

# Real Estate Finance & Investment

The weekly issue from **Real Estate Finance Intelligence**

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## Property

### San Diego Rises As Investors Shift Focus Away From Gateway Markets

San Diego is benefiting from the shift of capital from gateway cities into secondary markets as institutional investors seek less expensive, higher-yielding properties. "With investors starving for yield, we are starting to see capital shift into a more diverse range of recovering markets that are still 12-18 months away from their true recovery cycle," said **Matt Root**, ceo of San Diego-based **Parallel Capital Partners**.

This phenomenon is affecting transaction volume in the city, which saw about \$1.2 billion of deals completed last year. Although 2013 began slowly, the pace picked up in the second half of the year.

That momentum has continued, with \$623 million of sales in



San Diego's CBD

the first quarter of 2014, compared with \$255 million during the same period in 2013. "[This year] there have been more measured transactions, but we are already half way to 2013's total and only beginning to come into the second quarter," said **Lynn LaChapelle**, managing director at **JLL** who oversees San Diego.

Recent transactions include the sale of 701 B Street and 707 Broadway in San Diego's CBD, which were purchased by **Emmes Asset Management Company** in a sale brokered by JLL. Additionally, Parallel

acquired Wateridge Plaza in San Diego's Sorrento Mesa business hub for \$72.5 million in a joint venture with **Sam Zell's Equity**

*(continued on page 11)*

## Financing

### Moody's Sounds Fire Alarm On CMBS Market

**Moody's Investor Service** has published an excoriating report on the overheated commercial-backed securities market, saying it faces the risk of "boiling frog syndrome" after U.S. CMBS conduit loan leverage reached a CMBS 2.0 record high.

"The CMBS market appears to be at risk of 'boiling frog syndrome'— a situation in which participants fail to react to gradual changes until unfortunate consequences occur," said **Tad Philipp**, director of commercial real estate research. The unusually evocative metaphor refers to a situation in which

*(continued on page 12)*

## Financing

### Retail Heavy Conduits Launched

Three retail-heavy commercial mortgage-backed securities conduit deals hit the Street last week.

A partnership between **Wells Fargo** and **RBS** launched WFRBS 2014-C20, a \$1.3 billion CMBS conduit with a 32.2% retail concentration while **JPMorgan** and **Barclays Capital** have rolled out the \$1.4 billion JPMBB 2014-C19, which has a 41.6% retail exposure. **Deutsche Bank's** \$1.2 billion COMM 2014-CCRE17 followed the two, and contains a similarly high exposure to the retail sector at 33.2%.

The retail weighting all led one investor to muse that while multifamily borrowers go to agency lenders and office borrowers go to

*(continued on page 12)*

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## EDITOR'S NOTE

## The Boiled Frog



For whatever reason, we heard a lot of talk over the past week about the final months before the financial crisis hit. One source told us about how he left the mezzanine debt market in late 2006 while another talked about how unbelievable it was that pro forma underwriting had been as accepted as it became.

As a reporter covering the commercial mortgage-backed market at the time, I got the sense that many of my sources were almost certain that there would be a downturn because what was going on in commercial real estate wasn't sustainable. I also got the sense, after the downturn started, that no one thought it would be as bad as it turned out to be.

A new report from **Moody's Investors Service** appears to be trying to create a sense of urgency about what it sees as a once-again overheating CMBS market, using the metaphor of the boiled frog. A frog plunged into a pot of cold water that is slowly heated won't realize that it's being boiled alive until it's too late.

The implication of the metaphor is that if someone told the frog that it was being boiled alive, it would jump out of the pot if it could. I got the sense back in 2007, however, that people in the market were aware that the water was heating up rapidly but they were also finding it too hard to jump out.

**Samantha Rowan**  
Managing Editor



## TELL US WHAT YOU THINK!

Questions? Comments? Criticisms? Do you have something to say about a story that appeared in *REFI*? Or is there information you'd like to see published? Managing Editor **Samantha Rowan** can be reached at (212) 224-3996 or [srowan@iintelligence.com](mailto:srowan@iintelligence.com).

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Institutional Investor, LLC Issn# 726-98670

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# Financing

## CMBS Market Snapshot

### Tepid Demand Seen For Big Mezz Bidlist

A \$536 million bidlist of mezzanine commercial mortgage-backed securities marketed last week saw tepid demand, with traders telling *REFI* that 70% of the bonds offered did not trade.

