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Real Estate Finance & Investment

BIG LOS ANGELES OFFICE SALE REPORTEDLY MOVING SLOWLY

BY KAITLYN MITCHELL

CIM Group's planned sale of Two California Plaza, a 52-story, 1.37m-square-foot office building in Downtown Los Angeles, is reportedly moving more slowly than expected. The investment company is said to have quietly halted sales efforts but may still be entertaining offers after broker CBRE garnered bids that fell short of expectations. Calls to CIM and CBRE were not returned by press time.

The property at 350 South Grande was expected to sell for as much as $550m, or about $402 per square foot. The adjacent One California Plaza, a roughly one million-square-foot office building that was up for sale at the same time, was sold in March to a Rising Realty Partners and Colony Northstar for about $460m, or $460 per square foot, according to published reports.

Two California Plaza has an occupancy level of just 60%, according to data from Real Capital Analytics, and this contributed to the softer than expected pricing, local players told *REFI*. "If someone's going to have to do heavy lifting, they're probably going to pay [less than $550m]. The building needs to be stabilized," the local player noted.

City National Bank signed a lease for up to 300,000 square feet in late 2016, according to published reports, and the sale could have been a move to test the waters on pricing. "It's not unusual to test the waters and bring it out, especially when there's more value to harvest," the local player said.

CIM acquired the property in early 2014 for $301m, or $236 per square foot, from CW Capital after previous owner Maguire Properties defaulted on a commercial mortgage-backed securities loan. There's a roughly $423m Citigroup mortgage on the building.

The deal highlights a broader problem with pricing in Los Angeles, where high-quality

Continued on page 16

EXPERIENTIAL BORROWING

CMBS TAKES AIM AT LENGTHY LOAN DOCS

BY SONDRA CAMPANELLI

The commercial mortgage-backed securities market is hoping to simplify loan documents as part of a broader effort to improve the borrower experience. The paperwork associated with a conduit loan has crept up to between 125 and 175 pages in recent years as lenders, borrowers, and rating agencies increase the amount of required information and write in more protections. "The trend with any document is to get longer," said Joshua Stein, a New York-based real estate lawyer. "Every time something goes wrong, you put in [another section] and everyone copies it."

Tackling the issue is part of the industry's drive to reduce the ABC, or Anything But Conduit, mentality that's been seen among existing and potential borrowers and is particularly relevant as issuance volume drops. Indeed, the industry is on track to do about $75bn of new origination this year, down from about $105bn two years ago.

Because a CMBS loan involves so many parties, each group is given the chance to review the documents. "There may be 10-plus parties reviewing the loan documents looking to

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BIG APPLE RETAIL INVESTORS SHIFTING TO ACQUISITION MODE

BY KAITLYN MITCHELL

After a long period of hypergrowth that led to inflated prices and rents, New York retail specialists are looking at a blank canvas of acquisition opportunities, new lease structures, and creative re-imaginings of space that would have been unthinkable five years ago. "I think it's one of the best times to invest in retail in the past 20 years, if we can underwrite today's rents and give the appropriate market concessions in areas that are either underserved and or high-demand growth neighborhoods" said Greg Kraut, a managing partner at K Property Group, a New York-based investment and asset management company.

The city's high-profile retail corridors saw a peak in late 2014 and early 2015, as pricing and lease rates were bid up for assets in submarkets such as the Broadway and Fifth Avenue corridors. "We saw people pointing to one deal as the norm rather than the exception," Kraut said. "What's happened is the double whammy – everyone thought their building was worth an inflated number but there were only a certain number of tenants who could pay that rent."

Since reaching a peak, the city's retail market has been stabilizing, albeit with a caveat: retailers have had to work harder to capture the imagination of consumers. "We've seen rents decreasing, leading to more tenants in the market, but with the need to be relevant and offer an experiential shopping experience in order to succeed," said Robin Abrams, principal and vice chairman of retail at Eastern

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FROM THE EDITOR

The commercial real estate market seems to have hit the dreaded summer doldrums as brokers, investors, and lenders are reporting many conversations and little deal activity. As always, things are expected to pick up in September but the next few weeks are going to be slow as molasses. Other analogies we heard from our sources this week included slower than dial-up (remember dial-up) and my personal favorite, slower than a Philip Glass opera.

With that in mind, we took a deep dive into a critical topic for the commercial mortgage-backed securities sector with a piece on how the improve the borrower experience. Increasingly long loan documents are a big part of the problem but the absence of the human touch post-securitization is another major factor. The story starts on page 1.

Meanwhile, *REFI* is starting to offer more online content, including weekly podcasts and blogs. Our recent podcasts feature conversations with Bentall Kennedy on its sustainability in the commercial real estate market, Billy Procida of Procida Funding & Advisors discussing risks in the New York office and multifamily markets, and Park Madison Partners' Rob Kohn talking about the private equity fund raising environment.

SAMANTHA ROWAN, EDITOR

Samantha Rowan

s.rowan@pageantmedia.com or (646) 891 2146

THIS ISSUE

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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
Robert Dunn
Head of Content
+1 (646) 891 2127
r.dunn@pageantmedia.com

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

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

Sondra Campanelli
Reporter
+1 (646) 891 2121
s.campanelli@pageantmedia.com

Deborah Zaken
Director, Production & Design, US

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

COMMERCIAL
Nick Morgan
Publishing director
+44 (0) 20 7832 6635
n.morgan@pageantmedia.com

Richard Freckleton
Content sales manager
+44 (0) 20 7832 6593
r.freckleton@pageantmedia.com

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

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

PAGEANT MEDIA
Charlie Kerr
Chief executive

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Strategic Housing, JV Maps multifamily plans

A partnership between Strategic Housing Partners and Rockpoint Group has closed on a 1,200-unit portfolio of apartment properties in the greater Los Angeles metro region that's part of a broader plan to build a national portfolio. "We have a five-year goal of acquiring 10,000 apartment units – we're opportunists at heart, and are going to be expanding our geo footprint. We have assets in California and New York, and will expand in a number of other markets nationally," said Steve Ludwig, principal of Strategic Housing Partners.

The partners are tapping into increased demand for apartments in the region, which stems in part from an all-time rate of homeownership in Southern California, and beyond. Although Ludwig declined to disclose pricing, market players told REFI the portfolio is valued at more than $300m. "We sift through a tremendous amount of data and properties to find deals," Ludwig said.

The partners are planning a capital improvement plan to transform all of the properties. "What sets us apart from other value-add multifamily investment programs is that we have a vertically integrated platform that allows us to acquire and efficiently reposition multifamily properties leveraging the expertise our asset management and affiliated property and construction management companies. For example, we source our own construction materials by buying in bulk, warehousing and creating higher-quality apartment finishes at a lower cost," Ludwig said. "It's a competitive advantage – we've found a tremendous value in our ability to look globally and source materials. We don't skimp."

"WE SIFT THROUGH A TREMENDOUS AMOUNT OF DATA AND PROPERTIES TO FIND DEALS TO ACQUIRE."

STEVE LUDWIG, STRATEGIC HOUSING PARTNERS

The recent acquisitions include the 14-building, 592-unit San Fernando Valley Portfolio in Panorama City, North Hills, Van Nuys and Canoga Park. SHP and Rockpoint are upgrading the properties to include new interiors with kitchens with granite countertops and wood-inspired plank flooring. "This portfolio was sourced as an off-market transaction and acquired at a very attractive price. It had been mismanaged for a long time," said Ludwig. "Upon acquisition, we implemented an in-house property management team to address and correct those issues. The markets in the San Fernando Valley have historically been overlooked, but are now gentrifying as people seek homes accessible to centers of business, schools and hospitals."

