REAL ESTATE FUND MANAGER

MATCHMAKING FOR THE MIDDLE-MARKET

THE FUTURE FOR MID-SIZE MARKETS LOOKS UNCERTAIN

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WELCOME TO REAL ESTATE FUND MANAGER

As we closed the second edition of *Real Estate Fund Manager*, we spent some time reflecting on how far we've come over the past two months and how much more we're hoping to do with this new publication. We're planning our first breakfast seminar, to be held later this month, and are working on ways to augment our data.

A major theme in this issue is how small and mid-sized fund managers are navigating today's market. In our lead story, Jessica Pothering talks with fund managers about why the M&A market might be a better platform for growth. She also sits down with an industrial manager to talk about the ways a smaller fund can gain traction in today's market.

> WE'RE PLANNING OUR FIRST BREAKFAST SEMINAR, TO BE HELD ON JUNE 15 AT THE LAMBS CLUB IN NEW YORK, AND ARE WORKING ON WAYS TO AUGMENT OUR DATA

Additionally, Sherry Hsieh has an extremely insightful piece on the crowdfunding market and Danielle Balbi has takes an equally in-depth look at the emerging market for micro-apartments.

As always, please feel free to reach out and let me know what you're thinking about how we're doing so far. And if you'd like to attend our breakfast seminar – the topic is where allocators are directing their dollars – let me know. It will be held on June 15 at the Lambs Club in New York.

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THIS ISSUE

MATCHMAKING FOR THE MIDDLE-MARKET

HOW MID-SIZE FUNDS CONFRONT AN UNCERTAIN FUTURE. JESSICA POTHERING REPORTS

Today's capital raising environment may not feel like a significant change from the recovery years for small and mid-size fund managers, in spite of investors' thirst for real estate. Many went into survival mode after the financial crash, hoping to weather the storm long enough to see demand for real estate return, and moreover, demand for funds as investment vehicles. This demand has rebounded, but the increasing concentration of real estate capital among a small number of global fund managers continues to put pressure on many of the industry's non-global players.

A quick recap of recent private real estate fundraising data shows why: more than 450 managers are in the market trying to raise capital from institutional investors, yet more than half of this is committed to the minority of funds raising $1bn or more, according to intelligence providers Preqin.

Meanwhile, investors are increasingly focused on partnering with a small number of fund managers – no more than one or two in a majority of cases. Industry experts often speak of a "barbell" in real estate investor allocations: large funds with global reach on the one end; boutique, niche funds on the other. Mid-size and regionally-focused generalist fund managers most often find themselves along the bar, struggling to compete for capital.

"Institutional capital is flowing to smaller managers with niche strategies at one end, and larger global managers at the other end," explained Jeff Giller, head of StepStone Real Estate. "The mid-sized allocaters in the $200m to $750m size-range are increasingly being left out."

During the recovery years, many of these fund management firms simply disappeared, either failing outright or being rescued by larger players. Two prominent examples at the peak of fund consolidation in recent years included BlackRock's acquisition of MGPA, an Asia-focused investment manager, and Ares Management's purchase of AREA Property partners. Both deals took place in 2013 and were touted in the press as supporting BlackRock and Ares' respective real estate expansion ambitions. Certainly they were, but industry experts quietly acknowledged at the time that both MGPA and Ares needed buyers.

Uncertain future

Today the tide has shifted. The pace of consolidation has slowed and many of these mid-size firms are back on solid footing. But the future is uncertain, as competition for real estate products intensifies, making deal flow increasingly difficult to secure. Indeed, Preqin's 2015 Global Real Estate Report cited that two-thirds of fund managers are looking to invest more capital in 2015 than 2014 in spite of the same number reporting that attractive investment opportunities are much harder to find. The projection is for investor allocations to continue concentrating around the ends of the barbell, among managers who have the heft or the intense focus to effectively put capital to work. As for the mid-market generalists, they will have to rely on large global allocators or old-fashioned syndications.

Or they will take the approach of Giller's former company, Clairvue Capital Partners, and actively look for a partner that can help them edge closer to the "global" side of the bar.

Growing numbers

Giller launched Clairvue with partners Brendan MacDonald and Josh Cleveland in 2010 with a $250m fund seeded by Goldman Sachs Asset Management funds to recapitalize and restructure real estate platforms. The investment management firm started at a time when credit markets were still fairly closed and real estate debt maturities of more than a trillion dollars loomed. It opted to cast the net wide, being agnostic to geographic market, vehicle structures or real estate asset classes. Within two years, Clairvue had completely committed its first fund and had initiated fundraising for a second $500m fund. In that time, it had also added a New York office to its home base in San Francisco and was doing deals across the US and Europe.

Giller explained that by the following year, Clairvue had reached a number of milestones successfully, had achieved a moderate amount of growth and needed to begin considering how its future growth potential looked.

"We looked at how the institutional real estate world was evolving and it was clear that the pendulum was swinging in favor of large global management platforms, which were amassing the majority of the capital. Also, the structural cost burdens in the new regulatory environment were difficult to bear. It became clear that scaling through organic growth was going to be a long road," he said.

"Considering our future, we felt that as a globally-oriented investment manager, we would benefit heavily from the infrastructure, resources and intellectual capital of a larger, more developed platform. So we started considering the option of entering into a strategic relationships or potentially selling the business, in order to expand" he added.

Last year, Clairvue's partners sold their business to private equity firm StepStone, and they and Clarivue's nearly $400m in assets under management became the foundation of StepStone's new real estate group. Closing in on his first year anniversary with StepStone, Giller

remarked that being part of a larger platform had an enormous impact on what his team has achieved. They have expanded the products and services on offer to include co-investments and separate accounts and have launched an advisory group that has advised on close to $2.5bn in investment deals in the US, Europe, Asia and the Middle East. They are building a London-based real estate team out of StepStone's existing London office and are reportedly approaching the first close on a new co-mingled fund, though Giller declined to comment on fundraising activities.

"We are just operating on a different scale. The doors that are open and the resources at our disposal are much broader," Giller observed.

Advisors to real estate funds have observed a number of similar negotiations happening quietly. While the private nature of these solicitations and talks makes it impossible to quantify how many are in the works, several advisors have noticed an uptick in activity in the past 18 months with more expected over the next 18 months.

Jahn Brodwin, senior managing director for FTI Consulting's real estate group, remarked that many of the negotiations happening look similar to the Clairvue-StepStone deal: at the same time that a small or mid-size real estate firm is looking for a larger group with which to partner, an existing fund manager or other investment management firm is looking at how to expand into a new part of the market. "They're looking to hire or buy a skill set with some amount of critical mass and fold that into their platform to complements their other activities," he said.

Joint partnerships

Interestingly, not all of these agreements are taking the "go global" approach, like StepStone and Clairvue. Rather, firms that have established a strong presence in a particular geographic market or asset class are finding joint ventures and partnerships that achieve the same results.

In December, SL Green Realty Corp, which owns more than 25 million square feet of commercial property in New York City, announced its acquisition of a 50% stake of Stonehenge Partners' multifamily portfolio. Brodwin, whose firm was an advisor on the deal, declined to comment on the firms' strategies. Other New York real estate players witnessed the deal as the logical progression of SL Green's strategy: the public REIT was initially a Class B-office investor, eventually moving into the Class A space and then building a more pronounced retail strategy as it accumulated more retail space through its office acquisitions.

"With the amount of retail that is built into high-end multifamily properties in New York, SL Green looked at its retail channel as a way to expand into another asset class. It started out by doing individual joint venture deals with Stonehenge," – an established multifamily owner in the city – "which seems to have led them to the partnership," one source explained.

> WE LOOKED AT HOW THE INSTITUTIONAL REAL ESTATE WORLD WAS EVOLVING POST-CRISIS AND IT WAS CLEAR THAT THE PENDULUM WAS SWINGING IN FAVOR OF LARGE GLOBAL MANAGEMENT PLATFORMS, WHICH WERE AMASSING THE MAJORITY OF THE CAPITAL
>
> JEFF GILLER, STEPSTONE

The source added that the partnership gives SL Green a more direct link to Stonehenge's management team and an ability to direct the strategy, rather than continuing to work on a deal by deal basis.

Meanwhile, for Stonehenge, having a strategic relationship with a public company gives them both a permanent source of capital and more leverage when raising capital from other investors.

Increasingly, institutional investors are also adopting this strategy of buying a platform or part of a platform as a way of building up their real estate portfolios while maintaining more control than simply investing in funds or through separate accounts.

"In the current environment, it's all about growth," stated Ken Muller, partner with law firm Morrison Foerster. "Demand for real estate is exceeding supply and a number of high quality managers are going to market with funds that are getting oversubscribed. That capital has to go somewhere. Investors are putting equity into alternative platforms because they're trying to put money to work."

That seemed to be financial services firm TIAA-CREF's approach when it announced a joint venture with European real estate investment management firm Henderson Global Investors last May. The two companies formed TIAA Henderson Real Estate where TIAA was the majority owner. At the time, Henderson, which had $22m in assets under management, mostly in Europe had been looking for a partner for many of the same reasons Clairvue was.

For TIAA, the focus was on building a global real estate platform; partnering with Henderson afforded a strong jump-off point from Europe into Asia. In April, TIAA assumed 100% of the new company, which now has a global real estate investment platform with $26bn in assets under management. TH Real Estate operates as a separate entity, raising and investing capital though a variety of strategies, but TIAA is one of its biggest investors.

The year since the venture launched has been busy, according to Tom Garbutt, head of TIAA-CREF global real estate and chairman of TH Real Estate. As of April, TH Real Estate had made 67 acquisitions worth more than $3.7bn and had raised $1.3bn in new equity mandates on top of $3.6bn in recommitments.