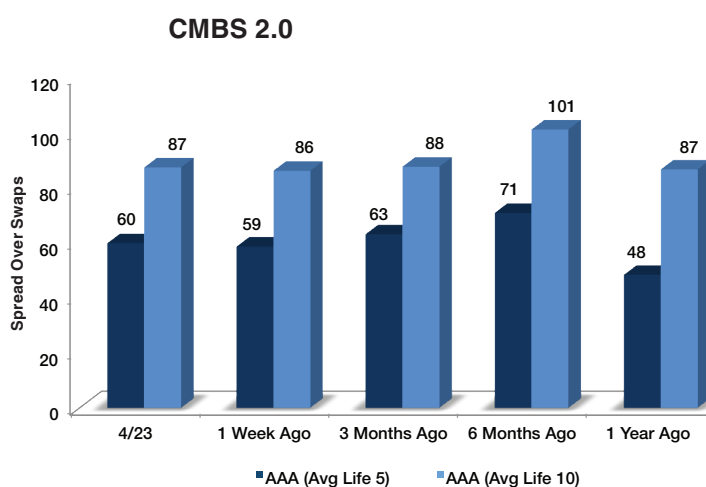
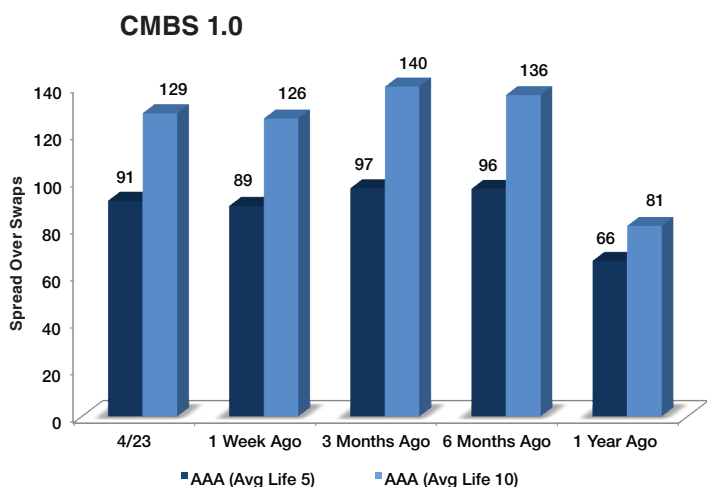
CMBS traders called the offering a “market exercise,” with one noting that the seller “wanted levels that were just too high.” He declined to provide further details but said he believes the seller had an outsized expectation of values.

The list was comprised of Class C and Class D bonds from deals 2005 to 2007 vintage deals (*REFI*, 04/14). The seller could not be identified, but market players believe it to be a hedge fund. Additional details couldn’t be determined.

The tepid demand came as a surprise. Investors expected the list to receive significant attention, given a subdued market that was bookended by the Passover and Easter holidays.

### CMBS SPREADS SNAPSHOT—APRIL 23

CMBS 1.0 comprises transactions through 2007, while CMBS 2.0 reflects deals completed after that date.



### TREPP'S CMBS SPREADS MATRIX—APRIL 23

#### CMBS 1.0

Fixed Rate	Avg Life	Benchmark	4/23	1 Week Ago	3 Months Ago	6 Months Ago	1 Year Ago
AAA	5	S+	91	89	97	96	66
AAA	10	S+	129	126	140	136	81
AA	10	S+	1,221	1,220	1,238	1,243	1,396
A	10	S+	1,825	1,826	1,834	1,840	2,011
BBB	10	T+	3,363	3,366	3,369	3,390	3,628
BBB-	10	T+	4,379	4,382	4,387	4,412	4,628

#### CMBS 2.0

Fixed Rate (Conduit)	Avg Life	Benchmark	4/23	1 Week Ago	3 Months Ago	6 Months Ago	1 Year Ago
AAA	5	S+	60	59	63	71	48
AAA	10	S+	87	86	88	101	87
AA	10	S+	131	133	150	168	145
A	10	S+	187	190	212	236	183
BBB	10	T+	299	302	316	357	310
BBB-	10	T+	351	350	359	428	344

Benchmarks as of April 23: 10-year Treasury 2.689 10-year Swap 2.7915

Source: Trepp, LLC

# Financing

## Buchanan Targets \$300M+ Lending Volume

Fund manager **Buchanan Street Partners**, the real estate investment arm of **TCW**, is targeting an aggregate loan origination volume of \$300-400 million this year, against a backdrop of an exceptionally aggressive lending.

"We're not a volume lender, we're a spread lender. We're finding the window of opportunity tightening a little," noted **Bob Dougherty**, partner. The firm hopes to source seven to eight bridge debt opportunities with "interesting risk-adjusted returns," he said.

Buchanan mainly deals with bridge debt for value-added properties, in the 65% to 85% LTV space, and targets returns of 8-12%. "Generally, we make a whole loan at 4.5-6% and then we'll syndicate the senior financing, to end up holding the b-piece," Dougherty said.

Buchanan recently made a \$72 million loan secured by **Campanile**, a 20-story office building in Atlanta—an opportunity that Dougherty said is exemplary of the lender's sweet spot. "It

was a sub-70% loan to appraised value, with a \$57.5 million initial advance. That's \$129 per square foot, which made us feel very comfortable with our basis," he said.

The property is 50% occupied, and borrower **Dewberry Capital** will draw on the loan's initial advance to cover leasing commissions and tenant improvement costs. "Atlanta is in the fourth inning of its recovery right now. This building offers outstanding signage opportunity to a lead tenant," Dougherty said.

Mezzanine lenders are being forced to tighten their belts in today's competitive lending market. "While we're seeing a pick-up in transaction volume, there's frankly less opportunity for us. The senior lenders are getting more aggressive on underwriting, so they're squeezing out some of our mezzanine returns," he said. Spreads have also tightened considerably. "There's a lot of capital available to borrowers right now."

## MORNINGSTAR'S LOAN TRANSFERS TO SPECIAL SERVICING

The following is a list of loans included in commercial mortgage-backed securities deals that were recently transferred into special servicing.