Marathon Towers is a 94-unit apartment complex located in East Hollywood, a rapidly gentrifying infill Los Angeles submarket. "We bought this in an off-the-market transaction – it was also an undermanaged asset," Ludwig said. Meanwhile, the South Bay Portfolio is a 506-unit multifamily portfolio comprised primarily of two-bedroom townhomes in the South Bay submarket of Torrance. "This portfolio has been incredibly well-maintained over the last 60 years by its original developer," Ludwig said. "Torrance is an unbelievable market that is a stone's throw from the best beaches in SoCal where the average home price is $900,000. The submarket has had no new construction over the last decade due to strict building codes, the price of land, community opposition and the cost of construction."

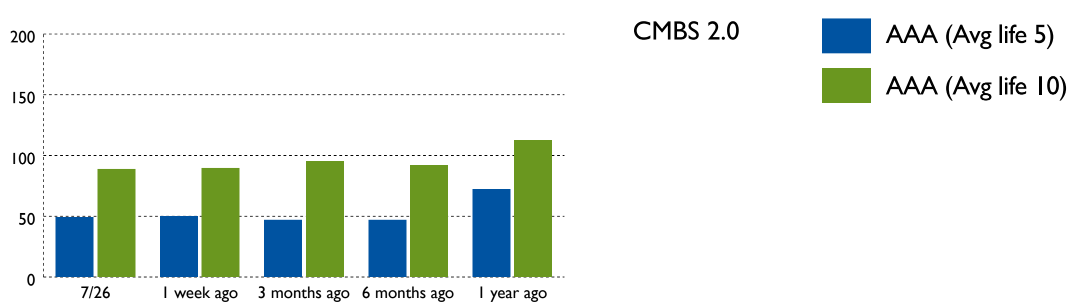
TREPP'S CMBS SPREADS MATRIX – JULY 26

CMBS 2.0

Source: Trepp, LLC

FIXED RATE (CONDUIT)	AVG LIFE	BENCHMARK	7/26	1 WEEK AGO	3 MONTHS AGO	6 MONTHS AGO	1 YEAR AGO
AAA	5	S+	49	50	47	47	72
AAA	10	S+	89	90	95	92	113
AA	10	S+	135	135	133	124	179
A	10	S+	168	180	186	215	298
BBB	10	T+	325	336	429	435	479
BBB-	10	T+	339	350	448	486	597

CMBS SPREADS SNAPSHOT – JULY 26



BENCHMARKS AS OF JULY 26

10-year Treasury: 2.29

10-year Swap: 2.25

HAP taps Guggenheim for Big Apple bridge loan

HAP Investments has obtained a $7.9m bridge loan from Guggenheim Commercial Real Estate Finance. The New York-based investment and development company will use the loan to refinance debt on 329 Pleasant Avenue, a 20-unit, recently completed rental building in the city's East Harlem submarket. Eran Polack, ceo, declined to disclose pricing but noted that the company selected Guggenheim because of the lender's flexibility and speed in originating and closing the loan.

"Our construction loan on the building was coming due and we searched the market for a new loan. Traditional banks wanted to see the building rented and a balance sheet for a year but we're still completing lease up," Polack said. "Guggenheim was one of the more flexible lenders and was willing to do a loan on a building that's only 30% rented."

Lease up is moving quickly, however. The 21,500-square-foot boutique luxury rental building is close to a number of big box retail stores that are a rarity in Manhattan, including Target and CostCo. That said, Polack believes the unit size and availability of ample parking are a greater draw for its target demographic. "The building is mostly small apartments for young people without kids. Millennials typically order online as well," he added.

The project is one of a slew HAP has under construction in the city, with a total of five projects in East Harlem and additional developments in Manhattan's Chelsea submarket and Jersey City's Journal Square submarket.

RXR moves ahead with New Rochelle multifamily projects

RXR Realty is tapping into demand for apartments in the New York metro areas with plans to build two 28-story multifamily properties in nearby New Rochelle. "The demand is being driven by a combination of high prices in New York City and demand from suburban markets, including young people living in their parents' homes and empty nesters looking for a more walkable lifestyle," said Seth Pinsky, executive v.p. of RXR. "Many different demographic groups are seeking this lifestyle, but supply is not being produced at a fast enough pace."

The company's development budget for the transit-oriented project is about $300m. "We are big believers in the need for infill developments around transit nodes throughout the region," Pinsky said. "In New York City, the land is very expensive and it is already heavily developed – meanwhile, it's hard to find development sites outside of the city, as there's traditionally been a real hostility towards development at premium sites."

The 650 to 700-unit project will be built on the city's Church-Division parking lot on Main Street and will include 35,000-40,000 square feet of ground-floor retail. RXR will seek site plan approval in late 2017 and hopes to break ground in the second half of 2018. "New Rochelle has a combination of both residents who live and work there and those that commute to NYC," said Pinsky. "Don't forget that Westchester and Fairfield Counties are themselves large employment centers."

The real estate investment trust has worked with New Rochelle on this and similar projects in the city. "Many suburban communities have realized that if they want to retain important segments of the population, they must offer an alternative lifestyle. We're looking to create NYC-quality construction with NYC walkability and amenities at a fraction of the cost of NYC, in communities that have the same benefits as urban areas."

RXR also recently completed a 28-story mixed-use building nearby at 587 Main Street in New Rochelle with cultural space, retail, and 280 residential rental units. The project will begin leasing in late 2018. The rental costs are expected to be comparable to current multifamily prices in New Rochelle, which are typically 40% to 50% less than the rents paid in prime New York City neighborhoods. "Rents should be affordable to people at a variety of income levels," said Pinsky. RXR also has projects under development in Yonkers, New York, Stamford, Connecticut, and Glen Cove, Long Island.

RXR won the bid to develop the site when the city issued an RAP for a master developer in 2015. New Rochelle's redevelopment plan includes the rezoning of 279 acres of land around its train station and in its downtown area, allowing for more than 12m square feet of new construction, including up to 2.4m square feet of office space, one million square feet of retail, 6,370 housing units, and 1,200 hotel rooms. The city's "fast track" permitting program promises application approval within 90 days, including a completed environmental impact assessment.

PODCAST:
BENTALL KENNEDY: SUSTAINABLE BUILDINGS MAKE WISE INVESTMENTS

A new Bentall Kennedy report on sustainability has founded that owners who invest in sustainability as well as amenities like fitness centers and rooftop gardens generally find that their properties outperform non-green buildings on occupancy, tenant retention, and net operating income.

"Europeans have embraced sustainable real estate for some time, and it's become a bigger priority for American investors as well," said Doug Kinney, executive v.p. of client relations and product development. "In many countries, pension plan guidelines require that sustainability scores be factored into the investment process. The Netherlands are true leaders in this area – sustainability is a driving force in their investment planning."

Sustainability became a trend in the U.S. office market around 2010, at the same time that the economy was crawling out of the recession, noted Dara Friedman, senior v.p. of portfolio management. "Global capital flows into SRI have significantly increased, and as real estate owners, we are aware of the diverse needs of our tenants and investors," added Kinney. "Sustainability is now at the forefront."

Bentall Kennedy has also benefited from tenant engagement, as evidenced by its work with the tenants in San Francisco's 475 Sansome Street. After acquiring the property in 2012, the firm launched a tenant engagement program and active leasing campaign. Over the past four years, the firm has moved the property to LEED Platinum status and reduced energy consumption by 24%. "Since 2012, our energy management initiatives have generated more than $22.9m in utility cost savings," noted Friedman. "Green buildings create value through rental rate premiums, fewer rent concessions, and occupancy rate premiums."