"We have been very active in the US, Europe and Asia and have been able to accomplish that global footprint we wanted. Getting to those opportunities was more difficult on both sides before the joint venture," Garbutt explained. His colleague Mike Sales, managing director of the Europe division, added that the partnership came at the right time, with the trend towards bigger, global real estate investment platforms showing no signs of slowing down.

Going global

For Muller, these agreements between fund managers and institutional or global partners reflects a shift in how "local" in the local business of real estate is defined. With capital moving easily from one part of the world to another, investors want investment managers who can access a wider range of markets, supply and opportunities.

"The broader trend is globalization over the last 15 years. There are so many new entrants into the market in the US and outside that the pool of available international capital has expanded dramatically," he explained. "Now that the global economy is doing better and investors are more active, real estate has increasingly become a global business."

Jessica Pothering
Launch editor, REFM

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OVER A HALF BILLION CLOSED TRANSACTIONS ON THE WEST COAST YTD 2015

DEBT & EQUITY FINANCE – CLOSED TRANSACTIONS YTD

SAN FRANCISCO COMMERCIAL PORTFOLIO
DEBT RAISED: $66,000,000

ORANGE COUNTY COMMERCIAL PORTFOLIO
DEBT RAISED: $164,000,000

LOS ANGELES HOSPITALITY
DEBT RAISED: $123,000,000

LOS ANGELES MULTIFAMILY PORTFOLIO
DEBT RAISED: $80,000,000

REPURCHASE FACILITY FOR BRIDGE LENDER
DEBT RAISED: $50,000,000

COMMERCIAL LOAN AND REO SALES – CLOSED TRANSACTIONS YTD

CLOSED REO SALE: BRITANNIA
$33,000,000

CLOSED LOAN SALE: OCEAN BLUE
$31,345,000

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COMMUNICATIONS

STRONG INTERNET CONNECTIVITY INCREASES TENANT INTEREST

As internet connectivity becomes increasingly important for fund managers to woo and retain tenants, New York-based WiredScore – which provides a standardized rating to evaluate, identify and certify the speed and reliability of internet connections in commercial buildings – is set to expand its services from its home base into other metros.

"There's a major gap between internet connectivity in buildings and the clear, accurate relay of that information to tenants," said Arie Barendrecht, CEO and co-founder of WiredScore. "We want to make that information as useful and transparent as possible for tenants, owners, brokers, leasing agents and asset managers."

Tenants are becoming increasingly interested in knowing the internet speed and capacity of a potential site prior to signing leases because of its importance to the functionality of a business, said Bob Stella, a principal at tenant representative specialist Cresa Partners. The service that WiredScore provides is a step forward from what happens now, with tenants consulting a third-party IT service to evaluate a building's connectivity before moving in. "Conceptually I can see how it [WiredScore] works, and how a certified building will be an advantage for landlords and tenants," he said, noting that he has not worked with the company.

Growingly, landlords are prioritizing redundancy. "It's a new concept to buildings; you can leverage primary and secondary connection so that if one goes out, you have access to the secondary," Barendrecht said. "You want to know there's more than Verizon or TimeWarner Cable. A good building has five or more internet providers; some strong regional players include Lighttower [Fiber Networks], Level 3, Towerstream and Vaya. [Having] more providers means better services and access to the right provider, as well as enhanced cost effectiveness."

Levels of certification

Wired Certification – similar to LEED certification that examines energy efficiency and environmental sustainability – evaluates a building's connectivity. Scoring on a rating system of 100 points – Certified (45-62), Silver (63-76), Gold (77-89) and Platinum (90-100) – points are allocated based on the following three factors: building connectivity (the choice and quality of service providers), infrastructure (physical internet infrastructure, including number of entry points, designated utility spaces) and readiness (the willingness of a building to improve its connectivity).

Furthermore, ensuring certified internet connectivity in buildings is extremely important to large owners such as real estate investment trusts. "[REITs] are particularly excited about our services because we help them benchmark their telecom infrastructure across a large portfolio. They know how well their portfolios are doing, but they have no idea how property A or B is doing in terms of internet connectivity," said Barendrecht.

The firm's clients include SL Green Realty Corp, Empire State Realty Trust, Washington Real Estate Investment Trust, New York REIT, Columbia Property Trust, Brandywine and Hines. Buildings leveraging Wired Certification include the Empire State Building, which secured LinkedIn, and 51 Astor Place, which houses The IBM Watson group.

A case in point is The Plant, a technology tenant-focused building owned by East End Partners at 321 West 44th Street. The owners spent about $7m to redevelop the property, which was once a recording studio, with the aim of drawing in technology tenants who would require strong, reliable connectivity. "East End Capital reinvented the building, including a total redevelopment of its telecom infrastructure, adding a new communal green, roof deck, and fiber backbone," Barendrecht said.

The building, which has a Platinum certification, was able to increase occupancy from 72% to 98% and raise the rents per square foot from $34 to the low $50s in part on the strength of its connectivity, Barendrecht added. After acquiring The Plant for $95.5m in 2012, East End Partners struck a deal to sell it in February for $165m.

Marc Gitto, a director at East End Capital, said the New York-based fund manager has always emphasized the importance of Internet connectivity given its focus on TAMI (technology, advertising, media, information) tenants.

The company has been working with WiredScore for two years and has other certified buildings via the service. "As dependence on Internet connectivity increases, we have noticed tenants becoming more aware and focused on the services their office buildings provide," said Gitto. "WiredScore is becoming an important benchmark for TAMI tenants as their businesses tends to be more bandwith-intensive."

WiredScore experiences continued growth nationally and internationally, but its primary focus is on gateway markets. In addition to previous mentioned factors, each city has its own sets of variables affecting internet connectivity. For example, New York faces challenges such as population density and the old age of infrastructure, whereas Los Angeles is too diffuse for good access. "Our certification is extremely recognizable in New York and in other major US markets. By the end of 2015, we believe we will have a sizable presence in every major city in the US," Barendrecht continued. WiredScore is concentrating on expanding to markets in Boston, San Francisco, Los Angeles, Washington DC, Seattle, Chicago, Philadelphia, Dallas and Atlanta.

> WE WANT TO MAKE INFORMATION AS USEFUL AS POSSIBLE FOR TENANTS, OWNERS, BROKERS, LEASING AGENTS AND ASSET MANAGERS
> ARIE BARENDRECHT, WIREDSCORE

KEY FACTS – COMPANY SNAPSHOT

Launched in 2013 as WiredNYC in partnership with New York City Economic Development Corps, WiredScore is now operating as a private company. It has since certified more than 325 properties totaling over 155m square feet of office space in 30 cities, compiling information on internet connectivity in buildings to the WiredScore database.

REFURBISHMENT

CALIFORNIA MANAGER LOOKS FOR 'SCRAPPY' PROPERTY BARGAINS

Family-owned Interstate Equities Corp wants to acquire shabby apartment buildings from private, generational owners with the aim of turning around the long-neglected properties. The company uses its connections in the local brokerage and family office communities to find these diamonds in the rough, said Marshall Boyd, president. "We are looking for shag carpet and pink tile," he said. "Our niche is very well-located, scrappy deals."

The company, which focuses on the San Francisco Bay Area and coastal Southern California, started out as a syndicator in the 1980s but has evolved its strategy into institutional funds. Its investors include pension funds, family offices and endowments who like the company's strategy of investing in deals of $5 to $80m with a sweet spot of $6m to $12m of equity.

The California apartment market is highly fragmented, with many families owning 5,000 to 15,000 units. "It's pretty staggering to understand how fragmented the industry is," said director Peter Casey. This fragmentation, however, benefits Interstate Equities as the company is able to bring an institutional approach and institutional capital to its transactions.

"We do rely on the relationships we have created as a firm, which includes brokerages that we have worked with for decades who appreciate that we're linear and move quickly on deals that we like," said Boyd. "This has served us very well in terms of in-bound deal flow because we are often the only institutional capital bidding on a deal and the only buyer who will sell again in a few years."

Interstate Equities recently splashed out on Citra Apartments, a 34-unit apartment that is in walking distance of downtown Burbank. The 1958 property has never been renovated and its rents are well below market. Plans include filling in the out-of-date swimming pool, adding new flooring, painting and supplying new appliances, according to Boyd. "The deal is two blocks from the house that our founder grew up in – he went to Burbank High School – and this means that we're investing in ground zero of what we know as a firm and as a family," he added.

The company's acquisition process has a simple first step – how good the location of a property is, which Boyd said was an easy assessment for Citra Apartments. Step two is evaluating the issues with an asset, which can include below market rents and updating units. Often, the company will look at properties that are seeing rents that haven't been raised in four or five years.

Interstate Equities is an opportunistic buyer and can bide its time in a slow market and move quickly when deals crop up. It has the capacity to do as much as $200m of deals in a year, Boyd continued. The company holds its deals for about five years and finances acquisitions via Fannie Mae and JPMorgan Chase, which Boyd said offers a fantastic product for its niche. "[The bank] can offer us a 30-year term loan that is fixed-rate for seven years and floats for 23," he said. "A loan like that is almost unheard of in the institutional investment community."

The company uses leverage of about 60% on its deals, down from about 75% 10 years ago.

SECONDARY MARKETS SET TO DOMINATE RETAIL INVESTMENT LANDSCAPE

The retail sectors in a number of secondary markets are shaping up to be the ones for fund managers to watch in the coming year, according to a new report from brokerage firm Sperry Van Ness.

