JUNE 13, 2016
WWW.REALESTATEFINANCEINVESTMENT.COM
The definitive source on commercial property sales, financing and investment

Real Estate Finance & Investment

VOLATILITY DRAWS REITS FROM EQUITY MART

BY SHERRY HSIEH

Real estate investment trusts are turning away from the equity markets due to a deteriorating global economic outlook, capital markets volatility, and continued undervaluation of their shares, according to participants at NAREIT's investor forum at the Waldorf-Astoria last week. "The REIT market hit bottom in February, but it has rebounded nicely. But compared to last year, overall capital issuance is down, and the market that is way behind is equity," said Steven Marks, a managing director of Fitch Ratings.

U.S. equity REITs have issued $31.4bn in common and preferred equity, unsecured bonds and term loans year-to-date in 2016, according to a June report from Fitch. This is a decrease of 11.6% overall and a drop of 26.1% for common stock and unsecured bonds, from the same period last year.

Sputtering debt and equity issuance has led to an increase in the number of term loans, which already hit a record high in 2015 (see chart). Term loans made up 26.3% of total capital raised to date in 2016. "What we have seen is an increase in bank term loans. In terms of the overall debt stack, term loans and draws on unsecured lines have increased to 25%, compared to 20% five years ago, and we expect that it will keep going up. The concern is that these relationship banks are going to hit an exposure cap," Marks explained. "But we want to see a diversity of capital."

Term loans offer borrowers a lower cost of capital than the public debt and equity markets. "Smaller issuers who would like to issue unsecured bonds but can't are getting five- to seven-year bank term loan financing at a relatively cheap cost with no prepayment penalty," Marks said. Unsecured private placement notes and bank term loans remain far more economical when compared to public unsecured bonds, with all-in interest cost ranging from 0.5% (private placements) to 3% (bank term loans) *Continued on page 11*

U.S. REIT ISSUANCE

	JAN-MAY 2015	JAN-MAY 2016
Common Stock	$12bn	$7.7bn
Unsecured Bond	$18.1bn	$14.5bn
Preferred Stock	$1.6bn	$0.9bn
Unsecured Bank Term Loans	$3.8bn	$8.3bn
Other	1.04%	0.96%

Source: Fitch Ratings

COLLIERS TAKES ULTRA-LOCAL APPROACH WITH NEW MIAMI GROUP

BY KAITLYN MITCHELL

Colliers International is forging a new path in Miami, creating a dedicated team to provide detailed, current information about the city's submarkets to clients and prospects. The newly formed Urban Core team, kicked off with the recent hire of Mika Mattingly and Gerard Yet-ming, is part of a broader trend toward urbanization in South Florida and Miami's emergence as a global, world class city, said Ken Krasnow, executive managing director. "What starts in Miami definitely moves north and we see this a strategic opportunity to build an urban platform that spans the entire region," he added.

The rise of Miami and South Florida has been driven by a number of factors, including foreign investment in the city, a rising number of start up companies, and migration into the city. Indeed, the city's CBD has seen its population rise from about 40,466 to 80,750, or approximately 99.6%, from 2000 to 2014 11

FROM THE EDITOR

Colliers International is carving out a targeted approach for Miami through its new Urban Core group. The firm aims to have the team target neighborhoods rather than product types and is hoping that it can tap into a broader trend toward urbanization in the state. The story, which also marks our new reporter Kait Mitchell's front-page debut in *REFI*, is on page 1.

Sherry Hsieh was on the ground at the NAREIT investor conference in New York, filing a diverse array of stories on companies ranging from prison real estate investment trusts to a timber specialist. The coverage kicks off on page one, with an interview with Fitch Ratings' Steven Marks on how REITs have been turning away from the public equity and debt markets in favor of term financing.

Finally, the entire REFI team will be at this week's CREFC conference in New York. We're looking forward to being there and finding out what's going on with the beleaguered (but still rocking) commercial mortgage-backed securities market. Look for us there!

SAMANTHA ROWAN, EDITOR
s.rowan@pageantmedia.com or (646) 891 2146

THIS ISSUE

Real Estate Finance & Investment

Published by Pageant Media

New York
200 Park Avenue South
Suite 1603, NY 10003
T +1 (646) 891 2110

London
Thavies Inn House
London EC1N 2HA
T +44 (0) 20 7832 6500

EDITORIAL
Gwyn Roberts
Group head of content
+1 (646) 891 2115
g.roberts@pageantmedia.com

Samantha Rowan
Editor
+1 (646) 891 2146
s.rowan@pageantmedia.com

Sherry Hsieh
Reporter
+1 (646) 891 2145
s.hsieh@pageantmedia.com

Kaitlyn Mitchell
Reporter
+1 (646) 891 2144
k.mitchell@pageantmedia.com

PRODUCTION
Claudia Honerjager
Head of production
c.honerjager@pageantmedia.com

CONTENT SALES
George Simmons
Content sales manager
+44 (0) 20 7832 6586
g.simmons@pageantmedia.com

EVENTS
Beth Hall
Head of events
+44 (0) 020 7832 6576
b.hall@pageantmedia.com

DISTRIBUTION
Fay Muddle
Office manager
+44 (0) 20 7832 6524
f.muddle@pageantmedia.com

PAGEANT MEDIA
Charlie Kerr
Chief executive

Printed by The Manson Group

pageantmedia

ISSN# 726-98670

Pembrook funds Chicago workforce housing loan

Pembrook Capital Management has originated a $16.6m loan to help finance The NHP Foundation's acquisition of the Mark Twain Hotel in Chicago, a 152-unit affordable housing property in the city's Gold Coast submarket. NHP's plans include upgrading the single-room occupancy units and preserving them as affordable housing, according to Stuart Boesky, ceo of Pembrook.

As a lender, Pembrook liked the deal because of its location as well as strong demand for affordable units. "The deal will allow lower-income people to live in a really nice property in a great location. Additionally, the sponsor is an expert in its mandate," Boesky said. The deal wouldn't have happened without 2014 legislation in Chicago that made it difficult for owners to sell SRO properties to buyers who didn't intend to preserve the units as affordable housing, he added.