U.S. REAL ESTATE MARKET SEES RISE IN CONFIDENCE, FALL IN ACTIVITY

Real estate investors are viewing the current global climate with less uncertainty than they were earlier this year, which is keeping commercial real estate fundamentals in line with expectations. "The market got back to normal over the first half of the year," said Bill Maher, head of Americas research and strategy at LaSalle Investment Management. "It has also slowed down, which we think is a good thing."

There is broad consensus that the post-election optimism that has buoyed the broader financial markets has not extended to the real estate space – transaction volume slowed considerably in 2017 and rent growth has fallen in many major U.S. markets. The slowdown, however, has been good news for those who felt that the market was getting overheated. "It's a moderation from the strong momentum of investing that we didn't think was sustainable over the long term," Maher added.

According to LaSalle's Mid-Year Investment Strategy Annual report, capital flows to U.S. real estate are above long-term levels but are decelerating. "Trading volumes are down 15% to 20% through April; however full-year 2017 volumes are likely to be down less," the report stated. Activity has fallen the most in major markets as investors search for higher yields in secondary and tertiary markets.

Soft data indicators, including consumer confidence, PMI, small business optimism, and the stock market, are rapidly outpacing hard data indicators, like job growth, GDP growth, hourly earnings growth, and core retail sales growth. Real estate, as a hard indicator, has not seen a big increase since the election. "Private and institutional real estate returns have moderated and REITs have been one of the lagging sectors," Maher said. However, that lack of recent growth could prove valuable moving forward. "Real estate [prices] didn't benefit from the so-called 'Trump bump' the same way the broader equity markets did, so we don't think pricing and transaction volume will suffer it if it goes away," he added.

Despite an overall positive outlook, markets are still concerned about some future events, including a potential renegotiation of NAFTA and the future of the Congressional Republican-led healthcare efforts. Earlier this year, the current administration suggested that it would look to pull the U.S. out of the free trade agreement. That discussion has moderated in recent months and many real estate investors have renewed confidence that the agreement will stay in place. "It seems unlikely at this time and the risks are much lower," said Maher. "Investors are viewing [a U.S. pullout] as having a fairly low likelihood of happening."

The U.S. administration's rejection of the Paris Climate Accord, in comparison, is not expected to have as large of an impact on the real estate space. "We're finding that both institutions domestically and non-U.S. are increasingly embracing ESG [investing principles] and they're demanding that real estate advisors do the same," said Maher. "Larger tenants, particularly multinationals and companies with a younger demographic base, are looking for greener buildings, so we're finding owners and tenants are pushing [for green buildings] independent of what the U.S. government does."

Investor appetite for Canadian real estate continues to grow, bolstered by a strengthening Canadian economy, strong fundamentals in gateway markets, and a weaker Canadian dollar due to the collapse in oil prices. In the first quarter of this year, transaction volume in Canada reached \$9.1bn, with foreign capital accounting for \$1.7bn of the total. "As for the increase in foreign investment, some of [those investors] probably looked in the U.S," said Maher. "Foreign investors view pricing as favorable compared to where it has been in the U.S. market, given the weakened Canadian dollar." It also helped, he added, that Canada had less uncertainty and turbulence than the U.S. had in the first quarter of this year, although LaSalle's Mid-Year ISA noted that high average household debt levels national and frothy housing markets in Toronto and Vancouver remain risks.

Monday Properties secures Rosslyn lease renewal

Monday Properties has signed the U.S. Department of State to a 15-year lease renewal at 1701 Fort Myer Drive in Rosslyn, Va., as well as an expansion into an adjacent property at 1200 Wilson Boulevard. "Rosslyn has long been a submarket for the State Department, which has various divisions that call it home," said Tim Helmig, managing partner of Monday Properties. "It's one Metro stop away from Foggy Bottom and has the highest concentration of State Department workers in the city."

With the State Department's lease at 1701 Ft. Myer approaching expiration, the General Services Administration conducted a full and open procurement process to assess Rosslyn and other markets within Arlington before making the decision to renew at its current location. "There was also a consolidation of other leases expiring and, because we own the neighboring property at 1200 Wilson, we were able to provide a modern and efficient solution by combining into a cohesive single facility campus with a secured above-grade connector between the two building lobbies," Helmig said.

The New York-based investment and development company will construct a physical connector between the properties that will allow staff to flow from one building to another within its established security envelope, Helmig said. "As part of this modernized solution, we will be making improvements to the building to meet the GSA's requirements for performance, which includes HVAC, electrical, and elevator upgrades," he added. "There's also been a mandate across many federal agencies to shrink the footprint and modernize workspaces and our significant investment into this single facility campus will address that."

1701 Fort Myer Drive

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HEADWINDS AHEAD

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Century West rides apartment rally

Century West Partners, a Los Angeles-based company formed by Fifield Realty and Cypress Equities, is reaping the benefits of its acquisition activity in its hometown in the period just after the financial crisis. "As we were coming out of the downturn, we realized that there would be amazing demand for apartments in Los Angeles," said Kevin Farrell, chief operating officer. "There were still sites available that had a reasonable path to build mid-rise apartment buildings."

The company typically builds five- to seven-story podium apartments, looking for densely populated, infill locations like Los Angeles' Koreatown submarket. "We're active in Koreatown, Santa Monica, Glendale, and downtown South Park," Farrell said. "Three quarters of the sites we acquired for development were distressed but had an easy path to entitlement."

Following the downturn, Century West tapped into relationships with brokers who had multiple properties for sale that fit its investment profile. "No one needs to sell now," Farrell said. "Occasionally, we'll see an opportunistic seller that maybe missed the bubble during the condo boom and are trying to maximize their land value, which is easily double or triple what it was five years ago."

Century West is also seeing a substantial rise in construction costs, which Farrell estimated have risen about 10% per year in Los Angeles in recent years and as much as 70% over the past 10 years. "We're seeing increases in pricing for copper and lumber, especially over the last year. It's been tough to get projects to pencil solely because of construction costs," Farrell said.

On the financing side, the company has been able to avoid some of the pullback from construction lenders due to the locations of its sites. "We have seen loan-to-cost ratios drop from about 65-68% to 55-60%, which is a reflection of higher costs," Farrell said. "We're approaching a situation I've seen a few times before where we're getting construction costs shrinking so that the value of a completed project to its replacement cost is too narrow. At 40%, you can build all day. At 20%, it's a little tighter, especially with development and financing risk."

Semper sees long-term value in non-agency MBS

Semper Capital Management sees long-term value in legacy non-agency mortgage backed securities. These securities are still largely trading at a discount to par but could see some relief in the coming months as the recent uptick in housing starts could relieve some of the skyrocketing prices for single-family homes, according to Greg Parsons, ceo and head of the investment committee.

Housing starts increased to 8.3% in June, likely due to the continued imbalance between homes for sale and demand for new homes to purchase. "The need to balance the growing demand for housing with a dwindling supply, coupled with a strong economy, has given builders an opportunity to break ground and build more homes," Parsons said.

Nationally, U.S. housing prices are at pre-crisis highs. "What you're seeing now nationally is that even though things have recovered, it doesn't mean the opportunity set will. If you look at home affordability, it's been driven down by price appreciation," Parsons said.


Greg Parsons

The firm is increasingly involved in acquiring RMBS 2.0 bonds. "Housing starts have little or no direct impact on non-agency MBS but an increase continues to validate our thesis that the collateral that supports these bonds continues to strengthen," Parsons said. "Over the past few years, there's been little activity in the new issue market for non-agency MBS. Over the coming months, there will be more interest and focus on new opportunities in this space. Pre-crisis, these bonds traded at a spread to agency securities. Post-crisis, the unique nature of this collateral and the fragmentation of the market has created an opportunity."