The Boston-based brokerage firm identified Charlotte, Las Vegas, Nashville, Northern Virginia, Orange County, Orlando, San Antonio and Tampa as the secondary markets with the most potential. Manhattan and Miami also present substantial opportunities, said Solomon Poretsky, vice-president of organizational development. "We are looking at growth potential in these markets, where investors are going to experience cap rate compression," he said. "When investors are willing to pay a lower cap rate, they are saying 'Jeez, this market is better right now so I'll pay a little more for the property today because I know I'll make money'." he added.

Several of these cities have never been on the firm's radar as markets to watch, Poretsky added. "Charlotte is in an interesting place because it's such a financial center. The industry's real bread-and-butter jobs are there." Las Vegas, meanwhile, is being driven by e-retailers such as Zappos and tech companies that are making their homes there. Zappos, led by CEO Tony Hsieh, has invested about $350m in the city's downtown market as part of a broader plan to create a live-work-play environment there.

Retail remains on top

In markets such as Miami and New York, high-end retail is leading the way. "Retail that has an omnichannel aspect, meaning that it has to be integrated with the Internet, are doing well in these markets," Poretsky said.

Additionally, grocery- and pharmacy-anchored properties, which prove most resilient against the impact of e-commerce, are a telltale sign of upward growth

Whole Foods are rumored to be looking to expand into the Tampa market

momentum. Supermarkets look to Charlotte, Nashville, San Antonio, and Tampa for expansion. For example, after Trader Joe's 2014 entry into the Tampa retail market, which was followed by a St Petersburg location in early 2015, organic and specialty grocers such as Whole Foods, Sprouts Farmers Market and Earth Fare are rumored to be on the lookout for locations in the area.

Poretsky also pointed out Tysons Corner in Northern Virginia, adding that the firm is bullish on the Washington DC submarket in anticipation of the boost in conjunction with the extension of the DC Metro's Silver Line that opened in July. By 2018, the Silver Line will complete Phase 2 and be extended further to include the Reston Town Center and link up with Dulles International Airport.

A broader US economic recovery that produced three million jobs in 2014 – the strongest year since 1999 – and fueled a dip in the unemployment rate to 5.6% – the lowest since 2008 – is part of the reasons behind the surge. "The rate at which businesses are hiring is trending toward normal levels," Poretsky said, noting that spending on debt service dropped to less than 10% of personal disposable income in the fourth quarter and the cost of gas and heating also dropped.

ULI CONFERENCE

HINES, BROOKFIELD TALK REPOSITIONINGS OF TROUBLED URBAN ASSETS

A number of fund managers that include Hines, Brookfield Property Group and TMG Partners are seeing real opportunity – and real returns – in repositioning outdated, under-maintained urban office buildings. This segment of properties is challenging but can also provide attractive returns for patient investors, according to panelists at the Urban Land Institute's Spring Meeting on 13-14 May in Houston.

"We look for properties that are big and ugly," Matt Field, chief investment officer of TMG Partners, a San Francisco-based development company. "There are a lot of different reasons to [reposition these properties] that have nosedived, and it comes with the price of brain damage sometimes, but the end result is bringing a unique and much better products back to the market."

Sara Queen, executive vice-president of asset management at Brookfield Property, said the company keeps a close eye on budgets for these projects. "It's all about the return," she said. "For every incremental dollar spent, we consider the return we're getting out of it."

A case in point is Hines' re-positioning of 919 Milam Street in Houston, a building that the company purchased in 2005 for a little more than $40m. "One of the problems was that it was a 700,000-square-foot building in the middle of the city with no parking," according to John Mooz, senior managing director at Hines. "So we put in 300 of the most beautiful parking spaces you'd ever seen, which instantly got rid of 200,000 square feet of [net rentable area]. Eighteen months later, we sold it for $102m."

Location is an important aspect of any re-positioning strategy, Mooz explained, adding that Hines looks for properties like 919 Milam that are in central locations near major sources of transportation.

Additionally, markets with high barriers to entry make new construction difficult and re-positioning older buildings an attractive alternative. "We look for properties with great locations and good bones and layer the rest on from there," Mooz said. "For a long time, nobody really knew what to do with these mid-century modern office buildings, but now, people are starting to have some ideas."

The ability to attract and retain tenants is also important in renovating buildings. Many tenants today are looking for unique, less corporate office experiences, and if investors are able to check those boxes, Mooz explained, tenants will want to lease space in their buildings.

It also pays to be patient, Queen added. "For every earnings call we had with analysts during our renovation of Brookfield Place in Lower Manhattan, the questions always started with how much space we had leased," she explained, emphasizing the importance of getting the right type of tenants for the building and the location. "We spent $250m on re-positioning the retail spaces on the ground floor to make it attractive in response to the area's changing demographics. It would have been quicker to lease low-end retail, and we could have made more on a per-square-foot basis, but we knew that taking time to get the higher end tenants would drive the office leasing upstairs, and it did."

After sharing success and horror stories, all of the panelists agreed that despite many challenges, renovating an urban office building can provide great returns and an even greater sense of accomplishment. "I could never pick a favorite [property] – it's like asking me which kid I like best," Mooz continued. "You love them all. It's amazing how much you do become attached to each of the buildings over time, taking them from one place to a very different place in the end."

> FOR A LONG TIME, NOBODY REALLY KNEW WHAT TO DO WITH THESE MID-CENTURY MODERN OFFICE BUILDINGS, BUT NOW, PEOPLE ARE STARTING TO HAVE SOME IDEAS.
>
> JOHN MOOZ, HINES

FUND STRATEGY

EXCLUSIVE: TCI REAL ESTATE FUND SURPASSES $1BN

Strategy on track to hit $1.3bn, says Preqin

A real estate fund managed by The Children's Investment Fund (TCI) has surpassed $1bn.

The TCI Real Estate Partners Fund I reached $1bn on its second close at the end of January after raising $691m last July, Preqin told *HFMWeek*, a sister publication of *REFM*.

Preqin said that the fund is expecting to reach $1.3bn, but a spokesperson for TCI declined to comment on recent growth.

A notice of a securities offering was initially filed for the TCI Real Estate Partners Fund I on 8 August 2014, with 10 investors having already allocated to the new vehicle.

The California State Teachers' Retirement System was reported in December to have made a $200m in TCI's new Delaware-domiciled real estate fund.

A minimum $25m investment is required to allocate to the fund.

TCI has experienced strong growth recently, with Companies House documents showing its overall assets increasing from $3.7bn on 31 August 2013 to $4.4bn on the same date a year later.

It also recently helped seed an independent fund for charity Unicef, which launched on 16 April, with a $55m investment.

REITs

BDO STUDY: REIT SECTOR SET TO EXPAND

The real estate investment trust industry is experiencing a big resurgence after a period of lower activity, and as a result, REITs are rapidly expanding. This trend, coupled with the possibility of rising interest rates, is leading to a greater risk of lower returns and operating performance within the REIT space, said Anthony La Malfa, partner in real estate and hospitality services at BDO USA.

Greater demand for REITs, particularly in US gateway markets, is driving merging and acquisition activity, as well as new partnerships between publicly traded REITs and local real estate developers and managers. "Although every transaction is preceded by a period of detailed due diligence, there is always a risk that these partnerships won't come together as seamlessly as anticipated," La Malfa added. "This could lead to poor operating performance and diminished return to investors."

Indeed, a recent BDO research report found that 97% of REITs are concerned about M&A and joint venture activity, up 10% compared to this time last year. Despite these concerns, improvement in the economy has led many investors to believe that this activity will continue throughout 2015, La Malfa continued. "As the economy began to emerge from the recession, the stage was set almost perfectly for REITs," he stated.

"With some notable exceptions, most equity REITs were able to weather the recession rather well and had accumulated large cash balances. Combined with the overall improvement in the economy and significantly below-average interest rates, the environment was ripe for expansion activity. We would anticipate this activity to continue through the remainder of 2015, especially in the multi-family, retail, and self-storage sectors."

Additionally, if interest rates rise this year as anticipated, additional risks could be presented for REITs, La Malfa said, as the BDO study found that 99% of REITs cited rising interest rates as a top concern. "REITs with un-hedged variable-rate debt will most immediately feel the impact of any rate increases as the additional debt costs will flow directly to the bottom line and require additional cash outlays," he stated.

REITs with significant amounts of debt coming due will also see borrowing costs increasing faster than rental rates, resulting in lower income and greater cash outlays if rates rise, he added.

To prepare, REITs are encouraged to use caution in their investment strategy. "Proper due diligence is always an important first step," La Malfa said, adding that REITs should also remain focused on their debt maturity tables and restructure debt so that it isn't maturing in the same time frame. "Properly hedging any variable-rate debt will limit the impact an interest rate increase may have, as borrowing costs will be fixed and pre-determined over the life of the debt."

That said, it is a positive market overall with strong fundamentals, and by exercising the right strategy to avoid risk, REITs should be able to weather any challenges that come their way, La Malfa said. "Over the next couple of years, it is expected that there will be a period of continued expansion through property acquisitions and mergers, followed by a period of portfolio re-structuring and re-positioning," he said. "The outlook remains positive for REITs as most seem to display strong financial fundamentals that will carry them through anticipated interest rate increases and associated market shifts."

PARTNERSHIP

DEALPOINT MERRILL, SPERRY VAN NESS ROLL OUT INVESTMENT PLATFORM

DealPoint Merrill has joined forces with Sperry Van Ness International Corporation to form SVN DealPoint Merrill Realty Partners, a private equity platform that aims to acquire co-investment assets that are fundamentally sound, but undervalued, in order to maximize returns and reinvest profits.