Property Type	Loan Name	Deal ID	City	State	Zip	UPB	Maturity date	Date xferd to S/S
Hotel	Circa Capital - East Pool	MLT03KY1	Various	Various	Various	\$19,317,265.82	8/1/13	3/18/14
Hotel	Wingate Inn, Chantilly	MLCF0706	Chantilly	VA	20151	\$14,441,655.44	4/8/17	3/14/14
Hotel	Circa Capital - West Pool	MLT03KY1	Various	Various	Various	\$9,193,635.55	8/1/13	3/18/14
Hotel	Holiday Inn Express Carson City	CSM07C04	Carson City	NV	89706	\$5,240,542.57	7/11/17	2/18/14
Hotel	Holiday Inn Express & Suites - Ft. Wayne	CD07CD4	Fort Wayne	IN	46804	\$4,559,655.69	1/1/14	3/14/14
Industrial	34-38 Industrial Way East	CSM06C02	Eatontown	NJ	7724	\$7,522,561.53	1/11/16	12/20/12
Industrial	Gillette Industrial Building	BSC06T24	Irvine	CA	92614	\$6,040,787.77	8/1/16	3/14/14
Industrial	400 Blair Road	SBM700C2	Carteret	NJ	7008	\$5,286,886.50	7/1/10	2/24/14
Industrial	Lynxs Nafta Cargoport	BSC05PW7	Harlingen	TX	78550	\$1,521,591.64	1/1/15	3/27/14
Multi-family	Canterbury Apartments	CSM07C02	Myrtle Beach	SC	29579	\$43,360,000.00	3/11/17	1/30/12
Multi-family	Acropolis Gardens Realty Corp.	WFR13C15	Astoria	NY	11105	\$19,500,000.00	7/1/23	3/6/14
Multi-family	Bellamay Grand	WBC03C09	Gainesville	FL	32607	\$19,367,842.38	12/1/13	3/6/14
Multi-family	Evergreen Apartments - Las Vegas	MLCF0707	Las Vegas	NV	89108	\$14,153,042.58	4/8/17	1/17/14
Multi-family	Woodstone Apartments	MLCF0706	Valdosta	GA	31602	\$8,883,069.73	3/8/17	9/17/13
Office	Exchange Building	WBC07C33	Seattle	WA	98104	\$62,500,000.00	5/11/14	8/20/13
Office	Gateway Center IV	MSC06H12	Newark	NJ	7102	\$59,225,221.71	11/1/16	3/12/14
Office	The Wharf at Rivertown	GS207G10	Brookhaven	PA	19015	\$55,200,000.00	5/6/17	3/27/14
Office	Brandywine Office Building & Garage(5)(6)	PCM03PW1	Wilmington	DE	19801	\$29,060,894.31	11/1/09	4/2/14
Office	Indianapolis Office Portfolio - Roll-up	MSC06HQ9	Indianapolis	IN	46204	\$26,323,188.26	5/1/16	3/31/14
Other	Bear Creek Portfolio	WFRB12C7	Petoskey	MI	49970	\$17,769,230.20	6/1/22	2/4/14
Other	The Benchmark (21)	BSC04PW3	Mineola	NY	11501	\$8,911,144.56	1/1/24	3/7/14
Other	201 North Brand	MSC04HQ4	Glendale	CA	91203	\$5,245,345.94	5/8/14	3/28/14
Other	Prince and Bleecker Portfolio	GSM211G3	New York	NY	Various	\$4,041,230.01	3/6/21	3/31/14
Other	Zeppe's Plaza	CSM06C04	Bedford Heights	OH	44146	\$1,861,473.52	8/11/16	3/6/14
Retail	Chesapeake Square	JPC04LN2	Chesapeake	VA	23321	\$65,005,574.50	8/1/14	2/21/14
Retail	Simon - Upper Valley Mall	BACM0406	Springfield	OH	45504	\$47,017,259.78	7/1/14	3/25/14
Retail	The Shoppes at Old Bridge	MLT07C01	Old Bridge	NJ	8857	\$39,181,974.20	7/1/17	3/26/14
Retail	Southlake Pavilion I & II	CSF05C02	Morrow	GA	30260	\$18,136,570.94	2/11/15	2/26/14
Retail	TJ Maxx Plaza	BSC07P17	Tyngsboro	MA	1879	\$17,625,000.00	8/5/17	3/6/14

Source: Morningstar Credit Ratings, LLC

For more information, go to <http://ratingagency.morningstar.com/> or call (800) 299-1665

# Financing

## Rialto Rolls Out NPL Deal

**Rialto Capital Management** has launched the second non-performing commercial real estate loan deal of the year. At \$94.7 million, Rial 2014-LT5 is much smaller than ORES 2014-LV13, an \$889.3 million **Oaktree Capital Management** deal that came to market earlier this year ([REFI, 03/14](#)). **Wells Fargo**, which handled the Oaktree deal, is also leading this offering.

Price talk on the A-1, BBB- class of bonds is at par to yield 3%, investors told *REFI*.

The deal is backed by 171 REO properties, 46 non-performing loans and seven performing loans. In a pre-sale report, **Kroll Bond Ratings** noted the deal's 84.5% exposure to REO is significantly above the average exposure in the last five NPL transactions that it rated. Indeed, the NPL concentration in these deals ranged from 0.5% to 56.7%.