Silverback sees New York metro opps

New York-based Silverback Development is hoping to use its diverse skill set to tap into investment and development opportunities nationally, with a strong emphasis on its hometown. The company, formed last year by Josh Schuster, has projects in New York's Gramercy Park, Harlem, Brooklyn Heights, and Soho submarkets, owns sites in Connecticut and Florida, and is looking in Washington, D.C.

"About 75% of the $1.7bn of deals we control are in the New York metro area," Schuster said. Silverback, which was formed after receiving a $50m capital commitment from an institution and a family office, has the ability to consider a broad range of opportunities.

The company's 12-person staff includes construction veterans, project managers, analysts, as well as a capital markets team, with the aim of bringing on in-house marketing capabilities in the coming years. In addition to its own projects, Silverback acts as a third-party development manager and works with both established institutions as well as less experienced players to execute on opportunities, Schuster said.

The company sources its deals mainly by pounding the pavement, preferring opportunities of 50,000 square feet or larger. "Our sweet spot is $120-150m of total capitalization," Schuster said, adding that the company will look at deals as large as a few hundred thousand square feet, and has a handful of such in the pipeline.

"I think our bread and butter is residential, although we're asset class agnostic. We have a couple of hotel projects and some mixed-use and commercial," Schuster said. "And on a totally different side of the spectrum, we're also building a ground-up homeless shelter and a luxury independent living facility that's geared toward Baby Boomers."

Projects in the pipeline include a roughly $100m ground-up condo development in Gramercy Park . The company expects to build a roughly 80,000 square foot, 60-unit property on the site, with units selling for $2m-3m.

"When we started out, we looked at real estate first and structure second. But at this point in the cycle, we look at structure first and real estate second," Schuster said. "We look for partnerships with landowners who want to monetize assets. We also do a lot of GP work for folks who are first or second-time developers with shovel-ready sites but can't finance their projects. In those situations, we come in as a silver lining and inject fresh capital and execute with precision."

The company is also working on raising a $100m structured credit fund through which it will aim to acquire the top sliver of stretch senior loans, a focus that will give Silverback the ability to come in as a backup developer in the event the deal goes sideways.

"We hawkeye the development so we can can help with the transition if the lender needs to takes over, or be backup assistance to the sponsor to help a struggling deal come to fruition," Schuster said.

The following stories were provided by Real Estate Finance & Investment sister publication, Property Investor Europe.

LONDON PENSIONS, GRAINGER TARGET EAST LONDON RESI

London Pensions Fund Authority has teamed up with U.K. residential specialist Grainger to buy and develop a portfolio of homes in east London. The venture marks the London Pensions' first foray into private rented sector housing and will be part of its GBP1.2bn property portfolio.

The partners have acquired the Pontoon Dock development in the borough of Newham in East London through the Greater London Authority's London Development Panel. No financial details were disclosed.

"Local pensioners' investments are actively funding housing opportunities for younger London renters. At the same time, the pension fund benefits from the income and capital growth that are provided by property investments, helping to ensure that the fund has a sustainable future and can pay pensions when they are due, both now and into the future," said Sir Merrick Cockell, chairman of LPFA.

SKANSKA WINS FOR LONDON LEISURE DEVELOPMENT

Swedish developer Skanska has won a contract worth £142m to build a new leisure-focused development in central London from Consolidated Developments.

The scheme, which is already under way, envisages retail, leisure, entertainment space, commercial offices and residential accommodation across four new buildings and a number of existing buildings at St Giles Circus, near Tottenham Court Road in London's West End, Skanska said in a statement.

The planned development has been in the works for some time, having achieved detailed planning permission back in 2015, according to a separate statement from architect Orms. The project includes redevelopment of listed buildings, some dating back to 1666, and will involve retaining a façade among other complicated works in the busy city centre location. Developer Consolidated Developments has been responsible for developments around the Soho area, including theatre and hotel developments.

Construction is expected to be completed during the first quarter of 2020.

CBRE: GERMAN RESI MARKET VOLUME SET TO MATCH 2016

First-half investment in Germany's residential property of €5.9bn was up 22% from a year ago and the full-year volume is expected to match last year's total of more than €13bn, according to advisor CBRE.

"In view of the still very favourable financing conditions, resulting in greater interest in investing in the German residential property market, it is anticipated that investment activity will continue to run at a consistently high level," the firm said in a research note.

Germany's most populous state, North Rhine-Westphalia, was particularly active with investment of €1.1bn – up 45% from 1H16. Berlin was also busy with €1.7bn of investment, up a third from last year, making the capital "Germany's most important hotspot and perhaps even Europe's." Domestic investors account for four-fifths of residential investment but the report said "foreign investors are nevertheless increasingly muscling in on the local market, particularly as German resi is still viewed as a stronghold of stability thanks to the country's excellent fundamental data and positive general conditions."

Sustained investment pressure continued to compress yield with net initial yield for existing stock averaging around 3.5% in the range 3.3% to 3.8% while new builds were in the range 3.2% to 3.7%. The report said the prime yield spread over commercial real estate and long-term government bonds "will ensure that above all institutional real estate investors will increasingly turn to the German housing property market."

TH REAL ESTATE SECURES NETHERLANDS INDUSTRIAL PROJECT

TH Real Estate has agreed contracts to forward fund a roughly 19,500-square-meter development project in Waddinxveen in the Netherlands, on behalf of its European Logistics Fund, for approximately €22.6m. TH Real Estate, along with partner Cording Real Estate Group, worked together on the deal.

The asset is expected to be completed in the second quarter of 2018 and will comprise about 14,470 square meters of distribution space, 3,845 square meters of office, and a 1,110 square meter mezzanine level. The site has been 100% pre-let to Eosta, an international distributor of organic fresh fruits and vegetables, who has signed a fixed 15-year lease. The asset will be of an institutional Grade A quality and will be built in accordance with all state of the art logistics asset requirements.

"The Dutch logistics market has specific benefits due to its centralised location in Western Europe as well as the location of the main ports. Waddinxveen, in particular, benefits from its location between four major Dutch cities (Rotterdam, Amsterdam, Utrecht and the Hague)," said Tim Hennes, fund manager.

ALLIANZ RE PROVIDES €290M LOAN FOR DUBLIN MALL

Allianz Real Estate provided €290m of financing to Germany's largest pension fund Bayerische Versorgungskammer (BVK) for the acquisition of the Liffey Valley Shopping Centre in Dublin.

German fund administrator Universal-Investment arranged the seven-year loan on behalf of BVK, which has €69bn of assets under management, Allianz Real Estate said in a press release. BVK bought the 72,000 sq.m. shopping centre in 2016 for more than €630m from US real estate firm Hines, which continues at its asset and development manager. The centre has over 100 shops and restaurants and generates annual footfall of 10m visitors.

Allianz Real Estate, the property arm of the giant German insurer, was sole lender. The company, which focuses on core and core-plus properties in the retail, office and logistics sectors, started a European lending book in 2011 and reached the €5bn mark in 1Q17, it said.

(CONTINUED FROM PAGE 1)

BIG APPLE RETAIL INVESTORS SHIFTING TO ACQUISITION MODE

Consolidated. "This change in market conditions didn't happen overnight."

This has meant that landlords and tenants have become more sensible about expectations, particularly in trendy submarkets. "Bleecker Street [retail rents] should never have been $800 a square foot – that's inappropriate," Abrams added. "It's alarming to see vacancies on top-dollar corridors as rents push the limits of what makes sense. The retail corridor needs to be reinvented, and Bleecker Street rents will go down to $250 to $300 per square foot, with a broader range of tenants to more appropriately serve the West Village population. I expect a lot of vacancy for the near-term – it will take a couple of years for rents to stabilize."