"The timing for [this] couldn't be better," Kevin Maggiacomo, president and CEO of Sperry Van Ness, told *REFM*. "Economically, the US appears well-poised to sustain about a 3% growth rate in 2015, which is only the second year in the past decade with growth at that pace. With that, the timing of our partnership will produce better investment returns, providing the financial wherewithal to support greater deal opportunities nationwide."

Through the partnership, the companies will invest in assets with reasonable leverage to enhance returns and realize additional capital growth through management, financing or sales activity, according to David Frank, CEO and co-founder of DealPoint Merrill. The partners hope to achieve a targeted annual rate of return in the range of 20%-40% with an approximate three to five year holding period on assets, depending on market conditions, he explained.

The partners are also seeking to geographically diversify. "We prefer to acquire properties in the Sunbelt and in income tax-free states, since they have historically outperformed the US in economic and demographic growth," Maggiacomo said, "[We will invest] nationally with an emphasis on primary and secondary markets."

The partnership likes supply constrained markets with steady growth, limited future competition, long-term fundamentals and demand generators, such as public infrastructure, new employment and housing and retail expenditures, Frank said.

Maggiacomo added: "The questions [we ask are]: does the asset fit within our 'box' of experience? Can we achieve 'economies of scale' by clustering our acquisitions in geographic locations where we have in-depth expertise and market knowledge? In this manner, we maximize our time and returns for our investors, so that's the goal."

SVN DealPoint plans to invest in properties that are difficult to re-produce and contain value-add potential with below market rents in recovering markets, Maggiacomo stated.

"Some of the telltale signs are an asking price below replacement cost, a higher vacancy rate than comparable properties for no obvious reason or a hard-to-remedy reason, or a seller for whom real estate is not part of his or her core business," Frank added.

The assets will then be repositioned and brought back to market in order to quickly maximize value and return on investment capital, he said. The partners are seeking to raise approximately $100 million this year to invest in properties using this strategy."Our future plans are to build upon our core competences to a re-eminent co-investment platform across a broad spectrum of geographic locations and product types," Frank said.

INVESTMENTS

CRESCENT COMMUNITIES SEEKS INVESTMENT PARTNERS FOR SUNBELT DEALS

Crescent Communities, a Charlotte-based investment management company, is seeking outside partners for the first time as it aims to capitalize on what it sees as tremendous growth in several markets in the Sunbelt. "We would prefer to co-invest with a single institutional partner who can contribute up to $200m for multiple projects. We value relationships and we think it would be more advantageous to have repeated ventures," said Todd Mansfield, president and CEO.

The Sunbelt is seeing younger professionals migrate away from Gateway cities to strong secondary markets. "You have Millennials coming to these cities and you see a significant portion of the demographic changing. A lot of these cities are becoming more authentic – it's vibrant, it's diverse and it's got a texture of its own," Mansfield said, noting that the economies of these submarkets are also quite diverse. "In Austin you have a very strong tech market; Charlotte finance; Orlando tourism and related industries; and Nashville education and healthcare."

With a construction pipeline of 10 mixed-use multifamily communities scheduled for the next five to six quarters, Mansfield believes the firm will be able to line up a partner over the next two to three months. "We have historically financed projects with our own capital balance sheet, and sometimes with limited partners. But with our increased volume, we are open to capitalizing with a third party partner," he added. "By working with partners, we could further accelerate our growth and take advantage of the tremendous market opportunities we are seeing."

The company's multifamily projects typically range from 250 to 350 units, with deal sizes between $40m to $75m. Crescent aims to have economically priced properties that offer a live-work-play lifestyle, including walkability, proximity to transit and access to daily needs such as gym, grocery and entertainments. Once the company lines up a partner, it will have the capacity to increase its pipeline to 12 projects.

For example, the 450-unit luxury apartment community in Charlotte's Uptown Stonewall corridor is adjacent to the city's Lynx Blue Line light rail service and will include a Whole Foods Market, parking peck, retail space and two hotels. Other transit-oriented projects include a mixed-use project in NoDa, a North Charlotte neighborhood, Crescent Central Station in Orlando and its Bryson Project in Austin.

With the Sunbelt predicted to produce 50% of the US population in 2020, according to the Census Bureau, Mansfield sees both demand and room for new home construction. "In the past 25 years the industry averaged 1.5 million new homes built, but in the past five years, we have only produced 500,000 to 700,000 new homes. As a whole, we are way below production," he added.

Crescent's upcoming projects are, coincidentally, in every one of the states in which the firm invests, which include Colorado, Arizona, Texas, Georgia, Tennessee, North/South Carolina and Florida.

> YOU HAVE MILLENNIALS COMING TO THESE CITIES AND YOU SEE A SIGNIFICANT PORTION OF THE DEMOGRAPHIC CHANGING. A LOT OF THESE CITIES ARE BECOMING MORE AUTHENTIC
>
> TODD MANSFIELD, CRESCENT COMMUNITIES

Crescent owns and controls all of the sites. Some of the communities will start construction at the beginning of August, continuing through to Q2 and Q3 of next year.

Mansfield added the company is watching Washington DC and Virginia carefully, with the intention of expanding into those markets.

ACQUISITION

OXFORD STRIKES DEAL FOR DOWNTOWN BOSTON OFFICE

Oxford Properties Group has acquired 745 Atlantic Avenue, an 11-storey, 174,231-square-foot office building in Downtown Boston, for $114.5m, equating to approximately $657 per square foot. Beacon Capital Partners was the seller. The acquisition is the company's fourth in the city.

The deal demonstrates the ongoing trend of strong foreign investment in Downtown Boston, with many overseas investors snatching up Class A office product. "Foreign capital is coming into Boston from virtually every corner of the planet, and while you're still seeing domestic capital competing for those transactions, there is a lot of foreign activity, with core office being the dominant sector," one local broker told *REFM*.

While Boston has experienced a lull in large sales as some investors increasingly look at smaller deals outside of the city center due to strong competition and high prices, many are bullish that large transactions are still in store for the remainder of 2015. "A lot of the big [deals] closed earlier this year, but it seems outside of the realm of possibility that none of these big [properties] will be sold later in the year," the broker added.

Beacon Capital acquired 745 Atlantic Avenue in 2012 as part of a $1.71bn portfolio acquisition of 14 US properties from Australia-based Charter Hall Office REIT, which was exiting the US commercial real estate market, according to published reports. The building has 8,000 square feet of retail space, 166,000 square feet of office space, and a 152-stall parking garage. It is fully occupied by tenants including WeWork and Cambridge Consultants.

Calls to Oxford Properties Group and Beacon Capital Partners were not returned at the time of going to press.

FOLLOWING THE CROWD

CROWDFUNDING REPRESENTS A NEW SOURCE OF CAPITAL. BY SHERRY HSIEH

When tracking headlines about the number of real estate crowdfunding platforms starting up, it seems like a coup is underway. The past 18-24 months has seen a wave of these new ventures being launched, and industry players estimate that there are currently 150 in various stages of growth.

But beyond the "new launch" numbers, there is much debate about the significance and viability of these platforms to put real estate capital to work. Some argue that based on transaction volume, these platforms are a tech fad, not a game-changer.

Indeed, although transaction activity is growing quickly – 156% in 2014 over 2013, according to a Massolution report – it still comprises a small share of total real estate investment globally: last year,

Timeline

1933
Securities Act Passed
The Securities Act prohibited general solicitations for raising capital for private companies.

2009
Kickstarter launched
Kickstarter, an online platform that funds creative projects, is launched.

2012
JOBS Act passed
The Jumpstart Our Business Startups Act is signed into law. Title II and Title III of the law are seen as the most significant for crowdfunding market.

2012
Commercial real estate crowdfunding platforms launched
Fundrise, RealtyWealth and a number of other commercial real estate crowdfunding platforms are launched.

2013
Title II of JOBS Act goes into effect
Title II enables private startup companies and other small business to raise company via social media and other websites after laws that prohibited public advertising for investments is stripped away. Only accredited investors with more than $1m of net worth or an income of $200,000/year can participate.

2015
Title III rulings are set for October
Rulings on Title III, which governs the participation of retail investors, are expected to be adopted in October.

transaction volume through crowdfunding platforms amounted to just over $1bn, with deal sizes ranging from under $10,000 to $25m.

This growth is just the beginning of what could be a major source of new capital for the commercial real estate market. "We have extraordinary retail demand from individual investors as the most tech-savvy generation is entering their peak investment years. This is the perfect environment for crowdfunding," said Will Silverman, executive managing director of capital transactions group Savills Studley.

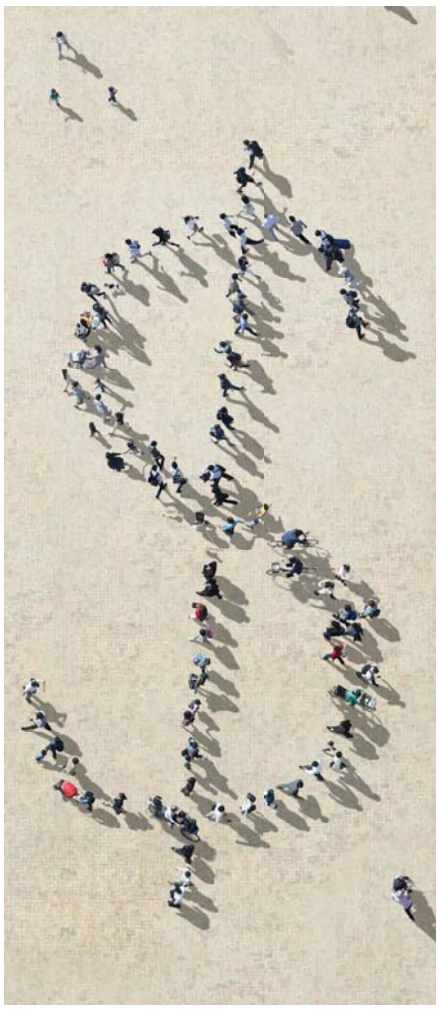
Most crowdfunding platforms have not yet done deals of more than $1m because they don't have the ability to bring that kind of money, noted Darryl Steinhause, partner at law firm DLA Piper. "In a $50m transaction, they may only raise only $60,000," he added. "This is not going to change what Blackstone does; this is going to change the guy who needs $400,000 or $1.5m."