Plans include adding kitchenettes to the units, which are studio apartments with bathrooms. "Traditionally, SROs haven't had kitchens or kitchenettes," Boesky said. "Once you put a kitchen in, an SRO becomes a micro unit and this will be a major upgrade for the property."

Boesky, who spent a significant amount of his career working on affordable housing deals at the Related Cos., believes that deals like this present fewer risks than other apartment projects. "There is really no market risk in most locations for affordable housing. There are far more people willing and wanting to move into affordable apartments than there are affordable apartments," he said.

As a bridge lender, Pembrook is involved in affordable deals for one to five years and there is abundant capital from lenders such as Fannie Mae, Freddie Mac or the FHA for long-term debt. "We know that the agencies are going to be there in good or bad markets," Boesky added.

Fitch: more modified A/B loans returning to special servicing

Many commercial mortgage-backed securities loans that were modified using the A/B structure are returning to special servicing, according to a new report from Fitch Ratings. The loans that are returning to special servicing are having a negative impact on loss severities due to adverse selection. "Many A/B loan modifications have still not stabilized and are unlikely to be able to refinance in the current market," said Melissa Che, director.

The agency tracked about $1.5bn of A/B loan modifications in 2014 and 2015 – about a third of peak of $3.58bn seen in 2011. Special servicers have been less likely to use this structure because many troubled legacy loans have already been modified and there is more liquidity in the market, Che said. "If the outstanding B notes are considered write downs, the loss severity for A/B loans would be approximately 23%," she added.

The agency has identified 26 loans totaling $2.14bn that were modified with the A/B structure that have been transferred back to the special servicer post-modification. Sixteen of those transfers have taken place over the last two years. Overall, there have been 186 Fitch-rated loans $11.73 billion that were modified into A/B loans.

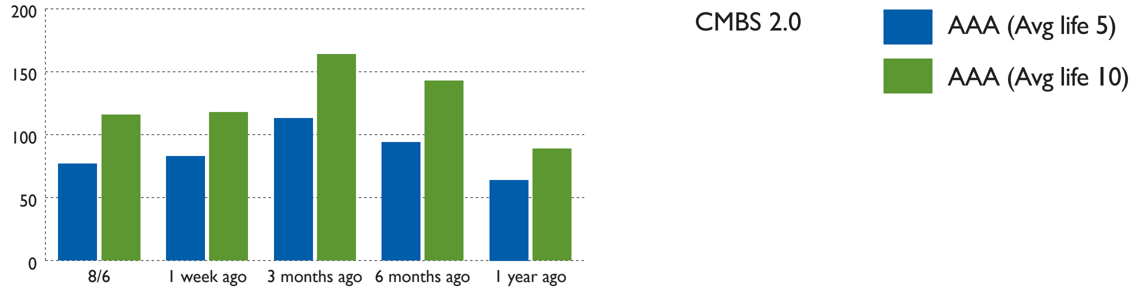
TREPP'S CMBS SPREADS MATRIX – JUNE 8

CMBS 2.0

Source:Trepp, LLC

FIXED RATE	AVG LIFE	BENCHMARK	8/6	1 WEEK AGO	3 MONTHS AGO	6 MONTHS AGO	1 YEAR AGO
AAA	5	S+	77	83	113	94	64
AAA	10	S+	116	118	164	134	89
AA	10	S+	189	195	312	207	143
A	10	S+	311	307	453	292	195
BBB	10	T+	481	483	652	434	312
BBB-	10	T+	608	615	801	516	372

CMBS SPREADS SNAPSHOT – JUNE 8



BENCHMARKS AS OF JUNE 8

10-year Treasury: 1.70

10-year Swap: 1.57

Downtown Boston parking garage sold

Charles River Realty Investors is selling a 513-space parking garage in downtown Boston amid a massive property boom driven by media and tech companies flooding the city. The property, located at 40 Beach Street, is being marketed by HFF, which kicked off efforts this week. It could be sold for a price in the low $40m range, a local player told *REFI*.

Charles River acquired the eight-story property in 2011 via a foreclosure for one of its investment funds and is selling to coincide with the end of the fund's investment period. The property benefits from scarcity value because additional parking developers will be limited by building restrictions and a lack of developable space.

According to a 2012 survey by Colliers International, Boston is the fourth-most expensive North American city for parking rates. "People are driving to work, Boston is very much a driving city," the source said. "A lot of existing parking lots are being replaced with high-rise developments, so parking is extremely limited."

Calls to Charles River and HFF were not returned by press time.

"A LOT OF EXISTING PARKING LOTS ARE BEING REPLACED WITH HIGH-RISE DEVELOPMENTS, SO PARKING IS EXTREMELY LIMITED."
COLLIERS INTERNATIONAL SURVEY

AEW funds D.C. acquisition

AEW Capital Management has originated a $75.5m whole loan to finance the acquisition, repositioning, and lease-up of 1400 L Street, N.W., in Washington, D.C. The Meridian Group, a Bethesda-based investment company, recently acquired the 12-story, 172,453-square-foot office building for $69m, according to published reports.

The floating-rate loan breaks down into a first mortgage and mezzanine financing, with an initial funding of $52.5m for the acquisition. The loan includes another $23m of future funding for renovations and leasing, which will occur after the property's largest tenant exits in 2018. The five-year loan includes two one-year extension options. It was not syndicated.

Eastdil Secured arranged the financing.