There are three areas that present good opportunities. "There are certain areas that present great buying opportunities, underserved neighborhood retail such as the Lower East side, East of Broadway in SoHo where the cool tenants now want to be located, areas that are under-served in fast casual, health and beauty, and certain top locations in prime areas for experiential and amusement retail," Kraut said. "Retail is not dead. It's only dead if you bought High Street and need to rent your space at unrealistic, inflated numbers."

As the city's retail market re-invents itself, more e-commerce or online retail brands are creating standalone flagship stores, existing brick-and-mortar retailers are downsizing or scaling back the number of stores, Abrams noted. "With rents at all-time highs in 2015, tenants pulled back and stopped aggressively opening stores – more space and landlords competing for tenants created a much-needed natural correction," she said. "With the market coming down and softening, retailers will readdress and commit to opening additional brick-and-mortar stores."

This has meant that landlords are offering shorter-term and more creative leases. "Retailers are recognizing that they can't rent space at the rents they would like to lock in long-term – tenants with cool and unique concepts cannot commit to 15 years, so they are taking one- to five-year leases," Abrams said. "Spaces that are available on a direct basis are being openly and aggressively marketed for lease, and there may be quiet conversations about incentives to do these deals. In an off-the-market situation, it's more under the radar – there are shadow vacancies where open and operating spaces with tenants look like occupied stores, but they are quietly being marketed for sublet."

Retail brokers are also reporting that they've been very active over the last quarter as floor's finally been set in several submarkets. "Nobody likes catching a falling knife so there was a big lull in activity," Kraut said. "We think that we are within a few clicks of being at the bottom of the market and most of the indicators are still positive. Tourism is still strong, consumer confidence is at a record high, and we're seeing low unemployment and stable same-store sales."

"WE THINK THAT WE ARE WITHIN A FEW CLICKS OF BEING AT THE BOTTOM OF THE MARKET AND MOST OF THE INDICATORS ARE STILL POSITIVE. TOURISM IS STILL STRONG, CONSUMER CONFIDENCE IS AT A RECORD HIGH, AND WE'RE SEEING LOW UNEMPLOYMENT AND STABLE SAME-STORE SALES."
GREG KRAUT,
K PROPERTY GROUP

Experiential retailers have been especially successful in the athleisure segment, with examples ranging from Nike to Lululemon to Adidas. "Pirch on Lafayette and Broome Streets has a café on its ground level, and you can show up in a bathing suit and take a shower if you want to try it - the displays are hands-on, service-oriented, and realistic," Abrams said. "Michael Kors was an old and tired retailer and didn't have any defining trends; it lost its cache as a tenant that initially focused on providing accessories for aspirational customers – this is happening time and time again today's marketplace."

Trimont Real Estate Advisors recently hosted an event with ConBody, a fitness company that offers a prison boot camp-style workout, at Saks Fifth Avenue's new Wellery. The half-floor space in the company's new flagship store offers fitness-related inventory, like yoga mats, leggings, and workout clothes as well as workout equipment that shoppers can test or use to take classes. The advisory company hosted the event to showcase its support of a social cause that also has some interesting intersections with the retail sector and real estate in general, said Brian Ward, ceo.

"Saks took what's arguably some of the most expensive retail in the city and dedicated it to its Wellery, which is an innovative use of space. When you look at a department store, inventory is fairly closely packed together. When you go to the Wellery, you can see that things aren't packed together and it creates a different mentality and feeling," Ward said.

In general, retailers are moving to a model with less in-store inventory in favor of specific products that could influence a consumer's thinking. "You can pick up at $8 whisk and compare it with an $80 whisk and said, 'This is the perfect weight, I'm going to go home and order the $80 whisk online and have it delivered," Ward said. "There's something really fascinating happening here that's giving us some clues to a binary model that combines inventory with experiences."

Bleecker Street, NYC

Moody's: Delinquencies up for CMBS

The delinquency rate for U.S. real estate loans backed by commercial mortgage-backed securities increased to 7.07% in June from 6.97% in May, according to a new report by Moody's Investor Services.

The Moody's Delinquency Tracker cited an increase in newly delinquent 2007-vintage loans as the largest contributing factor for the increase. Between May and June, the balance of delinquent conduit loans increased to $23.88bn from $23.58bn, and although $1.93bn of loans were resolved, another $2.23bn became newly delinquent.

The bulk of those newly delinquent loans came from the multifamily sector, which increased to $1.42bn last month from $963m in May. Delinquency rates on loans backed by hotel, industrial, and retail also increased over the same period.

The sole property type with a decreasing delinquency rate was office, which decreased to 9.22% from 9.80% in May. The largest percentage of loans that resolved delinquency in June were office properties in maturity default, comprising 44.7% of loans resolving delinquency overall.

Despite the index's month-over-month increase, the balance of delinquent conduit loans – which comprises the numerator of the DQT – has contracted 57.1% to $23.88bn since the index peaked in July 2012. Over the same period, the total balance of outstanding conduit loans – which comprises the index's denominator – also declined, but only by 39.0% to hit $337.84bn.

Preqin: Private capital fund managers raise fee rates in 2017

A recent report by Preqin shows that several private capital fund types are raising their average management fees among funds of more recent vintages. "The private capital industry is enjoying a period of almost unprecedented fundraising, as record distributions and often ambitious allocation plans spur investors to commit ever-increasing amounts of capital to private capital funds," said Selina Sy, editor of The 2017 Preqin Private Capital Fund Terms Advisor. "This is particularly true of larger fund managers with proven track records: some of these firms are able to raise record-breaking funds in the space of a few months, and many managers are reporting that their latest vehicles are extremely oversubscribed."

In this context, some private capital fund managers have noticed a shift in the balance of power when negotiating fund terms with their clients, and have started to use this change to their advantage by raising management fees on their recent or forthcoming funds.

Unlisted infrastructure funds have seen mean management fees rise slightly from lows of 1.38% for 2014 vintage funds to 1.48% for 2017 vintage funds and vehicles in market. Similarly, private equity buyout funds have seen their mean fees rise from 1.85% for 2015 vintage funds to 1.94% for 2017 vintage and raising funds. Across the same period, closed-end private real estate funds have seen average fees fall from 1.41% to 1.57%, while 2017 vintage real estate funds are charging the highest average fees tracked by the firm in a decade.

However, Sy pointed out that an increase in fees was likely also related to a competitive dealmaking environment, with managers facing increased costs surrounding deal origination and due diligence. "As such, they may feel it necessary to raise the fees charged for managing the funds in order to cover those increased costs," she said.