Kroll also pointed out that while REO assets may benefit from higher recoveries and faster resolution times as foreclosure costs have already been incurred, the related carry costs must be borne by the trust if the REO asset does not generate cash flow.

Rial 2014-LT5, similar to NPL deals marketed last year, also includes the cash leakage feature, in which certain events in the life of a deal will allow cash to leak below the A-rated Class down to the A-2 and equity tranches. Kroll warned significant cash leakage could "decrease the sponsor's basis quickly, which could potentially reduce their motivation to maximize asset values over time." An affiliate of Rialto intends to hold the deal's B-piece.

Calls to Wells Fargo and Rialto were not returned by press time.

## Heavy New Issue Pipeline Dampens Secondary Mart

A heavy new issuance pipeline combined with the recent Passover and Easter holidays have slowed down trading in the secondary market for commercial mortgage-backed securities, with just a handful of bidlists expected this week.

Traders noted that in addition to the new CMBS deals announced today—**JPMorgan** and **Barclays Capital's** \$1.4 billion conduit, JPMBB 2014-C19, and **Wells Fargo** and **RBS'** \$1.25 billion WFRBS 2014-C20 conduit—three more are expected by the end of this month. About \$7.5 billion of total issuance is projected.

"The new issues are setting the tone—it's a heavy calendar," a New York-based trader told *REFI*. "It creates a risk, because it makes [investors] more vulnerable to the market, which could shift away. But there are no signs of that right now. Demand is pretty strong."

Bonds being shopped in the secondary market include a \$16 million bidlist of mezzanine AAA-rated bonds from a 2007 JPMorgan deal that was launched on Tuesday morning.

Two more credit lists hit the Street on Thursday morning. One list was launched as a result of a collateralized debt obligation

liquidation while the second, which traders said was more interesting, was floated by an insurance company. The \$62 million list was comprised of credit bonds from deals issued from 2005 to 2007. All of the bonds were traded.

Traders are also expecting a \$28 million list of G Class bonds from MLCFC 2006 to come to market on Wednesday, in the latest example of credit bonds hitting the Street ([REFI, 04/2014](#)). "There's appetite there. There has been a bit of price appreciation in subordinates that you have to call—in many cases up to 10 points," one CMBS analyst said. "But if you have real money, there are real gains to be made," he said.

Traders added that the MLCFC position is large for a G Class of bonds as these tranches are normally not bigger than \$25 million. "That's someone blowing away an entire class," a trader said.

Elsewhere, there has been some spread movement in junior AAA-rated bonds, with one trader noting that AJ bonds account for much of the secondary market activity this week. "We've seen CMBX AJs outperforming. They're most attractive on a risk-adjusted basis—versus AMs, which we believe are now fully appreciated," said a CMBS trader.

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# Property Sales

## Euro Properties Buys Midtown Development Site

**Euro Properties** has acquired 118 East 59<sup>th</sup> Street in New York from the **Rudd** family and is planning to tear down the existing four-story structure to make way for a mixed-use tower. The company paid \$49 million for the property and will build a mix of ground-floor retail and condos. The acquisition was completed on an all-cash basis and includes the transfer of air rights, said **Ron Kremnitzer**, co-chair of

**Pryor Cashman Partners**, which represented the Rudd family.

“We increasingly see the sale of some properties with smaller footprints, where Asian investors come in and redevelop them into hotels,” Kremnitzer said, noting that Euro Properties is primarily backed by Asian capital. A majority of the offshore money flowing into New York

“There are methods of construction that develop larger buildings in the space of a small foot print and that approach seems to be on its way to New York.”

— Ron Kremnitzer

over the past few years has come from Asia. “I’ve seen interesting zoning in China. There are methods of construction that develop

larger buildings in the space of a small foot print and that approach seems to be on its way to New York,” he added.

The property was marketed as a repositioning opportunity to buy for development and Kremnitzer thinks that is what motivated the Rudd Family to sell. “I think it was a strategic sale,” he said. “In the current market in the 50s Eastside corridor, we see super luxury housing going up. The most expensive real estate in this market is for development opportunities, so the owners decided capture the market, whereas before they could not command any meaningful rents. And rather than develop themselves they sold to developers.”

Kremnitzer is seeing low or no leverage used in recent deals in New York. “What’s unusual is I’m seeing deals now that are only leveraged by 60-75%. Unlike last cycle there is far less overleveraging. We don’t see deals leverage by 80% or greater anymore,” he added.

New York’s luxury market is firing on all cylinders. “I do restaurant leasing and the better restaurants are all jammed up. People are spending money again in New York. Rents are strong in retail, development prices are high and leases are strong. Residential real estate is higher than ever, and its strength is not in any one size, like in the past, but all across the board,” Kremnitzer said.

## JLL Takes Bids For Arrowhead Springs

**JLL** is taking bids for Arrowhead Springs, a 1,900-acre property in San Bernardino, Calif., that is home to the historic Arrowhead Springs Hotel. The property, once the place to be for Hollywood’s elite, is being shopped as a development play. Arrowhead Springs is zoned for 1,350 residential units and another 800,000 square feet of commercial space and has an asking price of about \$57 million, said **Tom Turley**, who is handling the sale at JLL.

It’s been a long road to the market for Arrowhead Springs. The owner, **Campus Crusade For Christ**, started to talk with

### FAST FACT

▶ Arrowhead Springs is zoned for 1,350 residential units and another 800,000 square feet of commercial space.

