

Pembrook inks \$18.3 million deal for apt. community

by John Rebchook

Pembrook Capital Management isn't afraid of deals with hair on them.

A case in point is the first deal the New York-based firm completed in Denver.

Pembrook recently provided an \$18.3 million first-mortgage loan for the acquisition and repositioning of the 345-unit Villas at Parker, a garden-style apartment community at 1090 S. Parker Road. The community formerly was called the Windsor Court Apartments.

Pembrook lent about 85 percent of the purchase amount, said John Garth, managing director for the company, which also has an office in Boston. That means the borrower, whom Garth declined to identify, put down about \$2.75 million, for a total purchase price of about \$21 million.

"This was a distressed asset purchase," Garth said. "The property had some physical issues. The roof leaked and some of the units had to be vacated. They had issues with mold. They are now fixing the mold problem."

Garth said a number of lenders would shy away from funding a deal such as this one.

The easiest deals to do are properties that fit into plain-vanilla boxes, such as those with strong rent rolls that are cash-flowing where a few inexpensive touch-ups can provide even greater-value opportunities.

"Our focus is on deals that don't



Villas at Parker faces major remediation by its new owner.

fit into neat little boxes," Garth said. "We like this kind of transitional story. It would not be a fit for a lot of lenders. We're not the only lender, of course, which would make a loan. But more lenders wouldn't look at it than jump at a chance to fund it."

One thing he liked about the project is its location.

"We felt the location was strong," Garth said. "It was in Southeast Denver. It is only five or six miles from downtown. It is an older building, built in the early 1970s, but the new owner is going to invest quite a bit of money into upgrades. It will be a very attractive option for renters when they are done."

The most important consideration in making the loan was the expertise and the track record of the buyer, he said.

"That was a key element," Garth said. "When we do our analysis of

a project like this, the experience of the owner and management is of critical importance."

The buyer was from out of state, but owns a number of other apartments in Denver, he said.

"He is an excellent manager with a lot of experience with troubled assets like this one," Garth said. "We would not have made this loan to someone if this was his first project with these kinds of problems. Frankly, plenty can go wrong. That is why a lot of lenders don't want this kind of risk and why it is so important to have someone there who knows what he is doing. We have a lot of confidence with the borrower."

Pembrook also is bullish on the Denver market and would love to do more transactions here, he said.

"We really like the Denver market," Garth said. "We like how the economy is performing in Denver and we like the diversity to Den-

ver's economy. We also know it is a place that provides a good option to the fiscal mess in California. We think the economic future of Denver is very bright."

This marks the first deal it has completed in Denver, although it financed a property in Boulder two years ago.

"The loan on that deal has already been paid off," Garth said. "It was a very successful deal. We want to do more business in Denver. Frankly, we've tried to do several deals in Denver, but we were beat out. There is a lot of competition among lenders for projects in Denver."

Pembrook, founded in 2006 by Stuart J. Boesky, invests in and originates all parts of a capital structure, including mortgages, mezzanine financing, bridge loans, commercial mortgage-backed securities as well as preferred equity and loans for real estate operating companies.

It will provide first-lien mortgages for the construction, acquisition, renovation and refinancing of both mixed-income rental housing and through the direct purchase of tax-exempt bond financing for affordable units.

Since it was founded, it has been involved in the acquisition of 44 properties with a capitalization of about \$1.56 billion. It has reviewed more than \$9 billion in commercial real estate investment opportunities.▲