MORNINGSTAR'S LOAN TRANSFERS TO SPECIAL SERVICING – JULY 26, 2017

Source: Morningstar

ASSET TYPE	ASSET NAME	DEAL ID	CITY	STATE	ZIP	CURRENT BALANCE	MATURITY DATE	DATE TRANSFERRED
Hotel	Tharaldson Portfolio	COM13THL		Various	Various	697,500,000	07/08/17	06/19/17
Hotel	Residence Inn Houston - Katy Mills	WFR14C19	Katy	Texas	77494	15,233,250	03/01/24	06/20/17
Hotel	Royal St. Charles	COM12CC2	New Orleans	Louisiana	70130	8,114,050	05/06/17	07/07/17
Hotel	Ramada Minnesota and La Quinta Idaho	COM14UB5	Various	Various	Various	7,293,766	07/06/24	06/27/17
Hotel	Holiday Inn Express - Schaumburg	COM13C12	Schaumburg	Illinois	60195	6,861,552	10/06/23	07/06/17
Industrial	6200 Seaforth Street	CD07CD5	Baltimore	Maryland	21224	7,108,520	08/06/17	06/16/17
Industrial	Total Roofing Building	BSC07P17	Burbank	California	91504	2,615,988	07/01/17	07/06/17
Industrial	Dexter Magnetic Technologies - Hicksville NY	BACM0703	Hicksville	New York	11801	2,071,937	06/01/17	06/20/17
Industrial	Dexter Magnetic Technologies - Elk Grove, IL	BACM0703	Elk Grove Village	Illinois	60007	1,981,853	06/01/17	06/19/17
Multi-family	Campus Pointe & Campus Manor Apartments	COM13LC6	Macomb	Illinois	61455	16,843,075	02/06/23	06/19/17
Multi-family	Houston Multifamily Portfolio	CTG14G23	Houston	Texas	77086	12,168,373	07/06/24	06/26/17
Office	Metropolitan Square	WBC05C21	Saint Louis	Missouri	63102	124,144,153	08/11/17	06/27/17
Office	4000 Wisconsin Avenue	BACM0705	Washington	District of Columbia	20016	53,000,000	04/01/18	06/19/17
Office	One Main Plaza	BACM0703	Wailuku	Hawaii	96793	19,837,415	06/01/17	06/12/17
Office	Landmark Towers	MLT08C01	Saint Paul	Minnesota	55102	16,000,000	01/11/18	06/06/17
Office	Kingwood Office	BSC07P16	Kingwood	Texas	77339	14,888,288	06/05/17	06/14/17
Other	Gristmill Village	MLCF0707	Painesville	Ohio	44077	12,949,699	04/08/17	06/12/17
Other	Kunkel Portfolio	COM14C17	Evansville	Indiana	Various	9,977,740	05/06/24	06/19/17
Other	Arizona Self Storage	LBUB06C4	Goodyear	Arizona	85338	5,200,000	06/11/17	06/14/17
Other	Florida Secure Storage	BSC07P17	Okahumpka	Florida	34762	3,155,808	07/01/17	06/30/17
Other	1613 Blue Hill Ave.	MSC07I16	Mattapan	Massachusetts	2126	2,583,658	08/01/17	06/27/17
Retail	Killeen Mall	CSM08C01	Killeen	Texas	76543	82,000,000	07/11/17	06/14/17
Retail	City Center Englewood	BSC07P17	Englewood	Colorado	80110	33,000,000	08/01/17	06/13/17
Retail	Bentley Mall	JPC07L12	Fairbanks	Alaska	99701	26,977,807	06/01/17	07/13/17
Retail	Lillian August Designs - Norwalk	BSC07P17	Norwalk	Connecticut	6851	14,720,000	07/01/17	07/07/17
Retail	Laveen Village Marketplace - Phase II	WBC07C34	Laveen	Arizona	85042	13,615,000	07/11/17	06/30/17

PEOPLE MOVES

WALKER & DUNLOP EXPANDS IN SOUTHEAST

Walker & Dunlop has hired **Elliot Howell** as managing director of its investment sales group. Howell will be responsible for the origination and execution of investment sales for multifamily assets in the Southeast and will be based in Atlanta. Howell joins from **Trammell Crow Residential**, where he was involved in multifamily property acquisition, financing, and development in the Southeast.

CAPITA ASSET SERVICES APPOINTS LEMKA

Capita Asset Services, a European asset servicing platform, has brought **Steve Lemka** on as managing director of its investor relations business. In his new role, Lemka will focus on developing the firm's corporate product offering and supporting its clients with solutions for improved execution and effective investor targeting strategies. He joins the team from **J.P. Morgan Cazenove**, where he worked as an executive director within its U.K. corporate broking business, and will be based in London.

HUNT OPENS PHILADELPHIA OFFICES

Hunt Mortgage Group, which finances commercial real estate throughout the U.S., has opened a new production office in Philadelphia, hiring **Harris Heller** to lead the local effort. Heller will be responsible for originating conventional and small balance agency business as well as placing Hunt Mortgage Group's proprietary fixed and floating rate products in the Mid-Atlantic region of the United States. He will report to Vic Clark, senior managing director and Michael Becktel, managing director. He joins from Greystone & Co.

JLL EXPANDS NATIONAL TAX PRACTICE

JLL has added four executives to its national property tax practice, the company announced. **Domingos Santos, Jr.**, joined as a senior v.p. in Arizona while **Fahim Sayed** joined as a senior v.p. in Chicago. **Dan Leonard** and **Debbie Moore** were hired as v.p.s in Dallas. All four report to David Dodd, executive v.p., JLL Valuations and Advisory Services.

Santos, Jr. specializes in assisting clients pursuing value-add real estate strategies and those challenging or defending property tax valuations. Sayed, who is leading the Chicago services, has experience in virtually every sector, including retail, office and hospitality. He can also assist with tax planning, transaction consulting and transfer tax mitigation. Leonard and Moore bring national experience, with Leonard concentrating on national account tax experience brings added value to clients while Moore focuses on complex real estate valuation and property tax representation.

COZEN O'CONNOR EXPANDS IN MINNEAPOLIS

Cozen O'Connor has hired **Francis Halm** as part of its Minneapolis-based real estate practice group. Cozen O'Connor has been focused on strengthening its real estate service offerings and growing its presence in the Midwest with experienced attorneys. With almost 30 years of experience in private practice and as in-house counsel, Halm focuses his national practice on all areas of commercial real estate, including leasing, financing, development, dispositions and acquisition, REAs, and litigation.

SQUARE MILE ORIGINATES SUBURBAN OFFICE LOAN

Square Mile Capital Management has originated a $90.5m loan secured by the **Fort Washington Technology Center**, a 751,143-square-foot office building at 1100 Virginia Drive in Fort Washington, Pa. The loan was made to an entity owned by funds managed by **Greenfield Partners**, who acquired the property in 2013 as part of a large multi-state office portfolio. The financing was arranged by **HFF**. Square Mile's loan includes proceeds to repay existing debt and fund future property improvements and leasing costs. Built in 1964, the property was originally used as an exposition center.

TA REALTY MAKES BIG INDUSTRIAL BUY

TA Realty, on behalf The Realty Associates Fund VIII and The Realty Associates Fund X, has sold a 2.8 million-square-foot, 20 property industrial portfolio to Colony NorthStar for $201 million, the company announced. "This transaction speaks to the effectiveness of our aggregation strategy, having built a premier portfolio of industrial assets in strong trade corridors on the east coast," said Tom Landry, managing partner at TA Realty. The industrial assets that comprise the portfolio are located along the I-95 corridor, from Maryland through Delaware, with the heaviest concentration in the Baltimore area.

ADMIRAL CAPITAL CLOSES SECOND FUND

Admiral Capital Group, with partner **USAA Real Estate Company**, has held the final closing of Admiral Capital Real Estate Fund II. The $123m value-add real estate fund has a mandate to invest across major property categories in the top American MSAs, with a primary focus on multifamily and office properties. ACRE II had a growth in third-party capital over its predecessor fund, and the Fund received repeat commitments from large institutional investors that include the **Teacher Retirement System of Texas** and **USAA Real Estate Company**. About 75% of Fund II's commitments were re-ups from investors who previously invested in Fund I. The fund, formed by **David Robinson**, is pursuing opportunities in value-add real estate across the U.S. and has a pipeline of properties under consideration.

BRAZILIAN DEVELOPMENT SECURES ADDITIONAL FINANCING

A **Chow Tai Fook Enterprises Ltd.** subsidiary and Groupe Allard have increased their commitments to Cidade Matarazzo, a mixed-use development in Sao Paolo, according to a press release. The partners, which have already contributed BRL395mn of equity to the project, have added another BRL295 million. These funds will be used to complete construction, located in the vibrant Paulista Avenue corridor and incorporates the historic former Matarazzo hospital.