JLL about selling the property about 10 years ago and ultimately pulled the trigger on a sale in 2007. “We saw a lot of interest and were in talks

with groups but then the economic downturn started,” Turley said. “[The seller] put the sale on hold.”

But as the fortunes of the real estate market have trended up, Campus Crusade decided to pull the trigger on the sale again. “We’ve done limited marketing on some parcel but the board has decided to go full court press to identify a buyer or developer,” Turley said.

The property is about an hour’s drive from Los Angeles and is in an area where there are about 20 million residents. “This is not a core CBD similar to Los Angeles or San Francisco but it’s not in the middle of nowhere. It’s a 65-mile drive from downtown L.A., and a relatively new freeway makes the drive efficient,” Turley added.

During the downturn, the owners and JLL were able to have the property annexed into the City of San Bernardino. There is about 240,000 square feet of existing space that includes the hotel, a spa resort, village dormitories, 11 bungalows, a pool and a chapel. About 1,400 acres of the property have been set aside for open space.

The company expects that a partnership or a master developer will purchase the property. JLL is seeing interest from both U.S. and overseas investors. “Right now, with the housing recovery, we’re seeing more interest from homebuilders than we did a year or two ago,” Turley said. JLL hopes to complete a deal by the end of the third quarter.

“Right now, with the housing recovery, we’re seeing more interest from homebuilders than we did a year or two ago.”

—Tom Turley

# Property Sales

## Suburban Chicago Office Goes Up For Sale

**Ryan Companies U.S.** has launched the sale of Rosemont Corporate Center in Chicago's O'Hare submarket. The company has tapped **Transwestern** to market the 121,000-square-foot suburban office, located at 9501 Technology Blvd. in Rosemont. The property is expected to trade for more than \$30 million, said **Gary Nussbaum**, managing director at Transwestern.

Rosemont Corporate Center should see good interest from investors given its age and tenant roster, Nussbaum noted. The 2009 vintage property is the newest in its submarket and one of the few built over the past 10 years. **Cisco** occupies 68% of the building along with two other tenants. The property is one of two LEED Gold certified properties in the submarket, he added.



Rosemont Center

"Suburban office becomes a good alternative in chasing attractive yields as investors become priced out of the coasts and Chicago CBD," Nussbaum said. Initial bids will be taken on April 30, with an anticipated close by late June or July. "Class A properties are showing strong leasing activity and vacancy is continuing to drop," he said.

The O'Hare submarket is known for its proximity to Chicago's O'Hare Airport, located to the East, and is categorized as the most infill of the city's suburban submarkets. Rosemont Center is also adjacent to the newly developed MB Financial Park. The building features a parking deck and a four per 1,000 parking ratio. "It's a healthy parking rate for the O'Hare market," Nussbaum said.

## Swift Closes First Fund

**Swift Real Estate Partners** has completed the final closing of *Swift Real Estate Partners Fund I*. The fund, which focuses on value-added office and industrial projects in Northern California and the West Coast, raised \$324 million from 23 institutional and high-net-worth individual investors to exceed its goal of \$250 million.

"There are submarkets in the West that still have distressed levels of vacancy between 10-20%, so we are buying properties substantially below replacement costs. These types of properties with vacancies that require renovation allow us to use our managing efforts hands on," said **Douglas Abbey**, chairman.

### FAST FACT

Swift Real Estate Partners Fund I targets properties of \$5-150 million, preferring more complex deals.

"Once vacancy rates below 10%, you see significant rent growth."

Swift Real Estate Partners Fund I targets properties of \$5-150

million, preferring more complex deals. "We tend to pursue under-the-radar, smaller deals in the \$5-25 million range that are below the purview of intuitional investors," Abbey said. SWIFT also has had success targeting large campus transactions of more than \$100 million. "With our campus transaction expertise in suburban offices, we subdivide properties to sell off individual parcels," he added.

Despite exceeding its target, Abbey described fundraising as arduous. "It's very challenging to raise money and achieve an initial closing for a first-time fund," Abbey said. "Investors like to

see partially specified portfolios, but most first-time funds are raised blind pool as there are no prior acquisitions to guide them. There is no track record and investors are cautious initially as they must rely solely on business plans."

This means investors will often wait for the initial closing, after which a fund becomes partially specified. "Only then can investors look at property quality and gauge attractive rates of returns, before getting on the bandwagon," Abbey said. Typical first-time funds take 24 months to raise and have a high failure rate, with only a small fraction closing.

The fund was started to access discretionary capital, which is critical to be effective in today's market place. "Sellers will require it, so you are at a disadvantage without it. It's hard to finance each transaction on a one-off basis, cobbling together debt and equity," Abbey said. "Having permanent capital is a fundamental part of building a company into a best-in-class organization and attracting talent." Typically, Swift uses leverage of 50-60%.

Swift, which prefers to source deals on an off-market basis, expects to close some transactions in the next couple of weeks. The fund has five properties that comprise approximately a third of the fund's equity in various stages of due diligence.

"Having permanent capital is a fundamental part of building a company into a best-in-class organization and attracting talent."

— Douglas Abbey

# Real Estate News Roundup

The *Real Estate News Roundup* is a summary of publicly reported real estate news briefs. The information has been obtained from sources believed to be reliable, but *REFI* does not guarantee its completeness or accuracy.