MORNINGSTAR'S LOAN TRANSFER TO SPECIAL SERVICING – JUNE 8

Source: Morningstar

PROPERTY TYPE	LOAN NAME	DEAL ID	CITY	STATE	ZIP	UPB	MATURITY DATE	DATE XFERED TO SS
Hotel	JQH Hotel Portfolio	JPC06LD7	Various	Various	Various	$127,897,513	11/04/2016	15/04/2016
Hotel	The Mansfield Hotel	CSM06C05	New York	NY	10036	$18,866,043	11/11/2016	19/04/2016
Hotel	JQH Hotel Portfolio B-Note	CD07CD4	Various	Various	Various	$8,414,310	11/04/2016	15/04/2016
Hotel	Springhill Suites - San Angelo	WFRB12C8	San Angelo	TX	76901	$7,947,119	01/03/2022	28/04/2016
Hotel	Radisson Hotel - Baton Rouge	WFR14C19	Baton Rouge	LA	70808	$7,287,806	01/02/2024	10/05/2016
Industrial	Maspeth Industrial Center	GECC04C3	Maspeth	NY	11378	$21,821,197	01/05/2016	03/05/2016
Industrial	Enterprise Drive Distribution Center	CD06CD3	Newburgh	NY	12550	$18,319,860	11/07/2016	12/04/2016
Industrial	Freehold Business Park	BACM0602	Freehold	NJ	7728	$8,428,751	01/05/2016	27/04/2016
Industrial	South Seattle Business Park	BACM0604	Seattle	WA	98134	$7,423,412	01/04/2016	14/04/2016
Multi-family	The Edge at Avenue North	CSM06C04	Philadelphia	PA	19121	$52,592,080	01/10/2016	20/04/2016
Multi-family	Studio Green Apartments	WFR13C12	Newark	DE	19711	$28,205,901	01/03/2023	22/04/2016
Multi-family	Montego Bay Apartments	MLT06C01	Sierra Vista	AZ	85635	$9,754,464	01/04/2016	07/04/2016
Multi-family	Merrill Square Apartments	LBUB06C4	Duncanville	TX	75116	$2,064,037	11/04/2016	02/05/2016
Multi-family	Westshore Estates	CSM06C04	Bay City	MI	48706	$1,668,333	01/05/2016	01/05/2016
Office	Skyline Portfolio	JPC07L10	Falls Church	VA	22041	$203,400,000	01/02/2022	06/04/2016
Office	Skyline Portfolio	GECC07C1	Falls Church	VA	22041	$203,400,000	01/02/2022	06/04/2016
Office	CA Headquarters	GSM206G8	Islandia	NY	11749	$165,643,200	06/08/2016	28/04/2016
Office	PPG Portfolio - Roll-up	MSC06H10	Various	Various	Various	$97,727,995	08/10/2016	29/04/2016
Office	Wells Fargo Place	CSM07C01	Saint Paul	MN	55101	$90,000,000	01/11/2016	03/05/2016
Other	Abbotts Square	COM13C13	Philadelphia	PA	19147	$23,869,053	06/12/2023	19/04/2016
Other	Chicago Portfolio	UBSC11C1	Chicago	IL	Various	$18,858,424	06/10/2021	25/04/2016
Other	Bonita Springs Self Storage	COM15C27	Bonita Springs	FL	34134	$3,200,000	06/10/2025	18/04/2016
Other	The Extra Closet	MSC06I12	Fort Myers	FL	33912	$2,615,739	01/10/2016	14/04/2016
Other	Aloha Self Storage	LBUB06C4	Haltom City	TX	76117	$2,290,106	11/04/2016	18/04/2016
Retail	Parkway Plaza	CD07CD5	Norman	OK	73072	$25,929,120	06/07/2017	02/05/2016
Retail	Market at Mill Run	WBC06C28	Hilliard	OH	43026	$18,368,557	11/08/2016	26/04/2016
Retail	Danvers Crossing	JPC06LD9	Danvers	MA	1923	$17,183,984	01/06/2016	11/04/2016
Retail	Marketplace College Ave.	BACM0606	Appleton	WI	54914	$15,464,030	01/11/2016	04/04/2016
Retail	Sam's Club Timonium	MLCF0602	Timonium	MD	21093	$15,003,948	08/04/2016	06/05/2016

PGIM sees big jump in cross-border investments

PGIM Real Estate is seeing a sharp increase in investors who are interested in cross-border investments. Although there have always been some investors who have pursued international strategies, the firm – formerly known as Prudential Real Estate Investors – is now working across a number of regions for its institutional clients. "Our investors are doing much more cross border investment than they did in the past," said Eric Adler, managing director and ceo.

U.S. investors, who traditionally haven't been as global in their reach due to the depth of the domestic real estate market, are at the forefront of this trend. "Real estate is a local business, but now 50% of the money is coming from non-U.S. investors," Adler said. Still, only about 20% of U.S. investors are looking at foreign deals while about two-thirds of Asian investors buy properties outside of the region and about half of European investors invest outside of Europe.

Part of the draw is the strong performance of the sector, which has been doing well despite economic uncertainty, and relatively higher yields in a low-interest rate environment. PGIM Real Estate is also reporting that a lack of construction in major markets has bolstered performance and opens the door for rent growth in 2016 and 2017. PGIM is also tracking more attention in emerging sectors, such as senior housing and student housing, on the back of demographic shifts from Millennials and Baby Boomers. Investors, however, remain nervous about pricing globally as well as economic uncertainty, Adler added.

"OUR INVESTORS ARE DOING MUCH MORE CROSS BORDER INVESTMENT THAN THEY DID IN THE PAST."
ERIC ADLER, PGIM REAL ESTATE

More investors are focusing on the major markets, especially eight key cities. China's market remains a cause for concern, with pricing dropping as much as 30% in many major cities. "Brazil hasn't been touched for years, but as long as the politics manage to work themselves out, the market looks good," Adler said.

According to a recent PGIM survey, investors' main concerns are pricing and valuation – this is a dramatic shift from last year, when pricing and valuation didn't even register. The risks have a greater impact than they did twelve months ago, and a bigger impact on real estate outlook overall. But despite headwinds and concerns, the largest asset-based industry is offering a strong growth story. Attracted to its income-producing, bond-like component, more and more investors will want to hold real estate, Adler said.

OPPORTUNISTIC BUYER SNAGS PHILADELPHIA RETAIL

PH Retail, an opportunistic real estate investment company, has acquired a pair of high street retail properties close to Philadelphia's Rittenhouse square. The properties, located on the up-and-coming Chestnut Street and the most more established Walnut Street, were sold by PREIT via JLL. "It was a nice surprise to have found these buildings," said Randy Hope, co-founder and managing director of PH Retail. "This type of real estate doesn't turn over very often."

Although Hope declined to discuss pricing, the total project cost will be in excess of $50 million, and adds 70,000 square feet of commercial space to the company's portfolio. PREIT, which acquired both buildings in 2014, paid $13.8m for the 14,000-square-foot Walnut Street property, and $6.1m for the Chestnut Street asset, according to data from Real Capital Analytics.