This likely explains why large fund managers have not yet taken significant strides into the sector. "Crowdfunding connects two groups of people who previously had a hard time of finding each other: people who need capital and private investors who did not have access to those opportunities," observed Jay Zagoren, a partner at law firm Dechert.

Although crowdfunding platforms largely finance investments of a smaller size, Zagoren added that once they break through the $5m transaction threshold, they could start catching attention from investors in a more significant way. Silverman believes that the sector has the potential to emerge quickly. "If the private REITs are able to raise billions from investors in average check sizes of $25,000 to $55,000, I don't see why crowdfunding can't do the same with a more tech-savvy generation," he reasoned.

Evolving regulation

That day may not be far off, given the versatility of these platforms and their ability to quickly



shift their strategies to expand reach and the size of deals they can take on. Fundrise is a prime example. When Fundrise, one of the first and now largest crowd-funding platforms, launched its first fund in 2010, it took 18 months to raise $325,000 from 175 online investors – the average time it takes traditional fund managers today to raise new $500m funds. This is because at that time, companies such as Fundrise could only raise small amounts of capital without full registration under the SEC.

When a new provision called Rule 506(c) of Regulation D was added to the JOBS Act, it expanded companies' online fundraising potential by giving them the option of raising capital from accredited investors. This is commonly referred to as Title II Crowdfunding Rule.

"We do most of our deals through Regulation D now, because it's simple, quick and low-cost," said Dan Miller, co-founder and president of Fundrise, noting that under the old method – Regulation A – companies had to file a minimum of six months ahead of time. Now, crowdfunding companies simply have to prove that their investors are "accredited" – that they earn more than $200,000 annually or have a net worth of more than $1m. Attorneys, accountants and financial advisors can provide this verification quickly and easily with a letter.

Pending regulatory changes are set to broaden the fundraising horizon even more. Title III, scheduled to be finalized in October with roll-out in early 2016, will allow for solicitation to non-accredited investors. Title IV or

JOBS Act, Title II "Regulation D" Investment Solicitation Provisions

	Solicitation	Eligible Investors
Rule 506(b)	Marketed directly to known investors without "general solicitation or general advertising"	Up to 35 non-accredited investors; unlimited accredited investors
Rule 506(c)	Marketed over the Internet; TV, advertisements and solicitation on social media permitted	Only accredited investors

"Regulation A+," approved in March with roll-out in July, will raise the existing Regulation A fundraising cap, $5m, to $20m (Tier 1) or $50m (Tier 2) and simplify the reporting process by eliminating state securities law compliance.

But overall, the industry responded unenthusiastically, particularly to Title III. "Title III is dead in the water," said Jason Fritton, co-founder and CEO at Patch of Land. "Currently Reg A+ is our best option for participation by unaccredited investors into private offerings."

Bigger and more diverse

Growth-focused platforms such as Patch of Land and Realty Mogul are joining forces with institutional investors, private equity funds, hedge funds, and family offices, who take the lion's share of an asset, with crowd-funded capital taking a slice off the debt or equity base of the capital stack.

Going a step further, companies such as Fundrise and Acquire Real Estate expand through a pre-funding model, first using their own capital to close a transaction then syndicating the deal to its online investors. "We have been able to grow quickly because pre-funding deals eliminate the big question of 'Will we get our money when we need it?'" Miller explained. Fundrise's average deal size is now $3m, compared to $1m last year, which it has achieved by shifting to a pre-funding model. Steven Bettinger, CEO of Acquire, added that this approach simplifies deals because it allows borrowers, or sponsors, to work with only one limited partner.

Fundrise is also moving toward a model through which it can provide bridge equity, a step that Silverman believes is a game-changer for the financing market. "Bridge equity of this size hasn't been done since Lehman Brothers," he said.

What's more, much like the traditional fund space, crowd-based funds are diversifying, giving investors differentiated options in debt and equity, and commercial and residential real estate. PeerStreet, a platform that models itself on LendingClub, which went public in a $1bn IPO, describes itself as a 100% debt-based marketplace for non-bank real estate loans. AssetAvenue, also a peer-to-peer lending platform, works closely with brokers and aims to become the standard technology platform for that industry, according to CEO David Manshoory.

Meanwhile, two others have gone the niche route. Hotel Innvestor focuses on raising equity and debt for hotel projects, while Miami-based EarlyShares targets Latin American investors with an appetite for US retail shopping centers.

> MY CONCERN AS AN INDIVIDUAL INVESTOR WOULD BE WHETHER THESE PLATFORMS HAVE SUFFICIENT TRAINING AND EXPERIENCE TO UNDERWRITE AND MANAGE THE DEALS THEY ARE OFFERING
>
> JAKE KELLEY, JLL REAL ESTATE INVESTMENT BANKING GROUP

Real estate v technology

Steinhause and others observe, however, that it can be hard to tell whether some of these platforms are in fact more tech than real estate. PeerStreet's founder and CEO Brewster Johnson likes to point out, for example, that the company's co-founder was director of marketing at Google for 10 years and co-founded Google Analytics.

"Many of these groups are coming at this business from technology [backgrounds] and even the real estate folks on some of these platforms don't have track records as professional investors or investment managers. My concern as an individual investor would be whether these platforms have sufficient training and experience to underwrite and manage the deals they are offering," said Jake Kelley, senior vice-president in JLL's Real Estate Investment Banking group.

Silverman, like many others, believes that there will be a shakeout in the sector that will leave the standouts and the specialists. "There are too many platforms right now and it's inconceivable that all are doing spectacular diligence," he said. "Over the long term, we'll be left with the niche players with good underwriting and good platforms. It will become be big, be special or be gone."

Crowd-fund managers are aware of this skepticism. For RealtyShares' founder and CEO, Nav Athwal, whose company closed $10m in venture capital funding in April, the platforms without credibility will weed themselves out: "There are good platforms and bad platforms. The good platforms will get VC money and grow [their platforms], and the bad ones won't."

Miller agrees, acknowledging that many of the platforms that appeared in 2013 did not have deep real estate background in real estate development. "There will be a downturn and out of that will come a few platforms that can prove the capital and underwriting," he said.

For now, the industry is booming, with exponential growth. With new regulations and rapid technology advancement on the horizon, fund managers should be prepared that at least some of online platforms will be able to grow significantly in the coming years, particularly the ones that attract institutional investors. As Kelley sees it: "It would be foolish not to pay some attention to CRE crowdfunding. It's a revolution and it's happening."

Crowdfunding Platforms

	Initiation	Dollar Volume	Average Deal Size
AssetAvenue Debt Partnership with NAR	06/2014	Undisclosed; Largest deal size to date $14.5m	$3.4m
Fundrise Debt/Equity	08/2012	+$55m; Largest deal size to date $6m	$1.5m
Hotel Innvestor Debt/ Equity Hotel-focused	09/2014	Pro Forma $12m; Largest deal size to date $10m	+/- $5m
Patch of Land Debt			$230,000
PeerStreet Debt	11/2014	Undisclosed; Largest deal size to date $2.3m	$550,000
Realty Mogul Debt/ Equity	03/2013	$75m; Largest deal size to date $3.6	$1.5m
Patch of Land	10/2013	$23m; Largest deal to date $1.9m	$232,000

Sherry Hsieh
Reporter
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SMALL IS BEAUTIFUL

MICRO-APARTMENTS FIND THEIR PLACE IN THE MARKET. DANIELLE BALBI REPORTS

Micro-apartments – small urban rental units designed for young professionals – are evolving from a sub-segment of the apartment market into their own asset class, driven by cities that are in dire need of practical, well-located and affordable housing.

"Micro-apartments are simply a market response to an acute problem that is evident, especially in a place like San Francisco where rents have gone up 40% in five years, and where job production outpaces housing production by 10 to 1," explains Patrick Kennedy, owner of Panoramic Interests, a California-based development firm that specializes in micro-apartments. "It may be a niche now, but it won't be in 10 years."

The burgeoning micro-apartment market has primarily taken root in San Francisco and New York, which have strong job growth and little housing affordability. Indeed, average rents range from $3,000 to $3,500 per month in both cities. What's more, studios in New York hit a median of $2,351 per month – only $1,000 less than the city's average of $3,375 – according to Bloomberg.

The more affordable Brooklyn isn't trailing far behind, and Queens is already feeling the rent surge in its Long Island City, Astoria, Sunnyside and Woodside neighborhoods. "Cities like San Francisco [also] have a huge problem with finding entry-level housing for the [80 million-strong] Millennial generation, which is as big as the generation of the Baby Boomers. A solution will need to be found for the cities that they are flocking to," adds Kennedy.

The idea of micro-apartments isn't new, with the sector tracing its roots back to 1972 via Tokyo's Nakagin Capsule Tower. The idea for these tiny spaces was conceived during "Metabolism," a Japanese architectural movement of the sixties and seventies. Kisho Kurokawa designed the 140-unit, 13-story tower for single office workers wanting to live in convenience and simplicity.