## Carlton Launches Crowdfunding Site

The **Carlton Group** has launched a commercial real estate crowdfunding platform, which will allow accredited high-net-worth investors to invest between \$1-20 million into transactions of \$20-100 million, the company announced. Investors can also invest in one-off transactions with Carlton, which will co-invest its own funds in each transaction.

## SL Green Acquires Big Apple Fee Interest

**SL Green** has acquired the fee interest in 635 Madison for \$145 million, the company announced. The off-market transaction is expected to be wrapped up by the third quarter. The property is encumbered by a ground lease through April 2030, with one 21-year renewal option.

## Sabal Finances Three New Home Communities

**Sabal Financial Group** has provided financing for the construction of three new home communities in Happy Valley, Ore., and Sacramento and Costa Mesa, Calif., the company announced. Sabal's \$4.5 million construction loan for Sunrise Heights in Oregon was the firm's first home builder finance loan completed in the state. The firm also provided a \$5.2 million loan for the Bridges at Jonas in Sacramento, and a \$4.2 million loan for the acquisition and development of a new home community in Costa Mesa.

## LEM Closes Third Private Equity Fund

**LEM Capital** has closed its third private equity fund with \$226 million from a variety of investors including state, municipal and union pension plans, the company announced. The firm's committed capital from its three funds now totals more than \$690 million.

## JV Acquires Santa Cruz Hotel

San Diego-based **Trigild** and Santa Barbara-based **Blu Hotel Investors** have acquired the 100-room Holiday Inn Express Hotel at 1410 Ocean Street in Santa Cruz for a little more than \$16 million, according to a press release. Trigild will take charge of day-to-day management. The acquisition is the second joint project between Trigild and Blu Hotel, after the duo acquired the 121-room Santa Hampton Inn & Suites last year.

## CMBS Loan Disposal Hits \$76.6 Billion

Commercial mortgage-backed securities loan disposal volume hit \$76.6 billion over the past four quarters, according to a report from **Trepp, LLC**. The study, which looks at U.S. conduit, large loan and single asset/borrower CMBS deals, noted that 43% of the loans fell into the prepay category, the majority of which were prepaid in the open period before the note's maturity date.

## Port Authority Split On 3 WTC Loans

The **Port Authority of New York and New Jersey** is divided over whether to provide backing for \$1.2 billion of loans for the development of 3 World Trade Center in New York, according to *The Wall Street Journal*. The planned \$2.3 billion office tower is part of the redevelopment of the World Trade Center site following the Sept. 11 attacks. The Port Authority owns the land under the planned tower and has invested heavily in the infrastructure but is concerned over slow leasing at two of the existing towers.

## Cushman: Industrial Market Rising

The U.S. industrial sector saw solid absorption, dropping vacancies and higher rental rates in the first quarter, according to a new report from **Cushman & Wakefield**. The sector's construction pipeline has been growing in response to demand. "Domestic manufacturing continues to gain traction, driving increased production and shipments, and electronic fulfillment continued to expand. As a result, the economic environment for our sector is the best we have seen in many years," **John Morris**, leader of industrial services for the Americas.

## Eastern Consolidated Expands HQ Space

**Eastern Consolidated** has leased an additional 4,000 square feet at 355 Lexington Avenue in New York to accommodate its continued growth, the company announced. Over the past year, the firm has nearly doubled in size, launched a retail leasing division and longtime broker **Ron Solarz** returned to the firm as principal. Eastern Consolidated, which specializes in transactions in the five boroughs of New York, expects to occupy the additional space in May.

## Colliers Completes Phoenix Sale

**Colliers International** has completed the sale of a 143,650-square-foot Class A office building for \$18.95 million, or \$131.95 a square foot. The seller was Seattle-based **Summit Properties** and the buyer was an affiliate of **W.P. Carey**. "The transaction is the largest office sale in Tucson based on square footage since January of 2008 and involves one of the highest quality assets in the market," said **Tivon Moffitt**, v.p. Constructed in 2002, the building is located at 3350 E. Hemisphere Loop in Tucson and is part of the Tucson International Business Center.

## HFF Arranges Beverly Hills Loan Refinancing

**HFF** has arranged a \$40 million in refinancing for 450 N. Roxbury, a 101,653-square-foot medical office building in Beverly Hills, Calif., the company announced. Working exclusively on behalf of **Starpoint Properties**, HFF placed the 15-year, fixed-rate loan with an affiliate of **Guggenheim Finance**. The loan, which is refinancing senior debt on the property, will also be serviced by HFF.

# Builders & Buyers

## ConAm Set To Ramp Up Acquisitions

The **ConAm Group of Companies** is preparing to ramp up its acquisitions in the coming year. The company recently closed on the acquisition of two value-added apartment communities in a venture with **Oaktree Capital Management** and is looking for additional purchases in the multifamily space, said **Chaz Mueller**, president and ceo of ConAm.

The partnership purchased notes to obtain ownership of the 232-unit Meadow Ridge and 216-unit Spanish Oaks apartment communities, both of which are located in Las Vegas. The purchase price was less than \$50,000 per unit, Mueller noted.

Oaktree provided most of the equity for these acquisitions, with ConAm co-investing material capital and also providing property management. The partnership made the initial acquisition on a

cash-only basis and is still hammering out details such as a holding strategy and debt levels. ConAm typically leverages its transactions by 60-70%.