The property at 1501-05 Walnut Street is home to AT&T Mobile's new flagship location and Club Monaco, which has been a tenant of the building for 15 years. The building has one 2,848-square-foot vacancy. "Walnut Street is much more developed than Chestnut Street, but it has narrower buildings," Hope said. "Walnut Street retailers have to be between Rittenhouse Square and Broad Street to be part of the conversation."

According to data from CBRE, retail rents on Walnut Street have nearly doubled over the past decade and have risen by 87% from the first quarter of 2008 and fourth quarter of 2014.

Chestnut Street, which is one block away from Walnut Street, is poised to become a major retail destination. Retailers such as Uniqlo, Nordstrom Rack, Bloomingdales' Outlet, the W Hotel, Old Navy, and an Under Armour flagship store have opened up or are in the works. Although Chestnut Street took a hit in the 1970s when city planners decided to eliminate cars and make the street open only to foot traffic, things have picked up in the more than 20 years since traffic was reintroduced. Additionally, many leases signed 15-20 years ago are set to expire. "Chestnut Street recently came into vogue," said Hope.

U.K. office market feeling pinch ahead of Brexit vote

The U.K. office market is experiencing sluggishness ahead of the country's referendum later this month on staying in the European Union. "We believe we will likely avoid a Brexit but it has already had a near-term impact in the U.K.," said Scott Crowe, chief investment strategist at CenterSquare. "We have already seen a slowdown in office take up and transactions and the gains we have seen in property values are likely to correct even if the UK remains in the EU."

There is substantial fear about a Brexit. "In our business, we deliberately are trying to avoid making macro calls, which means we are relatively neutrally positioned to either outcome," Crowe said. "Over the past six months, it has really led to a dramatic decrease in transaction volume and has the ability to slow down the real estate markets."

> "FROM A REAL ESTATE PERSPECTIVE, OFFICE AND RESIDENTIAL COMPANIES WOULD LIKELY BE HIT THE HARDEST."
> SCOTT CROWE, CENTERSQUARE

Although CenterSquare believes the likelihood of a Brexit is low, at about 20%, the long-term impact on the country's economy and commercial real estate market could be significant. "From a real estate perspective, office and residential companies would likely be hit the hardest," Crowe said. "It is highly likely that the value of [the pound] could drop significantly after a Brexit vote and the U.K. runs a risk of a recession."

Of course, a vote to stay would likely mean a rally in the U.K. market. "The rally would be most noticeable with office REITs, as tenants who have delayed moving decisions compete for the little available supply in a central London office market with vacancy levels of less than 3%," Crowe said.

Preqin: New players consistently losing out to established managers

First time real estate fund managers are consistently losing out to their more established counterparts in the competition for investment dollars, according to a new report from Preqin. "Only 4% of the aggregate capital raised so far this year, compared to 11% in 2015, was committed to first time fund managers," the report stated. By comparison, about 18% of total investor capital was allocated to first-time managers in 2011.

The report also found that managers that have raised at least three funds are now raising a larger share of the aggregate capital. "Managers that have raised six or more funds account for 63% of all capital raised so far this year," the report stated.

Preqin also found that a rising number of investors are opting for experienced managers. "Two thirds of investors interviewed by Preqin at the end of 2015 said that they will not invest in first-time firms, an increase of 14 percentage points from 2011," the report stated. Moreover, the proportion of investors that said they would invest in first-time fund managers has dropped from 19% to 15% over the same period."

Japanese retail REIT looks to bolster portfolio

Japan Retail Fund Investment, a real estate investment trust that invests in a broad swath of retail properties, is bullish on acquisition the outlook for the sector. "In Japan, retail is doing better than in the U.S. [because the country is smaller and] you don't have to travel as far to go to the stores. And while Japan is not immune to e-commerce, in U.S. e-commerce is about 7% of the retail [market, whereas] in Japan, e-commerce is about 3%, 4%," said Toru Tsuji, president and CEO.

The ¥862.5bn JRF portfolio is comprised of 96 stable, cash-flowing properties in the Greater Tokyo metropolitan area, Osaka, Nagoya and other major cities, with concentrations in high street regional malls (20 properties, 42.2%), neighborhood shopping centers (28 properties, 15.7%), multi-tenant shopping malls adjacent to major train stations (23 properties, 22.9%), and high-end shopping malls in prime urban shopping districts (25 properties, 19.2%).

Tsuji noted that Bank of Japan's February announcement that was implementing negative interest rates led to a record amount of non-Japanese investor capital flowing into the market. "Most Japanese REITs are trading at a premium to NAV, and we are trading at 30% premium to NAV," Tsuji added, noting that U.S. investors make up about 21% of its investors. The health of the Japanese REIT sector, however, makes it difficult to identify acquisitions. "We will only acquire if it's a right fit and we are looking to acquire more prime properties in urban areas," he added.

The REIT has strong ties with domestic banks, with financing consisting of primarily long-term, fixed-rate debt with average pricing of 1.31% and leverage of 48.5%. Top lenders include The Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking and Mitsubishi UFJ Trust and Banking. JRF carries an AA (stable) long-term debt rating, according to Rating and Investment Information. "The basic approach [when we purchase an asset] is to blend equity offering with debt. Right now the equity market is not so good, but we do have the debt capacity to acquire new properties if we wish to," Tsuji said.

Since September 2015, the company has acquired 13 properties totaling ¥79.2bn. Twelve of these are in urban locations. In accordance with the shift to more urban-type properties, a strategy that Tsuji named asset replacement, the REIT disposed five suburban assets totaling ¥68.5bn last year.

JRF also looks to reposition and redevelopment to add value to existing properties. "Most Japanese REITs buy and hold assets, but they don't have the capability to do the redevelopment/reposition. They usually turn to their sponsors for that. We are one of the few REITs that have the capability to hold, manage and also reposition," explained Tsuji. For example, Mozo Wonder City, a shopping mall located in Nagoya that reopened last September after a large-scale ¥2.13bn renewal project, saw sale increase by 16.2%.