MICRO-APARTMENTS ARE SIMPLY A MARKET RESPONSE TO AN ACUTE PROBLEM, ESPECIALLY IN A PLACE LIKE SAN FRANCISCO WHERE RENTS HAVE GONE UP 40% IN FIVE YEARS, AND WHERE JOB PRODUCTION OUTPACES HOUSING PRODUCTION BY 10 TO 1

PATRICK KENNEDY, PANORAMIC INTERESTS

The plan was for the 10-square-meter rooms to be renewed every 25 years, but more than 40 years later, the tower stands in disrepair. Now largely occupied by offices, artist studios and part-time residents, Nakagin only houses roughly 20 full-time residents who are debating whether to demolish or repair the property. Aficionados of the building started a crowdfunding movement to gain majority voting power by purchasing as many capsules as possible in the building to save it from destruction, according to published reports.

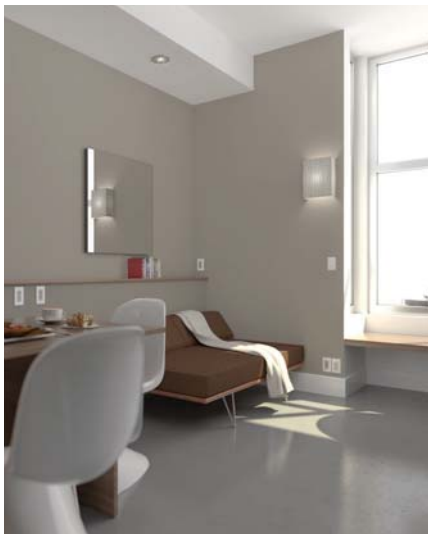
"The concept of micro-apartments is really for younger people who are just starting out. Buildings function similarly to college dorms – [small private] rooms with a lot of common areas, like lounges and gyms," says Ken Weissenberg, a tax partner and co-chair of the Real Estate Services Group at EisnerAmper. "It makes it affordable. If you look at the price of apartments [in New York City] compared to starting salaries, if someone wants a little privacy it's going to be above their means."

Financing

Kennedy's Panoramic Interests has specialized in the creation of small living spaces for the last 25 years – before real estate brokers even coined the term micro-apartments. Although the firm has financed many of its projects through friends and family, it has also worked with traditional lenders. Washington Capital provided a first mortgage construction loan and TDA Inc provided mezzanine debt for The Panoramic, a mixed-use micro-apartment project in San Francisco's SoMa market. Both Washington Capital and TDA primarily represent Taft-Hartley pension funds and other institutional investors.

On the permanent loan side, it's really CMBS lenders that are exceptionally interested in financing micro-apartments, said John Manning, managing director of Northwest Real Estate Investment Banking at JLL. "From what we've seen, speaking broadly, most life insurance companies or larger life insurance companies are not there yet, or open to it but at very conservative level," he adds. As for equity, he noted that private capital is taking the lead, and eventually, institutional equity and REITs will enter the space.

"This is our first micro-unit investment… it frankly took a great deal of comfort with the sponsor and developer, who had done other college housing and smaller footprint projects – everything is based on the team you're investing in," explained Rob Perkins director of investments at TDA, who provided a mezzanine loan for the project. "When we got involved this transaction was already have pre-leased [under a 10-year lease] so that takes a fair amount of



Pictures: Panoramic Interests

risk away…and then you have the depths of the market, especially in San Francisco which is short of housing." Perkins also added that TDA was comfortable with the transaction because of its location – a denser market that benefits from the presence of students and young tech employees.

Despite growing interest, micro-apartments are still not a proven product type, and market players agree that it will take a few years until the asset type becomes as investable as more traditional multifamily properties. Manning also noted that investment strategies for the emerging asset class are similar to other multifamily investments, coming in different forms including merchant builders and build-to-core holders.

To date, there are no funds dedicated specifically to micro-apartments. "It's early in the marketplace to think about [setting up a fund] because until there is a product that is widely available and people see how it does economically, it's somewhat risky," explains Weissenberg. "Yes, the demand is high and the first several will fill out fairly quickly, but what if there is a high turnover?"

Other market players, however, point to this as the nature of the market. "It's the same way for all apartment units. People make lifestyle changes so they're going to leave and move on, but there are still going to be kids graduating, [living costs] will be expensive, and they will gravitate towards high cost areas. People are going to struggle and [micro-apartments] are a solution," says John Williams, president and CIO at Avanath Capital Management.

Because of their design, micro-apartments cater to very specific tenants. "You are singularly narrowing your universe of renters, let alone buyers…the positive is that they are usually priced better, and renters are looking for a monthly payment that is inexpensive, usually in denser, urban areas, near jobs and transportation," Williams says, adding that some developers may be able to make the most of space by creating more living units in areas that could not be used for more traditional residential apartments.

The firm does not work in the micro-apartment space, but mostly because an opportunity has yet to arise, said Williams. "We could [work in the space] quite honestly, just not a lot of these units are out there and we have yet to see an opportunity that's presented itself."

Market players already invested in the space remain optimistic. "Fund managers are cautious individuals and don't want to throw hundreds of millions of dollars into [an asset] that hasn't been vetted for a long period of time. I don't blame them for their trepidation, but I am certain that in five or 10 years these [micro-apartments] will be part of many apartment investors' portfolios," adds Kennedy.

Positive points

Those already involved in micro-apartments point to its potential. "I would say [there are] slightly higher returns because you're getting more rent per square foot – although this is partially offset by higher construction costs and financing costs. [Micro-apartment buildings will] probably sell for slightly higher cap rates too – perhaps +0.25% but the jury is still out on that as there have not been many sales," says Manning.

Construction costs for The Panoramic, which is slated to open later this year, were about $400 per square foot. Rents for Panoramic's units are just above $5 and $6 per square foot – making them roughly 30% below market. Additionally, 12% of units are considered affordable housing.

Building small units in a city such as San Francisco with a very expensive cost of land makes sense, Weissenberg notes. "The price of land is becoming so expensive in major cities – particularly New York and San Francisco – that developers are looking for a way to make projects work. They are either going to be charging more per square foot, or putting more units in each building."

Simon Baron Development Group, a New York City-based real estate development firm, is working on a micro-apartment project in the Long Island City neighborhood of Queens. "We have to cater the market that's there, but isn't being addressed. Most college graduates aren't making $100,000 a year to afford a studio apartment in New York City," says president Matt Baron, emphasizing that there is a serious need for rents that individuals making $40,000 to $50,000 can afford on their own.

The units in Simon Baron's LIC project range from roughly 150-200 square feet, all including kitchens and bathrooms. "The subset is not to entertain: there are no kids, no televisions. It's for people who are looking for a more communal space to socialize," explains Baron, highlighting the importance of amenities and shared spaces in the properties themselves. Units will likely be rented for 20-30% below market value.

Growing demand

Major cities such as Los Angeles, Boston, and Washington DC will soon follow the trend. Pembrook Capital Management, a commercial real estate investment manager that provides financing through the capital stack, recently closed a $6.25m mezzanine loan for the development of a 123-unit micro-apartment project in downtown Portland, Oregon. The development, Tess O'Brien Apartments, features two six-story buildings totaling 40,604 square feet, and in typical micro-apartment fashion offers a number of amenities, such as a private garden with a fire pit and barbecue, indoor bike parking, a gym, laundry, a dog wash station and a community room with a kitchen and seating.

Although there are concerns over high turnover, Kennedy says that there will always be a demand for entry-level housing. While some Millennials will move out and have families, cities that have economic opportunity and cultural resources will always have an overwhelming draw, he continues.

"Smaller, more efficient space is completely keeping up to ethos of Millennials. Just as Uber has changed their habits with respect to cars, micro-apartments are anticipating and prefiguring the shift of Millennials into smaller spaces," says Kennedy. "Affordable, clean but well designed, super-efficient housing is a timeless idea with growing demand." ◘

Danielle Balbi
Reporter, REFM

CUSHMAN & WAKEFIELD

EQUITY, DEBT & STRUCTURED FINANCE

SOLD

$365 MILLION

Sale of Leased Fee

2 Herald Square
New York, NY

FINANCED

$182 MILLION

Refinancing

Peachtree Center
Atlanta, GA

FINANCED

$115 MILLION

Acqusition Financing

Ten Post Office Square
Boston, MA

SOLD AND FINANCED

$100 MILLION

Investment Sale & Financing

Cronacher Retail Portfolio
National

FINANCED

$98 MILLION

Acqusition Financing

511-541 W 25th Street
New York, NY

SOLD AND FINANCED

$88 MILLION

Sale & Acqusition Financing

Fremont Marriott
Fremont, CA

FINANCED

$75 MILLION

Acqusition Financing

33 New Montgomery
San Francisco, CA

FINANCED

$71 MILLION

Construction Financing & JV Equity

Yoo on the Park
Atlanta, GA

SOLD

$36 MILLION

Investment Sale

The Montecito (Senior Housing)
Peoria, AZ

FINANCED

$34 MILLION

Acquisition Financing

300 Fairfield
Fairfield, NJ

FINANCED

$25 MILLION

Acqusition Financing

Georgetown Plaza
Washington, DC

SOLD

CONFIDENTIAL

Investment Sale

Nickelodeon Suites Resort
Orlando, FL

FOR MORE INFORMATION, PLEASE CONTACT:
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* Select 2014 transactions.

CAPITAL IDEAS

JESSICA POTHERING REPORTS ON LAUNCHING A NEW FUND IN TODAY'S MARKET

When Brian Malliet launched BKM Capital Partners to raise his first independent first real estate fund management business in 2013, it seemed like the fundraising environment was not on his side.