While ConAm does not set volume targets, Mueller says the firm is planning to ramp up activity this year after two acquisitions in 2013. "ConAm has done numerous similar transactions on value-added multifamily acquisitions in Las Vegas, which is in the early stages of its recovery," he said. It expects to work with Oaktree on a number of transactions going forward.

The partners are planning to upgrade the communities, which are close to the Las Vegas Strip and the city's major employment centers. ConAm manages close to 7,000 units in 27 apartment communities there.

## Bascom Closes Suburban Los Angeles Infill Deal

**Bascom Group** has acquired Four Winds Apartments in Whittier, Calif., a garden-style apartment community that fits into the company's plan to acquire value-added apartments in infill locations this year. The company paid about \$13.4 million, or \$97,101 per unit, for the 138-unit property, which is located at 8121 Broadway Avenue in suburban Los Angeles. Bascom plans to renovate the property's interiors and exteriors.

"We are bottom-up investors without any set geographic allocations. So, we are constantly working to identify the best property investment opportunities, relative to the universe of options out there, within the eleven-state region that we target," said **Chad Sanderson**, principal. Sanderson cited Las Vegas as a potential contrarian play. "In the current landscape, there is more capital out there, so there is a need to underwrite more deals, send out more offer letters and really understand the specific nuances of submarkets."

Bascom liked Four Winds Apartment for its location, job growth in Los Angeles and the limited multifamily supply. Sanderson cited jobs relative to apartment communities available as a compelling

factor. "Infill locations see higher occupancy and we like that from an operational standpoint," he said, noting Bascom also plans to reposition the apartment's operational management.

"As an organization we've bought historically many value-added properties across a broad range of classes, as a complement to our core business of Class B and C family properties," Sanderson said, adding that over the past few years, Bascom has started to purchase Class A communities. Sanderson likes Southern California's fundamentals. As such, Bascom has a "heightened"

focus in the region, where it is headquartered, as the organization has purchased four properties there in the last 12 months.

"As an organization we've bought historically many value-added properties across a broad range of classes, as a complement to our core business of Class B and C family properties."

—**Chad Sanderson,**  
**Bascom Group**

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# People

## Colliers Hires Kuller

**Colliers International** has hired **Kirk Kuller** as a v.p. in the Greater Phoenix area, the company announced. Kuller brings 15 years of financial experience into his new position, including the structuring and underwriting of more than \$50 billion in transactions. He joins from **CBRE**.



Kirk Kuller

## Cresa Adds Kozel

**Cresa** has appointed **Peter Kozel**, as principal and director of consulting services of its New York office, the company announced. Kozel will be tasked with building a stronger interaction between the firm's consulting groups and its brokerage teams. Kozel is a 30-year real estate veteran. He joins from **Colliers International**.

## Cushman & Wakefield Promotes Skinner

**Cushman & Wakefield** has tapped **Robert Skinner** to oversee valuation and advisory operations in New England, the company announced. He takes over from **Randy Harwood**. A 13-year veteran of the firm, Skinner specializes in multifamily properties.

## CBRE Extends Role For Latessa

**CBRE Group** has extended **John Latessa** a broader leadership role within the Midwest, the company announced. Latessa, a senior managing director, already oversees Detroit and three Ohio markets, and will now expand his responsibilities to Indianapolis, St. Louis, and Kansas City. Prior to CBRE, Latessa worked at **JFK Investment Company** and **Hines**.

## CBRE Names Horne To Top Los Angeles Post

**CBRE Group** has promoted **Lewis Horne** to president of the greater Los Angeles-Orange County Region, the company announced. Horne has led this group since 2007. Most recently, he oversaw the relocation of CBRE's downtown Los Angeles headquarters.

## CBRE Taps Ferguson As Southeastern President

**CBRE Group** has promoted **John Ferguson** to president, Southeast Region, the company announced. Ferguson has led CBRE's Southeast Region since January 2011. Among his accomplishments is the acquisition and integration of three firms over the past 15 months.

## LaSalle Group Appoints Daughtery To Finance Post

**The LaSalle Group**, a memory care facility specialist, has appointed **Sherry Daughtery** as director of finance, the company announced. Daughtery will be responsible for sourcing debt and equity for new construction developments. She has more than 20 years of experience, previously working in the capital markets division of **Fairfield Residential Company**.



Sherry Daughtery

## Compass Taps James

**Compass Real Estate** has added **Will James** as a senior managing director, the company announced. James will help the firm deploy capital from the private equity funds that it manages and will help clients raise capital for transactions. James has been in the commercial real estate finance industry for more than 20 years and most recently spent 10 years at a company he founded, **JW Realty Capital**.

## San Diego (Continued from page 1)

### Group International (REFI, 3/28).

Investors are taking the view that Southern California is one market with individual cities as distinct submarkets, LaChapelle said. San Diego in particular stands out given the significant replacement cost for CBD offices. Construction costs for a new Class A CBD office building are \$450-500 per square foot, compared to recent sales ranging from \$250-400 per square foot. Suburban Class A office buildings have replacement costs \$380-450 per square foot, compared to recent sales of \$250-400 per square foot, LaChapelle estimated.

