I gained a lot from that experience, and have been in real estate ever since.

When I left there, that kind of colored my whole experience, because I experienced a couple of different cycles there, both up and down. When I first started working, we were riding the crest of the wave, so to speak, and then a pretty severe downturn occurred in the mid-90s [the savings and loan crisis].

I feel like crises are often the best teachers, though?

Fung: Oh yeah — you learn more from the deals that went bad that you have to dissect and fix and restructure. At the time, things recovered really slowly. And some folks were never able to move forward and do new transactions after that, because there was just too much trauma; but I was young enough to not be permanently scarred, and move on. And, I carry those lessons with me today in everything we do, in terms of keeping my eye on both the potential risks as well as the upside.

Thanh, what was your career path?

Bui: There was a very short, pre-“Drew and Thanh life,” and then I came into real estate through an untraditional way, which was urban planning. I came to New York City and I started working at an investment banking company called Boston Financial [Investment Management], which is where I met Drew in the mid-1990s.

I started in the summer, and Drew had started maybe a month before then. He wore a pager — that's what people wore then. We did mezz financing for a couple of different international clients, but the mezz lending hat was very different back then. It has evolved over the past 25 or so years, but that's when we started our partnership.

From there, we went to a variety of other places, including Lendlease, CWC Capital, and Deutsche Bank prior to coming to Clarion Partners. But all these institutions were institutions, where we were fiduciaries and managing funds, and separate accounts for clients who were interested in investing in debt, depending on their strategy and such. And that's our history!

Obviously, you have a great working relationship. So, how would you describe your dynamic and your individual strengths?

Bui: I'm not shy with my opinions with Drew — I think that's what you get over 25 years. But Drew knows everybody, literally everybody, whether it's the real estate industry or the guy who works at the deli at the corner [Fung jokes, “He's my best friend!"]. His network is extraordinary. He is very good at building connections, building networks and keeping them strong. That helps with a variety of different things, including deal flow, and building our relationship as strong investors who are dependable and reliable.

Drew, what's your take on Thanh?

Fung: It's hard to follow that act, but our working relationship has been very long and really productive. I feel like that's based on our foundation; the bedrock is our respect for each other. And I have nothing but the utmost respect for Thanh's abilities — she's demonstrated absolute professionalism and skill, and a natural talent for real estate and real estate finance in particular. She's always calm, and able to analyze a situation.

From a metaphoric standpoint, there's the Chinese concept of yin and yang, based on complementary but different forces working together. And that's how I would describe our relationship. One will always wear black. And that's Thanh, because she's the Brooklyn hipster [laughs].

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Thanh, did you grow up in Brooklyn?

Bui: I actually came to the U.S. as a refugee. As a result of the Vietnam War, my family settled in the U.S. in 1975, in Michigan. My father had a choice of where to settle and was deciding between California, where there are tons of Asians and lots of support systems and a community; or Holland, Mich., where we were one of maybe one or two Asian families. And so his decision to settle in Holland, Mich. — a small town — was that he really wanted us to kind of assimilate into American culture right away and have a sense of belonging immediately.

Speaking of things related to the Asian American experience, my dad created that ethos: he wanted us to have a sense of belonging. Fast-forward some 45-odd years here in the U.S., as a woman of Asian descent, as a woman in the real estate industry, I'd say that kind of sense of belonging can be very elusive. There's a long road to that.

And I think some folks say that you'll never belong, regardless of how long you have been in the United States, or if you were born in the U.S., or if you are a major contributor to the economy, or a scientist who has cured all diseases, or CEOs of big companies or global artists — you will never belong, no matter what those contributions are. And I think that sentiment of not belonging because of your ethnicity — Asian, in this sense — has given rise to a lot of the recent anti-Asian violence recently, and that's really unfortunate.

How far has real estate come in terms of being a diverse industry? It feels like we're at a moment of reckoning.

Fung: Similar to other industries, we have a really long way to go here in the U.S. to improve on DEI issues. But, again, COVID has helped accelerate things on all fronts, even in the fact that companies are trying to do things to catch up, if you

will. So, I'm pretty optimistic that you'll see some real progress over the next few years, and hopeful. Real estate touches such a broad sector of the overall economy and, if we make strides within real estate, we can really have an impact on finance in general.

I was pretty fortunate to work throughout my career with some great people, and never felt impeded by my ethnicity or the way I looked, but I always saw myself as a little bit more of an ambassador of the Asian American paradigm to get rid of some of the potential ideas or expectations people might have had. The minute I open my mouth, people are often surprised that I don't perhaps fit some of the expectations and stereotypes.

But, at the same time, you want to embrace your culture — in my case, Asian American culture — and there's a question of how much is Asian and how much is American, right? So, that's always a bit of a challenge and shouldn't really be, no matter what proportion of each you decide to kind of embrace. It should be looked upon in a favorable way. So, I think we have some more progress that we need to make there, and some of the more recent violence against AAPI communities is definitely of concern.

Bui: I think as two business partners of Asian descent in a predominantly white, male-oriented industry — and we are not unlike other industries in that way — there's a lot of unconscious bias that happens. But when you sit down with us, we chip away at some of those unconscious biases because of our experience and deep knowledge of industry. And because we're funny, charming people [laughs]. And you're absolutely right, I think we're at a moment of reckoning in our country and in our industry, where there's even a broader group of people who really want to engage a diverse background in their discussion and in their perspectives and such. And that's why diversity, equity, inclusion is so important, and Clarion is a huge advocate of this.

Clarion has supported employees with a variety of different initiatives, including financial sponsorship to various organizations and creating mentorships, as well as career path programs for young professionals who want to be in real estate. As with everything, we as a firm and we as an industry can always do more, but I think we are taking very good steps in the right direction.

A lot has been said over the past year in terms of commercial real estate firms wanting to increase their DEI initiatives. Do you feel that it's lip service, or that we are at the precipice of some real change in our industry?

Bui: Drew and I are both very hopeful about change. And, if you think about DEI in terms of women in the industry, efforts started some years ago and now there's not an organization in the real estate world — whether it's a firm or an interest group or whatever — that doesn't have a women's initiative. And that is a good example of how far the industry has come.

Again, there's still a lot more to do, but there is an opportunity to actually talk about these things. It's not taboo anymore. As Asians, there are certain things that we grow up with that are inherent in the way we approach business, which is don't argue, head down, so we now have an opening to talk about things that might be beneficial to the community, and that has not been there before.

Thanh, regarding the sense of belonging that you referred to, has that improved over the years, and do you have a sense of belonging to the U.S. and our industry today?

Bui: I would say, with the push of DEI and the opportunities that have presented themselves to me, based on the fact that I am a hard worker and had great mentors, who were willing to give me a chance based on my experience and my abilities, more and more of those doors opened for me. And when I sit down at the table, I don't feel like an interloper. But this needs to actually continue to be the case for a lot more Asian American folks.