Close to 450 private real estate funds were actively raising capital at the time and in spite of a more successful fundraising year by dollar amount, the number of funds that successfully reached their targets by year-end had dropped dramatically from the year before. Investor capital was becoming more concentrated among a smaller number of experienced managers: only 7% of all the real estate capital raised in 2013 went to new fund managers, compared to the 45% that went to managers who had raised at least nine funds in the past. It seemed the chances of success would be slim.

Malliet, a 25-year industry veteran, spent most of his career with Voit Real Estate Services, dedicating 13 years to the brokerage side of the business then moving into development, and eventually into asset management and operation as co-owner of the platform. In all, he has raised and invested more than $850 million in industrial properties over his career. Malliet felt he had what investors value most in a fund manager – track record – he just had to prove it.

Two years on, BKM – a boutique industrial real estate fund management firm – has invested $95 million in five properties covering close to one million square feet, which BKM expects will generate a 20% internal rate of return. It is in the midst of raising a $200-300 million fund. The company said it is in advanced stages of negotiation with investors for about half that amount, and aims to reach its first close this summer and

fully close before year end.

Getting to this stage, Malliet has spent a lot of time doing his homework. He knew new funds do not happen overnight; rather, some take years beyond the average 18 months of fundraising to close, while most do not close at all. Constructing a precise strategy was a critical first step – next would be proving it.

For two years, Malliet aggressively worked the conference circuit, trying to understand investors' real estate mindset and studying which funds were successful and why others were not. He subscribed to all of the industry trade publications, following new fund launches, their strategies and who was appointed to their boards.

"What I saw as a commonality among successful funds was a niche-focused strategy. A lot of the new ones that didn't get funded were generalist funds and were competing with the big guys. I knew first time funds have to be niche," Malliet explained. BKM is very niche: multi-tenant industrial business parks in the Western United States.

With Voit, Malliet spent over three years in the downturn helping the firm manage its existing portfolio and watching the market for signs of recovery. When he finally decided to go out on his own in 2013, he felt the fundamentals in the multi-tenant industrial sector were starting to turn. But rather than shooting straight for a traditional new fund approach of developing an investment thesis and taking it to market, Malliet and his partner Nima Taghavi took a page from the Silicon Valley tech-start up scene and decided to prove their strategy by seeding the company themselves.

"We did it backwards. We funded a 'startup' company with a couple million dollars from our GP's, we raised a friends and family round, we spent time proving that the niche product opportunity was there and that it could be scaled. We put an execution team in place, put an impressive board together," – which includes former ceo of Morgan Stanley John Mack, and Jeff Gehl, managing director of private equity fund of funds manger RCP Advisors. "A year after we launched the company, we started buying value-added assets," Malliet recalled.

"We had decided it's not if we can do this, but when we can get this done. The message to future investors was that we are going ahead in any case."

Demonstrating pipeline is important for new fund managers because unlike 2005-2007 when it was much easier for new funds to raise capital, investors remain cautious since the downturn and see new funds as exceedingly high risk today, according to Nancy Lashine, managing partner of Park Madison Partners, a placement agency based in New York. Indeed, more than 60% of institutional investors say they will not invest in new funds outright, according to data firm Preqin's latest investor survey.

WHAT I SAW AS A COMMONALITY AMONG SUCCESSFUL FUNDS WAS A NICHE-FOCUSED STRATEGY. A LOT OF THE NEW ONES THAT DIDN'T GET FUNDED WERE GENERALIST FUNDS AND WERE COMPETING WITH THE BIG GUYS. I KNEW FIRST TIME FUNDS HAVE TO BE NICHE

BRIAN MALLIET, BKM CAPITAL PARTNERS

"We strongly advise new funds and potential funds to have assets already in their portfolio or lined up before marketing their funds. It sends a whole different message to investors. It says the fund is live and they can get deals done," Lashine explained. It also gives investors something too look at – a chance to tangibly understand they kinds of assets a manager is targeting and how their underwriting works.

Even with a ready portfolio and demonstrated pipeline, raising a fund is an uphill battle for most new managers. There has been a clear trend since the downturn of investors narrowing the range of fund managers they work with, choosing to commit more capital to a smaller number of large managers, rather than spreading their allocations across a wider pool. Roughly a third of institutional investors plan to invest in only one real estate fund in 2015, according to Preqin's latest investor survey, while an additional 30% intend to invest in two only.

"Just choosing a small corner of the market is not a guarantee," said Paul Murphy, director of private funds with EY's Real Estate Corporate Finance group. "Successful new fund managers should focus on a niche, but they have to be able to prove that niche is scalable, and that they can get deals done in order to attract institutional capital."

First quarter fund raising data makes no mystery of who is winning the lion's share of real estate commitments: global platforms. Blackstone Group's broke its own record for the largest private fund ever raised in March, raking in $14.5 billion at lightning speed – reportedly less than four months after launch – shredding the industry average of 18 months. The fund amounted to exactly 50% of the total commercial real estate capital raised across the private fund sector for 2015's first quarter. Starwood Capital and CIM Group's new funds accounted for an additional $8 billion for the quarter, while the other 21 funds that successfully closed by March 31 added up to only 25% of the total.

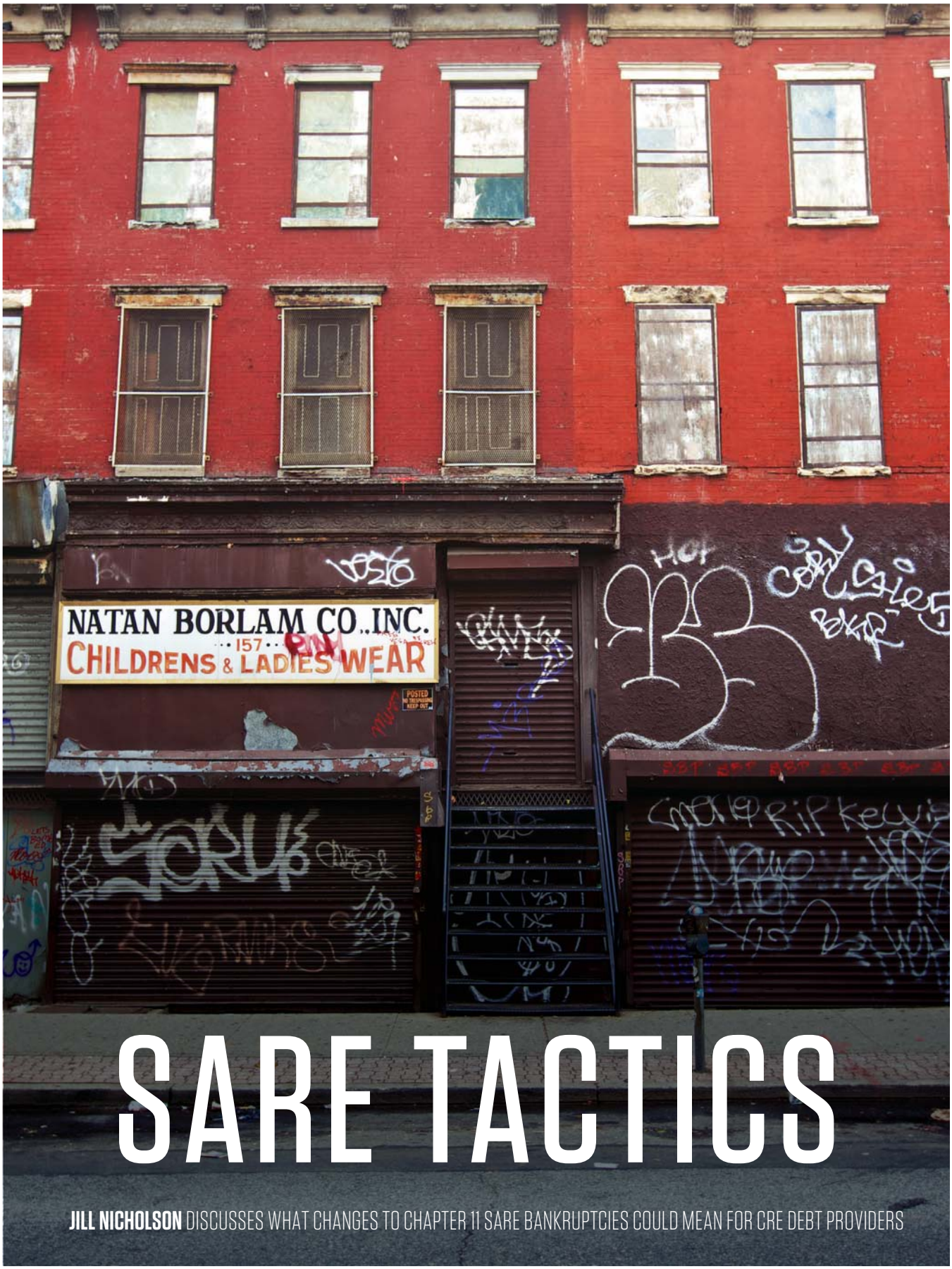
"It's almost a buyers market for investors. The fundraising market is very crowded – investors can pretty much pick and choose who they want to work with and where to put their capital," explained Lashine. "And when you're running a large portfolio, adding a new fund may not be the most important thing you have to do."

For Malliet and his team, it was understood that strong relationships would be the other key to success. For this reason, the young company spent a year carefully building its board and identifying a placement agent – Mercury Capital Advisors – to help BKM efficiently execute a formal fundraising plan and get in front of investors. While Malliet is confident that a first close is imminent, it has nevertheless taken upwards of 50 investor meetings to get to this point.

"For those who have decided not to invest with us, the main reason they give is that they are not a first closer in a new fund," Malliet explains. Some appear to be interested in testing the waters via a separate account agreement, which Malliet believes could translate to future fund investments.