The Cidade Matarazzo project, which is the largest heritage site renovation in Brazil, includes 274 hotel rooms and luxurious suites by Rosewood, a luxury congress center with 7 ballrooms, event places, a chapel, a cultural center with theater, and an exhibition hall. Douglas Elliman Real Estate has been appointed as the exclusive sales and marketing agent.

AVANATH ACQUIRES GOOGLE CAMPUS-ADJACENT APARTMENTS

Avanath Capital Management, an institutional fund manager that has invested more than $1 billion in affordable and workforce housing properties throughout the U.S., has acquired Depot Square, a 71-unit affordable housing community that close to a planned **Google** campus in Boulder, Colo., the company announced. The company paid $13.6m for the property, its first in Colorado.

JLL ARRANGES $60M APARTMENT LOAN

JLL's Capital Markets team has originated a $60.5m loan to refinance debt on Bainbridge Bethesda Apartments, a 200-unit multifamily community in Bethesda, Md. The HUD-insured loan was provided via FHA's Section 223(a)(7) program. Bainbridge Bethesda Apartments includes 7,700 square feet of ground floor commercial space, a green roof, an outdoor swimming pool and a picnic and BBQ area. The community is located close to restaurants, retail outlets, public transportation and other amenities.

PEMBROOK BOLSTERS LOCAL SCHOOLS VIA GRANT PROGRAM

Pembrook Capital Management has announced a program that offers financial grants to public schools located in neighborhoods where the company does business, according to a press release. The firm, which focuses on providing loans and other financing for the development, rehabilitation, and preservation of affordable housing, as well as office, retail, and industrial properties, initially will contribute up to 3% of its annual profits. "The current administration in Washington, D.C., has a stated purpose of promoting public/private partnership. In addition, they have adopted policies and a proposed budget that would reduce the amount of public funding available to public schools," said **Stuart Boesky**, ceo. "With these policies in mind, Pembrook has decided to provide grants to public schools located in the neighborhoods where we do business."

TRANSWESTERN, MIRAE CLOSE ATLANTA ACQUISITION

Transwestern Investment Group and **Mirae Asset Global Investments Co.** have closed on the acquisition of a 591,000-square-foot Atlanta building in a sale-leaseback with State Farm Auto Insurance Co. This transaction mirrors the acquisition of the 2.2 million-square-foot State Farm campus in Dallas' CityLine project last fall. The partners completed the deal on behalf of *Corporate Properties Trust II.*

GEORGE SMITH ARRANGES $21.6M CONDO LOAN

Commercial real estate investment banking firm **George Smith Partners** has arranged $21.6 million in ground-up construction financing for the development of 35 for-sale condominium units and 2,000 square feet of ground-floor retail space in the Silver Lake neighborhood of Los Angeles, the company announced. The project, developed by a joint-venture between Barth Partners and Barry Leddy Developments, will be the first new luxury condominium development built in the Silver Lake submarket since the recent recession.

MANAGER SEARCH UPDATE

Fund	Mandate Size Amount (in millions)	Region	Sub Asset Class	Comments	Search Consultant
Potential Searches					
City of Ann Arbor Employees' Retirement System	N/A	Global	N/A	The system is slated to receive an educational refresher on real estate and may make recommendations based on its pacing plan at tomorrow's meeting.	Meketa Investment Group
City of Ann Arbor Employees' Retirement System	N/A	U.S.	Opportunistic	At tomorrow's meeting, the board will make a commitment to Carlyle Realty Partners VIII, a opportunistic strategy.	Meketa Investment Group
Kansas Public Employees Retirement System	N/A	U.S.	N/A	At its July 20 investment committee meeting, the system plans to make real estate investment recommendations.	The Townsend Group
Sacramento County Employees Retirement System	N/A	U.S.	N/A	At its July 19 board meeting, the system will discuss and finalize potential revisions to its real estate investment program.	Verus Advisory Inc. (formerly Strategic Investment Solutions)
San Joaquin County Employees Retirement Association	30	Global	Opportunistic	At today's board meeting, the association will recommend committing $30 million to opportunistic real estate strategies in 2018. The recommendation is part of its 2017-2018 implementation plan.	Courtland Partners
Macomb County Retirement System	N/A	Global	N/A	At its July 27 meeting, the board will interview ValStone Partners and American Core Realty Fund for a potential private real estate commitment. The fund which currently invests 8% in the asset class and has a 10% long term target, received an educational presentation on the asset class from Graystone Consulting last month.	Graystone Consulting - Morgan Stanley
San Joaquin County Employees Retirement Association	90	Global	Value-Added	At today's board meeting, the association will recommend committing $90 million to value-added real estate strategies this year as part of its 2017-2018 implementation plan. Pending approval, the association could select up to three managers for the space.	Courtland Partners
New Searches					
Illinois Municipal Retirement Fund	100	U.S.	Core	The board issued a request for proposals seeking firms offering U.S. open-ended core private real estate commingled funds. It plans to allocate up to $100 million and will not consider debt, public REIT, fund of funds and separate account strategies. All responses are due July 12 and the request can be downloaded from the RFP link.	Callan Associates
Sunrise (Fla.) General Employees' Retirement Plan	20	U.S.	Core	The plan has launched a search for a core real estate manager to handle roughly $10-20 million. The request for proposals is available at the RFP link and responses are due July 28.	Dahab Associates
Louisiana Teachers' Retirement System	0	Global	REIT	The system has put together a subcommittee to review responses to its solicitation for proposals for global REIT managers. The timeframe for a final decision has not been disclosed.	Aon Hewitt Investment Consulting
Chicago Metropolitan Water Reclamation District Retirement Fund	67	U.S.	Core	The fund issued a request for proposals for core open-end real estate investment management services. It is expected that the mandate will be worth approximately $67 million. All responses are due Aug. 4 and the request can be downloaded from the RFP link. It plans to select finalists by Sept. 27.	Marquette Associates
Completed Searches					
Ohio School Employees Retirement System	40	Global	Opportunistic	The system has approved a $40 million commitment to PIMCO BRAVO III, a opportunistic strategy.	Wilshire Associates
San Joaquin County Employees Retirement Association	50	U.S.	Debt	The association committed $50 million to Mesa West Real Estate Income Fund IV, a real estate debt fund.	Courtland Partners
St. Louis County Retirement Plan	31	U.S.	Value-Added	The plan has committed $30 million to PRISA III, a value-added strategy. It will fund the mandate at the expense of its hedge fund allocation.	Summit Strategies Group
San Diego City Employees Retirement System	47	U.S.	Core/REIT	The board has approved a $47 million commitment to RREEF America REIT II Fund, a core strategy.	Aon Hewitt Investment Consulting
San Diego City Employees Retirement System	50	U.S.	Core/Debt	The board has approved a commitment of $50 million to Mesa West Core Lending Fund, an open-ended core real estate debt fund, as part of its annual real-estate investment plan.	Aon Hewitt Investment Consulting