Prison specialist sees privatization potential

The GEO Group, a real estate investment trust that specializes in the financing, development, ownership and operation of diversified correction, detention, and community reentry facilities, wants to be at the forefront of expected privatization in the sector. "Our business is not really affected by economic volatilities, and with prison overcrowding on both federal and state level, we believe there's room for GEO to grow," said Brian Evans, CFO.

At this point, only about 10% of corrections market is privatized. "The correctional business is highly regulated and there are significant contractual requirements. It's not easy to get in," Evan said. Corrections Corporations of America, GEO, and Management and Training Corporation make up 39% (89,000 beds), 38% (87,000 beds), and 11% (26,000 beds), respectively, of the diversified correctional and community reentry services market, according to data provided by GEO.

The company acquired eight correctional and detention facilities totaling more than 6,500 beds via its acquisition of LCS Corrections Services for $312m, or approximately $48,000 per bed, last year. The eight facilities, located in Louisiana, Texas, and Alabama, were underutilized, with average occupancy rates of 50% at the time of the acquisition. "In 2015, we activated 8,750 beds, including reactivation of 4,000 idle beds," Evans said.

GEO provides three types of services: secure residential care (detention services, corrections services); non-secure residential care (halfway houses, youth services); non-residential services (day reporting centers, electronic monitoring). The REIT has locations in all 50 U.S. states, Australia, the U.K., and South Africa. The biggest component of the services provided is in adult secured residential care, which makes up two-thirds of the business.

The company's net operating income increased approximately 17% year over year, rising to $136,299 this year. The REIT offers a dividend yield of 8%, with quarterly dividend f $0.65, or $2.60 annually.

Moving forward, the REIT expects continued growth. "Our facilities are among the newest in the industry and are 14 years old, compared to the next average, which is 30 years old. There are a lot of needs for facilities, and there are also a lot of old infrastructure out there that needs upgrades," Evans explained. "Also, a big part of our customer base is with the federal government. Federal contracts are usually better contracts [with] better terms and better protections against wage increase," he added.

Four properties are currently idle, including 1,250-bed Hudson Correctional Facility in Colo., 1,000-bed South Louisiana Correctional Center and 388-bed JB Evans Correctional Center in La. And 690-bed Perry County Correctional Center in Ala. The REIT targets a cash on cash return ranging from 13% to 15%.

Timberland specialist follows sustainable strategy

CatchMark, a public company focusing on the management of timberland in the southern U.S., is following a sustainable strategy. "Our goal is not to assemble the biggest timberland, but the most sustainable. It takes about 25 years in the U.S. south to grow a mature pine tree that has value to us. With technology, we can manage growth and volume and calculate stable and predictable cash flow based on sustainable growing and harvesting," said Jerry Barag, president and CEO.

The company tends to operate where supply can be measured and controlled, owning 428,700 acres of commercial timberlands across eight states that include Alabama, Florida, Georgia, Louisiana, North and South Carolina, Tennessee and Texas. Its largest concentration of timberlands is in Georgia, where it owns 273,800 acres, and about 74% of its species is pine. The remainder is comprised of hardwood trees.

The REIT went public in 2013 and has since then completed 18 acquisitions totaling $325m. "We are not the largest timberland REIT, we have three peer competitors in the space who are bigger than us. But we have been the most aggressive in growing our portfolio," Barag added. CatchMark continues to look for acquisition opportunities, he added.

Similar to more traditional real estate, the business of timberland is highly localized. "Logs are big and heavy and don't transport well, so all timbers are going to be processed within less than 50 miles [of where they] grow. There's a very fixed area to sell to, about 50 to 100 miles," Barag explained.

Timber prices can vary greatly by market. Prices for pine stumpage in the Southeastern region average $28.8 for saw timber, $18.8 for chip-n-saw, and $14.8 for pulpwood – levels that trail similar wood on the West Coast. "Prices for timbers produced in North America was at an all-time high in 2007 when new home construction peaked. Since the recession, prices have dropped. The northwest region benefited from exports, mostly to China, whereas prices [for timber] in the South did not go up until 2012. Even today, the price is only half of what it was during the peak," added Barag.

California investor expands geographic focus

BLT Enterprises, a Santa Monica, Calif.-based investment company, has expanded its geographic focus from its traditional target areas in Ventura County to include Los Angeles, Orange County, and San Diego County. The company focuses on build-to-suit and adaptive reuse properties in all sectors. "We plan to plant a flag in a market, get a critical mass of product, and buy and sell as opportunities come up," said Rob Solomon, chief development and legal officer.

BLT is set to close on a nearly $30 million Orange County industrial portfolio and recently acquired an auto body shop situated on a busy corner of Lincoln Boulevard in Santa Monica. The firm is planning to convert the property into a retail and upscale restaurant property due to its ample parking. Adaptive reuse projects like this are rising in Southern California for a simple reason: there is not a lot of developable land left. "Coastal southern California markets have a long-term steady appreciation," Solomon added. "There are a lot of re-uses of space going on in downtown Los Angeles in a number of major industries."

The firm, which started out as a waste and recycling venture, diversified its business to include real estate due to the typical two- to 10-year construction cycle for waste facilities. Founder Bernie Huberman saw substantial opportunity to acquire real estate in urban industrial areas of non-core markets, Solomon said. BLT's roots have been a substantial boon as it has made acquisitions, both in terms of mitigating environmental risks and capitalizing on adaptive re-use situations, Solomon noted.

"WE PLAN TO PLANT A FLAG IN A MARKET, GET A CRITICAL MASS OF PRODUCT, AND BUY AND SELL AS OPPORTUNITIES COME UP"
ROB SOLOMON, BLT ENTERPRISES

BLT Enterprises has successfully built on a former landfill, addressing the structural challenges of uncompact soil, contaminated groundwater, and installing methane barriers so that organic material doesn't catch on fire. This experience came into play when the firm moved its new Santa Monica headquarters, adapting a former aerospace manufacturing building for its customized space.

One factor that is particularly important for build-to-suit tenants is identifying sites with the maximum amount of parking. "At the end of the day, we're in the customer service business. We aim to attract and retain the tenant for the long term, so parking is important," Solomon said.