Moreover, population in San Diego's CBD is expected to grow exponentially, rising from 28,000 in 2010 to 90,000 by 2030. Also, the city's proximity to Mexico makes it the largest high-traffic area

of cross border commerce, LaChapelle said.

Gateway cities, specifically San Francisco and Seattle, have served as markers to gauge the prospects of San Diego. San Francisco is above peak rental rates and investors are underwriting rents of \$70-80 per square foot. "From a real estate perspective rental rates are 10-15% below peak rates of 2007-2008 in San Diego, so there is still room to run. From an investment perspective, investors are often buying below replacement cost. So with an investment horizon of five to seven years, there is good chance of selling properties at replacement cost," LaChapelle said.

While rents have yet to catch up with increasing tenant demand, there is a scarcity premium for those who own property. "Investors have rollover opportunity to capture value," LaChapelle said. "It's earlier, but we're starting to see the legs of the recovery on the investment side."

—Daniel Nicolas

## Moody's Sounds (Continued from page 1)

a frog is placed inside a pot of cold water that is then slowly heated. The frog does not realize that it is being boiled alive until it is too late to jump out of the pot.

"In the case of the CMBS market, the situation would entail the steady progression of incremental increases in conduit loan leverage that ultimately result in underwriting consistent with the pre-crisis peak," Philipp concluded.

Loans in Q1 2014 conduit CMBS had an average Moody's loan-to-value ratio of 107.3%, the agency found, noting that higher loan-to-value ratios increase a loan's probability of default and potential loss severity. Around 25% of Q1 conduit deals had Moody's LTV ratios within 5% of the agency's pre-crisis peak of 117.5%. Moody's believes that MLTV will increase in the second quarter by another 1%, Philipp added.



Moody's has a reputation for being tough on underwriting standards in the CMBS market, and has been sounding the alarm on shoddy underwriting and slipping standards for some time now, market players noted. "Conduit pools continue to show a trend toward loans with higher leverage and with more subordinated debt behind them," Philipp added. "As the average and dispersion of conduit leverage have increased, so too have our credit enhancement levels."

Other areas of concern for Moody's include the increasing number of conduit loans receiving cash flow haircuts above 10%—the numbers are now in the mid-teens, up from low single digits in previous analysis. "This is due partly to the inclusion of income that we view as above market or unsustainable," Philipp added.

—Eleanor Duncan

## Retail Heavy (Continued from page 1)

insurance companies, retail borrowers are coming to CMBS. "CMBS is the dustbin for retail," he concluded.

The three deals kick off what is expected to be an exceptionally active two months for the CMBS market, after three weeks of near-silence. About \$15 billion of total issuance is now projected for April and May.

Although there were fears that spreads will soften due to the sheer volume of new deals, one trader pooh-poohed the notion. "What usually happens is that spreads will tighten. Size opens eyes," he quipped. Indeed, market players believe the super-senior, 30% subordination bonds from these deals could be priced at around swaps plus 86—two basis points tighter than similar bonds from recent deals.

JPMorgan's conduit lured a new B-piece buyer into the market, with **DoubleLine** banking its first B-piece, according to *IFR*. The move raised new fears about the overheated CMBS market. "We're likely to see pricing adversely affected," noted one CMBS lawyer.

In presale reports for JPMBB 2014-C19, **Fitch Ratings** and **Kroll Bond Ratings** both highlighted the deal's sizeable retail concentration. One upshot, however, is that the conduit has more geographic diversity, with the underlying properties located in 25 states and the District of Columbia.

Malls comprise about 18.4% of the retail properties in JPMBB 2014-C19 and the largest loan is secured by The Outlets at Orange, a 787,697-square-foot retail complex in California, according to Kroll's presale report. The deal is backed by 61 loans on 100 properties.

WFRBS 2014-C20, on the other hand, has more single-tenant exposure, according to Kroll. Eleven loans—18% of the conduit—

are secured in whole or in part by single-tenant retail buildings, creating income-stream risk for investors.

Kroll notes that one of these buildings, the Bloomberg Data Center in New York, "may not be as easily marketable as more traditional income-producing properties, and is susceptible to potential valuation declines due to technical obsolescence." That said, the single-tenant lease extends five years beyond the building's loan term. The deal is comprised of 93 fixed-rate loans on 142 properties.

As for COMM 2014-CCRE17, in addition to its heavy retail concentration, **Kroll Bond Ratings** highlights the deal's relatively high leverage in its presale report. The loan pool has a weighted average in-trust KLTV of 101.5%, higher than the 99% average of the last 19 CMBS conduits that Kroll rated over the past six months. That said, the deal has a relatively high primary market exposure, and is geographically diverse, although with a sizeable New York concentration at 32.1%.

Investors are also scoping out a \$449.5 million floating-rate CMBS deal from **Wells Fargo**, bringing total issuance this week to over \$3 billion. The deal's triple-A class is set to be launched at 117 over LIBOR.

Cantor spokeswoman **Sheryl Lee** and a spokesperson for Deutsche Bank declined to comment. Calls to the other issuers were not returned by press time.

## QUOTE OF THE WEEK

"This is not a core CBD similar to Los Angeles or San Francisco but it's not in the middle of nowhere. It's a 65-mile drive from downtown L.A."—**Tom Turley**, managing director at JLL, on the marketing of Arrowhead Springs in San Bernardino, Calif. (see story, page 6).