MANAGER SEARCH UPDATE

Fund	Mandate Size Amount (in millions)	Region	Sub Asset Class	Comments	Search Consultant
Completed Searches					
San Diego City Employees Retirement System	50	U.S.	Commercial/ Core/Debt	The board has approved a $50 million commitment to MetLife Commercial Mortgage Income Fund, a commercial open-end, core real estate debt fund. The commitment is part of its annual real estate investment plan.	Aon Hewitt Investment Consulting
Health Care Foundation of Greater Kansas City	15	Global	Opportunistic	The foundation has agreed to commit $15 million to PIMCO Barvo III, an opportunistic fund which will invest in global real estate-oriented securities.	Aon Hewitt Investment Consulting
Texas County & District Retirement System	275	U.S.	REIT	The system recently conducted its manager review and has retained incumbent Cohen & Steers and hired Dimensional Fund Advisors for its REITs portfolio. It terminated Morgan Stanley Investment Management and Invesco Advisers from the space. The reason for the termination was not disclosed. REITs represents 2% of its 11% real assets allocation, which as of Dec. 31, 2016 totaled $811 million.	Cliffwater
Texas County & District Retirement System	275	U.S.	REIT	The system recently conducted its manager review and has retained incumbent Cohen & Steers and hired Dimensional Fund Advisors for its REITs portfolio. It terminated Morgan Stanley Investment Management and Invesco Advisers from the space. The reason for the termination was not disclosed. REITs represents 2% of its 11% real assets allocation, which as of Dec. 31, 2016 totaled $811 million.	Cliffwater
South Carolina Retirement System Investment Commission	100	U.S.	Debt	The commission has approved a $100 million commitment to Brookfield Real Estate Finance Fund V, which will make junior debt investments in high-quality transactional properties in major US markets.	Meketa Investment Group
Indiana Public Retirement System	50	U.S.	Commercial	The system has approved a $50 million commitment to Abacus Multi-Family Partners Fund IV, a value-added real estate fund targeting investments in U.S. multifamily properties.	Verus Advisory Inc. (formerly Wurts & Associates)
New York State Common Retirement Fund	150	U.S.	Secondaries	The fund approved a $150 million commitment to Landmark Real Estate Partners VIII.	RVK Inc.
Texas Permanent School Fund	75	U.S.	Commercial/ Residential/ Industrial	The plan has approved a $75 million commitment to Invesco Core Real Estate USA, which invests in well-leased core multifamily, apartment, office, retail and industrial properties.	Courtland Partners
Texas Permanent School Fund	100	U.S.	Core	The fund has approved a $100 million commitment to Prologis Targeted U.S. Logistics Holdings II.	Courtland Partners
Texas Permanent School Fund	225	U.S.	Core	The plan will make a commitment to the Morgan Stanley Prime Property Fund worth $225 million.	Courtland Partners
New Mexico State Investment Council	50	U.S.	Value-Added	The council has approved a $50 million commitment to Berkshire Multifamily Value Plus Fund IV, a multifamily value-added real estate fund.	The Townsend Group
Iowa Municipal Fire & Police Retirement System	25	Europe	Value-Added	The board committed $25 million to InfraRed Active Real Estate Fund IV, a European value-added fund.	Summit Strategies Group
Connecticut Retirement Plans & Trust Funds	65	Global	Debt	The board has committed $65 million to Landmark Real Estate Partners VIII, a debt strategy.	The Townsend Group
Alameda County (Calif.) Employees Retirement Association	10	U.S.	Value-Added	The association has approved a commitment of up to $10 million to Heitman ValuePartners IV.	Verus Advisory Inc. (formerly Strategic Investment Solutions)
Texas Teachers' Retirement System	103	Europe	Opportunistic	The board committed $103 million to CBRE Europe Value Partners 2 SCSp SICAV-RAIF a European opportunistic fund.	The Townsend Group
Hawaii Employees Retirement System	50	Europe	Value-Added	The system has approved a $50 million commitment to Angelo Gordon Europe Realty Fund II, a value-added strategy.	Courtland Partners
San Mateo County Employees Retirement Association	70	U.S.	Debt	The board has approved committing $70 million to Prudential Real Estate U.S. Debt Fund. It recently increased its real estate allocation to 10% from 7%.	Verus Advisory Inc. (formerly Strategic Investment Solutions)

Sources: iiSEARCHES

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CMBS takes aim at lengthy loan docs

include specific provisions – lenders, investors, rating agencies, etc. – and each of them is looking to add something different," said Daniel Martin, real estate partner at McDermott Will & Emery. Lenders often layer on language to increase the likelihood they'll get their money back, while lawyers add boilerplate provisions to comply with regulations and protect their clients, which causes documents to get longer and longer.

CMBS loan documents are particularly susceptible to this phenomenon, as the market imposes a high standard for information about its loans. "If there's one clause that people haven't thought of yet, CMBS is one of the first place it takes root and grows," Martin added.

Loan documents are not standardized, which makes sense given the unique nature of the underlying assets. "Typically, documents are going to be loan-specific," Martin said. Ratings agencies also have their own list of criteria for securitized loans that put the page counts even longer. "If issuers want a loan to be favorably reviewed [in a securitization], they aim to address all the criteria," he added.

The length of the documents isn't a bad thing, with one lawyer pointing out that long documents, within reason, can provide clarity and keep litigation at bay. And while some borrowers complain about length, others are happy to have the criteria spelled out. "The borrower wants something that's fair and done as efficiently as possible," Martin said. "Rather than push for shorter documents, they're pushing to use documents they've negotiated in the past."

Organizations like the Commercial Real Estate Finance Council are making it a priority to homogenize documents related to the securitization process as part of a broader effort to improve CMBS's reputation.

Since last October, the group's issuer and servicing forums have been working to standardize industry terms, create transparency around fees that will be charged to borrowers, and solve issues contained in the Pooling and Servicing Agreements. "[Our members] were mostly hearing these concerns anecdotally from borrowers, but they also heard things internally," said Lisa Pendergast, the group's executive director. "This effort developed organically across a number of channels, where banks, lenders, and servicers came to the conclusion that the CMBS sector can do a lot better."

In addition, the trade organization is also focusing on educating borrowers about the benefits and drawbacks associated with CMBS borrowing. "I think borrowers need to better understand how securitization differs from portfolio lending," said Pendergast. "It is a real positive for borrowers to have different options for securing refinance and/or acquisition debt capital, be it from the life companies, GSEs, CMBS, banks, or the non-bank debt funds that have raised an extraordinary amount of capital recently."

Other CRE players have less sympathy for borrowers who, in their opinion, have brought long, complicated documents and processes on themselves. "In theory, the CMBS business has been around long enough that people should know better," said one long-time executive. "It's the difference between having a committed relationship and a [fling]." Borrowers traded portfolio lender-style relationships for better pricing and higher proceeds without understanding the tradeoff, he added. "People have tried to overstructure a document in order to replace the human touch," he said. "It was a well-intentioned trade that got too overdone."

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Big Los Angeles office sale reportedly moving slowly

assets have seen sales halted when pricing targets haven't been achieved. "Most sellers in the last year are not happy with the pricing that they got, and equity is being very reserved and cautious," one veteran Los Angeles player added. "If the seller doesn't set appropriate price expectations, it's not going to trade. Apart from markets like Beverly Hills and West L.A., Los Angeles' office market is not frothy at all."

Santa Monica has seen a number of high-quality buildings recently sold for record prices, said Bryan Sanchez, cio of Lionstone Investments, who is not involved in the Two California Plaza deal. "These prices may be justified by the high demand demonstrated from a wide variety of tenants in highly productive industries. Lionstone views L.A. as the entertainment content capital of the world, with a talent pool that has strong preferences for certain locations and building types," he added. "For many years, this has led the creative class to Santa Monica, Culver City, and Hollywood. More recently, there has been a move to downtown Los Angeles, which is different today than it was in the 1980s, 1990s, and 2000s."

Cap rates are near historic lows while rents on the Westside, Wilshire, Downtown Los Angeles, and Long Beach neighborhoods are at or near all-time highs, said Ryan Rauch, cio of Common Areas, who is also not involved in the Two California deal. "Part of what is driving these valuations is that there is a general acceptance that interest rates will not stay this low forever and the abundant access to capital could dry up on short notice," he added. "Many in the market are moving as fast as they can to get while the going is good which is driving up prices."