The company has acquired $2 billion of commercial assets and completed $125 million in transactions since its inception. The most unexpected success came from a portfolio of properties that was formerly a plastic tube and bottle manufacturer, with BLT building a custom facility on a five-acre parcel for Volkswagen's North America Emissions Testing Facility. The LEED-certified building includes solar panels on the rooftop and solar carports in the parking lot.

HINES, WELLTOWER MOVE AHEAD ON RARE NYC SENIOR LIVING PROJECT

A joint venture between Hines and Welltower, a Toledo-based real estate investment trust that concentrates on assisted living facilities for senior citizens, is taking a classically New York approach for its planned senior living development in the city. The partners are hoping to create a building that dovetails with traditional Upper East Side residences for the 15-story, 125,000-square-foot senior living and memory care facility community located. The property will be located on the northeast corner of Lexington Avenue and East 56th Street.

The partners are hoping to create a first-of-its kind property for the rare Manhattan senior living development, melding a living environment that promotes wellness and community with residents needs for cognitive engagement, mobility and nutrition. New York's elderly population is expected to expand rapidly over the next decade and the current availability of assisted living is five times less than the national average, according to Mercedes Kerr, senior v.p. of business development at Welltower.

Designed by SLCE Architects, the property is an as-of-right development that will be comprised of ground-floor retail, including a TGI Friday restaurant, below a senior living and memory care community. Floors three to 14 will be residential units. The building is expected to be completed by late 2019.

Amenities include energy-efficient design features, floor-to-ceiling glass windows, a physical therapy room, and landscaped terraces and gardens on floors four, 11 and 15. "Welltower is able to fund the project fully due to its healthy balance sheet position, but the Hines-Welltower JV may consider traditional financing and the addition of a capital partner," a REIT spokeswoman said.

The joint venture acquired the two-parcel development site at 139 East 56th Street in Midtown Manhattan for $115m in April from Meringoff Properties and the Riese Organization. The combined property offers zoning floor area of 111,216 square feet.

MANAGER PROFILE

NEW YORK-FOCUSED EB-5 CENTER TARGETS SENIOR DEBT, PUBLIC-PRIVATE DEALS

BY SHERRY HSIEH

New York City Regional Center (NYCRC), a private company authorized to raise funds from immigrant investors under the popular EB-5 immigrant visa program, has been taking a different tack than many of the real estate players who are targeting this segment of the market. Unlike many players in the space, the New York-based regional center's funds typically take a first mortgage position in a deal and prefer to be involved with public-private partnership economic development projects that are supported by the City.

Paul Levinsohn, co-founder and managing principal, believes the firm's strategy is a safer route for its investors than the mezzanine position preferred by many of its peers. "We structure our financing like a bank in that we seek to be in a first leasehold position. That is an important difference in our offerings – EB-5 investors in many other offerings are in an unsecured position," he explained.

NYCRC was approved as an EB-5 regional center in 2008 and was the first in New York City. At that time, there were just 30 regional centers around the country. Today, however, there are more than 700. The firm's projects include the redevelopment of the Brooklyn Navy Yard, the expansion of Steiner Studios, and the redevelopment of the George Washington Bridge Bus Station. It is also providing capital for a number of infrastructure projects including the construction of a wireless network in New York City's subway stations (see chart).

The company has secured more than $1.2bn of financing to date that has helped fund a series of real estate and infrastructure projects. "We came of age during the credit crunch, which was also a time when the Bloomberg administration wanted to move forward with various public-private projects," Levinsohn said, noting that the firm often provides financing to the private developers selected by the government to oversee construction of these projects. "We decided to focus our efforts on helping to fund government-sponsored economic development projects."

As a lender over the past eight years, NYCRC has been deemed a Recognized Mortgagee, Recognized Lender, and/or Institutional Investor by seven different New York government entities, including the City of New York, the State of New York, the Port Authority of New York and New Jersey, and the MTA.

The EB-5 program, established in 1991 by Congress to stimulate development through foreign investment, awards up to 10,000 visas per year for eligible foreign investors and their families who invested in projects that contribute to job creation. About 90% of the investors come through regional centers and Chinese investors make up the vast majority of these visas in recent years, Levinsohn noted.

Although Congress voted late last year to extend the program without changes through September 30, EB-5 specialists anticipate improvements to fraud prevention as well as higher filing fees and minimum investment amount in targeted employment areas over the long-term. NYCRC, which has raised its capital in increments of $500,000, says participants are concerned that the minimum investment will rise. "It's often not the super-rich who are seeking visas and investing in the EB-5 program. It's the academics, the entrepreneurs, people focused on educational options for their children. The U.S. is also competing against other nations for immigrant investors. We hope that Congress doesn't price the U.S. out of this market by raising the minimum investment amount too high," he said.

> "WE STRUCTURE OUR FINANCING LIKE A BANK IN THAT WE SEEK TO BE IN A FIRST LEASEHOLD POSITION. THAT IS AN IMPORTANT DIFFERENCE IN OUR OFFERINGS"
> PAUL LEVINSOHN, NYCRC

There are a number of requirements to make an EB-5 project successful, Levinsohn said, noting that not all regional centers structure their offerings to ensure they are EB-5 compliant, including making sure a sufficient number of jobs will be created. "An integral part of our due diligence before moving forward with a project is determining whether the jobs will be created in the requisite period of time," he added.

The firm is seeing a trend in which some regional centers are releasing money from escrow prior to adjudication from USCIS, the division of Homeland Security that oversees the EB-5 program. "We require that the EB-5 investment of $500,000 be held in a protected bank escrow account pending approval by USCIS. This practice ensures that USCIS has fully adjudicated and approved the EB-5 compliance of a project before the investment of $500,000 is released from escrow," Levinsohn said. "Our borrowers often obtain bridge loans to assist with construction while we wait for adjudication by USCIS. The EB-5 capital is then used to pay off the bridge loan," he added.

Over the long-term, another challenge could be opposition from Congress. According to an April 12 article in the Wall Street Journal, the U.S. Senate Judiciary Committee is concerned that much of the capital raised is allocated to developments in affluent parts of the country rather than rural areas or markets with high unemployment. The program received about 17, 691 applicants in 2015, with the number rising steadily from 11,744 in 2014 and 6,554 in 2013.

PROJECT SNAPSHOT

NAME	PHASE	
Brooklyn Navy Yard	Phase I $60m	Construction and renovation of the Green Manufacturing Center and surrounding infrastructure
	Phase II $42m	Renovation of the one-million square foot Building 77
	Phase III $12m	Construction of an 84,0000-square-foot high-tech manufacturing facility
	Phase IV $30m	Continued redevelopment of Building 77 and surrounding infrastructure work
Steiner Studios	Phase I $65m	Renovation of a historic 7-story building and construction of five new television and commercial soundstages totaling 45,000 square feet
	Phase II $80m	Construction of six new soundstages and production support space totaling 177,000 square feet
George Washington Bridge Bus Station	Phase $91m	Redevelopment of the bus station to improve the efficiency of operations and enlarge bus and passenger capacity
Fresh Direct	$85m	Construction of a new food processing, warehousing, and distribution center as well as corporate offices for Fresh Direct
Subway Wireless Infrastructure	$75m	Construction of a wireless infrastructure network in New York City's underground subway stations

Source: NYCRC

PREDICTIVE ANALYTICS:

THE KEY TO TRANSFORMING INFORMATION INTO KNOWLEDGE

BY HOWARD BARASH

It has long been held that knowledge is power. This adage holds true for real estate investors and operators who know that the data they collect can be used as a powerful tool to be leveraged to enhance operations and drive greater profitability. With each new generation of emerging technologies, this power to utilize data intensifies proportionally. Given the vast sea of data generated both within an organization and externally, the challenge becomes separating the wheat from the chaff—distilling raw data into useful information, and transforming that information into knowledge.

DATA GOVERNANCE:

The Foundation to Transform Data into Information

Real estate companies fundamentally understand that information needs to be high quality, timely, and auditable. Yet the control over information is one of the most confounding challenges organizations face, and what sounds easy to execute in theory often proves difficult in reality. This is especially true for companies that rely on different third parties to collect source information. In order to get an accurate — and actionable — view of the business across the enterprise, there needs to be consistency not only within a single entity, but across both like and dissimilar entities. Given the complex nature of ownership, disparate providers of information, and vertical reporting structures, it is imperative that information take on a common meaning and have absolute transparency as it is aggregated, consolidated, and analyzed. A data governance program helps achieve this. By its simplest definition, data governance relates to the idea that data should be standardized throughout the enterprise, both horizontally (across similar assets) and vertically (as it is aggregated up the deal stack).

Commercial real estate companies that have instituted robust data governance programs to facilitate the aggregation and standardization of data across their asset portfolio have taken a vitally important step in their ability to use information to drive better decision-making. With a comprehensive data governance program in place, they can be confident that the information being collected horizontally across assets then being reported vertically up the capital stack is reliable, accurate, and consistent. Yet reliable internal data is just one piece of the overall decision-making puzzle: External data such as market conditions, demographic trends, economic indicators, competitor performance, best practice benchmarking, etc. need to be factored into decisions impacting enterprise strategy. However, many commercial real estate companies are challenged to find the right technology tools to help them extract relevant information from the ocean of Big Data, normalize and integrate it with their organizational data, and ultimately use the full breadth of information to their advantage. Enter predictive analytics.

PREDICTIVE ANALYTICS:

The Tool to Transform Information into Insights

Simply stated, predictive analytics are a class of data-mining solutions that turns data into actionable insight using variables — predictors — that can be measured to forecast future behavior. By applying predictive models to both public and proprietary data, real estate companies can identify patterns and develop models to better inform decision-making. For example, predictive analytics allows real estate investors and operators to integrate such disparate factors as lease expirations, projected capital investments, market cycle risks, price forecasts, and macro-economics to validate strategic location, investment, acquisition, and disposition decisions.

KEYS TO A SUCCESSFUL DATA ANALYTICS IMPLEMENTATION

The real estate market is complex and volatile, and operators and investors are constantly challenged to balance risk with reward. Predictive analytics can deliver the insights needed to make more informed decisions to help minimize risk, maximize reward, and ultimately drive competitive advantage. Convinced of their inherent value, many real estate companies are appropriating budget to the selection and implementation of a predictive analytics solution. How can a successful implementation of predictive analytics be assured? The answer lies in the desired outcome: Organizations need to have clearly defined expectations around what the tool will ultimately be able to help them do. Key questions to answer include:

- What should be done if internal data differs in convention with outside sources?
- How can internal and external data be integrated and normalized?
- What are the relevant factors that might further refine investment decision making?
- Are there relevant data sources to facilitate decision-making? Where does this data reside?
- What insights can the data provide?

In the process of answering these questions, organizations begin to understand the potential power of the information at their fingertips. They can then map out where the structured and unstructured data resides and how it can be blended so that the little picture and the big picture can be seen at the same time and patterns can be identified to refine decision-making.

TRANSFORMING DATA INTO KNOWLEDGE AND KNOWLEDGE INTO WISDOM

There are a number of ways that commercial real estate organizations are leveraging predictive analytics to drive value and improve operations. Consider investment managers who compete for capital to deploy to create value for investors. Their challenge is to essentially build a better mousetrap. How can they effectively take data, apply predictive analytics, and gain insights that facilitate investment decision making? Using the housing market as an example, the events of 2008 fundamentally changed the American dream — it is no longer home ownership. External sources indicate that there is a shift away from suburban home ownership back to urban areas. Further stratification of demographic preferences identifies differences in the various cohorts and what they are looking for from their apartment residences. This information needs to be effectively integrated into investment models to determine appropriate product for acquisition or development.

Similarly, new tools are available that allow asset managers to aggregate operational data with external factors to better predict the needs for maintenance as well as capital improvement. The overall goal: reduce cost and drive more to the bottom line. By applying predictive analytics to asset data, organizations can uncover patterns, develop models to enhance asset management, and ultimately improve overall operational performance.

SUMMARY

In an industry fraught with uncertainty, there's a strong business imperative for companies to break away from the traditional analytics model of collecting internal data and analyzing it to give retrospective insight into what happened. Staying ahead of the competition requires forward thinking. The use of predictive analytics across various business activities is transforming how real estate companies approach decision making, innovation, and strategy. The application is broad, driving everything from improved operational management and workplace design, to enabling better informed transaction negotiations and property investments. There is no doubt that real estate investors and operators will continue to find new uses for predictive analytics: they are only limited by their imagination.

Howard Barash is a principal with CohnReznick LLP specializing in commercial real estate. He can be reached at 973-863-4367 or howard.barash@cohnreznick.com.

(CONTINUED FROM PAGE 1)

COLLIERS TAKES ULTRA-LOCAL APPROACH WITH NEW MIAMI GROUP

and there are about six million residents in South Florida, according to data from the U.S. Census.

Rather than focusing on specific property types, the Urban Core group aims to be specialists in Miami's neighborhoods. The city has a number of distinct, diverse neighborhoods and it's critically important to know everything about every building on each block, regardless of sectors. "Each property has a history and a story and we need to know it," Yetming said.

The group will achieve this through a combination of market knowledge, industry relationships, and technology, with Krasnow adding that this level of information is extremely important to clients. "Investors in China or New York want to visually walk down the block and, for example, open up the building at 12 East Flagler Street to see what is going on inside," Krasnow said. "Our strategy is very targeted, specific, and embedded in neighborhoods. It's no longer relevant to look at the Miami office vacancy rate – for investors of today and tomorrow, you need to have block by block information."

Miami's urban evolution was uneven, initially halted by a glut of condos that were built in the last boom and then, as the units were sold, a lack of amenities such as restaurants and grocery stores. "New tenants had to do their grocery shopping at CVS until the retail picked up," Krasnow said. Today, however, young professionals want to live, work, and play in the same neighborhood and tech companies in particular have been very active in the city. "This taps into the international gateway that Miami offers, instead of being driven by just tourism or retail," he added.

Another important factor in the city's evolution was an expansion of transportation, with Uber, Lyft, the Miami-Dade Light Rail, and the South Florida High Speed Connector, which will run from Miami to Orlando. "Downtown Miami was frozen, sitting dormant [after the downturn]. Local buyers couldn't see it emerge as a proper, bustling downtown. We started to see foreigners come in and buy one-off transactions," Mattingly said. "As soon as the bullet train became a reality, we started to see more people pump money into the market."

Although there has been some softness reported in Miami, much of this has been related to new condo sales. The Colliers team is confident that this will pick up and is also optimistic that the mindset of investors who are targeting this market is more long term. "Many investors are seeing Miami not so much as an opportunity for investment as a city where they will be for the long haul. This is both at the individual condo buyer level and at the institutional level," Krasnow said.

(CONTINUED FROM PAGE 1)

Volatility draws REITs from equity mart

below comparable market prices.

Fitch expects commercial real estate fundamentals to remain healthy and for cap rates to increase modestly as REITs adjust their bids to take into account a higher cost of capital and marginal buyers remain on the sidelines until the commercial mortgage-backed securities market stabilizes. Employment growth and disciplined bank construction lending should also keep supply in check for most product types, allowing for modest occupancy gains and low-to-mid single-digit rent growth.

PEOPLE MOVES

TRUAMERICA PROMOTES HOCHMAN, CAMPBELL

TruAmerica Multifamily has promoted Noah Hochman and Greg Campbell to head its newly created capital markets group and national acquisition team, respectively, the company announced. The moves are part of a restructuring that supports the firm's continued growth and national expansion of its value-added investment platform. The Los Angeles-headquartered investment firm specializes in rehabilitation of Class B or better multifamily housing in the western U.S.

CHILDREN'S MUSEUM NAMES MESSINGER TO BOARD

The Children's Museum of Manhattan has named Matthew Messinger to its board of directors, the company announced. Messinger is president and CEO of Trinity Place Holdings. In his role at Trinity Place, Messinger oversees a publicly traded company that invests in real estate and real estate related securities with an expertise in development, repositionings and asset management. The company owns commercial and retail properties in New York, New Jersey, and Florida as well as intellectual property and brands associated with the consumer sector, such as FilenesBasement.com and the Running of the Brides.

FIFIELD NAMES CHAIRWOMAN, PRESIDENT

Multifamily specialist Fifield Realty Corp. has named Randy Fifield as chairwoman and Kevin Farrell as president, the company announced. "With projects taking us from Los Angeles to Austin and, of course, many in our hometown of Chicago, this is one of the most active and exciting times in Fifield's history and it's an honor to have such driven and esteemed individuals leading the way for us," said Steve Fifield, chairman of Fifield Cos.

WALKER & DUNLOP BRINGS ON CAPITAL MARKETS SPECIALISTS

Walker & Dunlop has brought on a three-person team from Cohen Financial, the company announced. Kevin O'Grady, Daniel Sheehan, and Eric McGlynn, along with their support staff, will be based in the firm's Miami office. As part of Walker & Dunlop's Capital Markets group, the team advises owners and operators of real estate as well as developers in arranging financing nationwide with institutional capital providers such as banks, life insurance companies, and CMBS conduits.

WALKER & DUNLOP BRINGS ON WERNICK

Walker & Dunlop has hired Stuart Wernick as a senior v.p. and managing director in its capital markets group in Dallas, the company announced. Wernick will be responsible for building the regional production platform while arranging commercial real estate loans to banks, life insurance companies, CMBS conduits, the Agencies, and other capital sources. Throughout his mortgage banking career, Wernick has originated over $10 billion in commercial real estate financings for a wide array of asset classes across the United States.

... and climbing.

A global player in asset servicing...

The CACEIS Group's private equity, real estate and debt investment division is made up of specialists in North America and Europe, and services more than $120 billion in assets worldwide. Our in-depth experience in the PERE sector, combined with our cutting-edge technology platforms and a range of related asset servicing options, enables CACEIS to meet the needs of managers and institutional investors in terms of transparency, risk and performance monitoring.

CACEIS, your dedicated asset servicing partner.

www.munier-bbn.com

Contact our New York office:
CACEIS (USA) Inc.
Petru Ion
E: petru.ion@caceis.com T: +1 212 403 9597
www.caceis.com

caceis
INVESTOR SERVICES
solid & innovative