Yet, while running a fund and separate accounts concurrently may be a necessary step to kick into the fund management space as a new manager, it is not a long-term goal to engage in multiple investment strategies.

"When we started, the goal was to have a fund strategy built around an operator model because it is the most effective way to put capital to work and get involved in the real estate. It's important to investors that managers have a laser-focused strategy. We are committed to a niche, so we have to stay narrow," Malliet concluded.



SARE TACTICS

JILL NICHOLSON DISCUSSES WHAT CHANGES TO CHAPTER 11 SARE BANKRUPTCIES COULD MEAN FOR CRE DEBT PROVIDERS

Proposed changes to the United States Bankruptcy Code could have profound implications for lenders' negotiating strength in certain bankruptcy cases. This includes traditional CRE lenders, as well as the growing number of commercial real estate funds that originate debt.

In recent years, the United States Bankruptcy Code has come under fire for providing outdated models for current financial problems. Since it was established in 1978, the Code has weathered numerous financial crises and provided a measure of predictability and certainty to both debtors and their creditors. However, support is emerging to alter longstanding principles of bankruptcy law, including the rights of secured lenders in chapter 11.

In 2012, the American Bankruptcy Institute established a commission to review potential reforms to chapter 11 of the United States Bankruptcy Code. The Commission recently issued a 332-page report with proposed changes to the Bankruptcy Code, some of which would fundamentally alter chapter 11 cases involving commercial real estate lenders and special servicers, such as the ability to block confirmation of a proposed plan in a single asset real estate case (SARE).

SARE bankruptcy cases generally involve single properties or projects in which the property generates all of the debtor's gross income, and on which the debtor is not conducting business other than operating the property and related incidental activities – 11 U.S.C. § 101(51B). They frequently involve a CRE lender or special servicer making a significant secured claim and minimal, unsecured claims by third-party vendors on trade debt. In formulating its plan, a SARE debtor must place these claims in specified classes. For example, the secured claim of a commercial real estate lender would be placed in one class, while the unsecured claims of trade debt would be placed in a separate class. Each class, in turn, has the opportunity to vote on the debtor's proposed plan.

Currently, the Bankruptcy Code requires that at least one impaired class votes in favor of the debtor's plan in order for it to be confirmed. Requiring approval by a single impaired class demonstrates semblance of support by a creditor constituency. This means a SARE debtor could confirm a plan simply based on approval of the trade debt class — even over the objection of the lender or servicer.

However, lenders and servicers can exert critical leverage in a SARE case under its present form. In many instances, the property is underwater. As a result, the lender or servicer typically has a secured claim up to the value of the property and a separate, unsecured claim for the remaining deficiency. In certain jurisdictions, the unsecured deficiency claims may be placed in the same class as other unsecured claims, like trade debt. Why is this important? A lender may utilize its deficiency claim to block acceptance of the plan by a single impaired class.

Here's how the process works. In order for a plan to be accepted by a class, it has to meet two criteria:

1. More than half of the total number of allowed claims vote in favor of the plan.
2. At least two thirds of the total amount of allowed claims vote in favor of the plan.

THE PROPOSAL SEEKS TO ELIMINATE THE BANKRUPTCY CODE'S REQUIREMENT THAT AT LEAST ONE IMPAIRED CLASS MUST VOTE TO ACCEPT A PLAN

For example, Class I in a bankruptcy plan is comprised of unsecured trade debt. There are 10 creditors with allowed claims in that class holding $1 million in debts. All 10 creditors have voted. If six out of the 10 creditors vote in favor of the plan, the first criterion is satisfied. If those six creditors also hold at least two thirds of the $1 million, the second criterion would also be satisfied, and the plan can be confirmed.

Now let's assume that the lender's unsecured deficiency claim is $3m and that the bankruptcy court required that the lender's claim be included with trade debt in Class I. That means that there are 11 creditors with a total of $4m in claims. Suppose all 10 of the trade creditors now vote in favor of the plan, but the lender votes to reject it. Under the formula above, the first prong is still satisfied because 10 out of the 11 creditors have voted in favor of the plan. The second prong, however, cannot be satisfied, because only $1m of the $4m – less than the two thirds required – in claims have accepted the plan. As a result, the lender could effectively block confirmation of the plan.

Under the Commission's proposal, lenders and servicers would no longer be able to employ the strategy above to block plan confirmation in SARE cases. Instead, the proposal seeks to eliminate the Bankruptcy Code's requirement that at least one impaired class must vote to accept a plan, finding that such a requirement "was an impediment to confirmation and subject to significant abuse". As a result, a lender or servicer would lose its blocking position, and confirmation of a debtor's SARE plan becomes much easier. The elimination of this requirement chisels away at a key leverage point available to CRE lenders in SARE cases.

The Commission's proposal is the starting point for an ongoing dialogue about the rights of commercial real estate lenders. It also marks a material turning point, shifting the balance of power to CRE debtors seeking to modify the terms of CRE loans. While lenders and servicers currently remain free to utilize this strategy, they should remain mindful of what may be on the horizon. Moreover, they should plan accordingly, whether it be through modifying existing loan documentation to account for increased bankruptcy risk or engaging in efforts designed to make their voices heard regarding the pending proposal. ◘

BIOGRAPHY

Jill Nicholson is a partner and trial lawyer with Foley & Lardner LLP and chair of the firm's national Bankruptcy & Business Reorganizations Practice. She focuses on commercial bankruptcy and insolvency matters, creditors' rights, out-of-court workouts and restructurings, and complex multidistrict financial services litigation. She is also a member of the firm's Real Estate Practice

BIG APPLE MANAGERS TARGETING MIAMI RETAIL MARKETS

A number of New York fund managers are hoping to re-create two of New York's funkiest retail submarkets in an emerging area of Miami. Managers that include East End Capital, RedSky and London-based JZ Capital, KAR, and Junius Partners see parallels between Manhattan's Meatpacking District and Miami's Design District and between SOHO/Brooklyn's Williamsburg submarket and Wynwood.

Miami's rise has been clearly documented over the past 18 months, with drivers that are a bit apart from New York. "There's been a lot of absorption of space as small business growth drives the economy," said Charles Foschini, vice chairman of CBRE's capital market, debt and structured finance team. "Executive space, meet-me type spaces are popular, with emerging markets like the Design District and Wynwood growing into new business hubs."

With this emergence comes retailers that are expanding their bases from downtown Miami and Miami Beach to occupy ground-floor space in warehouses and space that has just come online in newly constructed properties. The Design District will soon house brands like Dior, Givenchy, Miu Miu and East Coast Jewelry (ECJ Luxe), whereas the more boutique-like Wynwood sees the likes of Aesop and Warby Parker, market players told REFM.

The Design District and Wynwood aren't interchangeable. The Design District, a more mature market that is preferred by high-end retailers, is seeing sales prices of $3,000 per square foot while pricing in Wynwood is closer to around $1,000 per square foot. This is a substantial jump in values – two years ago, pricing was closer to $1,000 and $300 per square foot, respectively.

It's Wynwood, however, that is seeing the most interest right now. The submarket, situated between then I-95 and Florida East Coast corridor, is benefiting from zoning changes that will allow for higher density development and greater height build outs, one broker told REFM. This has translated into a big boost in attracting investors eyeing potential rent increase with future tenants. "The re-zoning is probably responsible for 75% of the recent surge in investor capital," said Joe Furst, Chair of Wynwood Business Improvement District and managing director of Wynwood at Goldman Properties. The company owns more than 400,000 square feet, or about 30 buildings in the submarket.

Wynwood's main Second Avenue corridor has seen rents rise steeply over the past 10 years, increasing from around $12 per square foot to $50-60 Furst said. Rents in the remainder of Wynwood have risen from around $8-9 per square foot to $30-45 per square foot during the same period, he added.

The neighborhood is also benefitting from the street art that is part of its Wynwood Walls program. "The street art creates a unique sense of place which makes Wynwood a cultural destination for visitors and locals, which led the way for creative businesses," Furst added. "The Design District is great, but Wynwood provides an exciting and fresh localized food and retail scene which Miami lacked."

When East End Capital paid $23.5m, or $270

MIAMI HAS BEEN ON THE RISE FOR A WHILE NOW, AND ITS LATEST EMERGING AREAS, WYNDWOOD AND THE DESIGN DISTRICT, ARE BEING HEAVILY TARGETED BY NEW YORK FUND MANAGERS. SHERRY HSIEH REPORTS

per square foot for two acres on Northwest 24th Street in 2014, it was the largest transaction to date in Wynwood. The fund manager, which owns six properties in the submarket, sees the neighborhood as attractive to the younger demographic and TAMI tenants. "We love Wynwood, it has great location – easy access from I-95, proximity to the airport and you can get to downtown or Brickell without taking the highway. It's also the experience – you have old warehouses being converted into offices, retail spaces, restaurants," said Marc Gitto, director. "You can make the comparison to Chelsea, Williamsburg, but it's its own thing. It's unique."

Six months later, RedSky Capital and JZ Capital completed the largest deal on a price per square foot basis in the submarket. The partners paid $10.6m or $770 per square foot for 13,775-square-foot 2407 Northwest Second Avenue. Furthermore, RedSky's most recent purchases, roughly $100m, in March, which includes two Design District properties and one Wynwood property, brought sales price per square foot in Wynwood to a record-breaking $1,200. Furst sees the $1,200 per square foot purchase price justified, adding that another New York-based group is looking at a deal that could go as high as $1,500 per square foot. RedSky officials declined to comment.

More than 60 new businesses, mostly independent retail stores and restaurants, have opened in Wynwood over the last year alone, and boutiques and concept stores dominate the northwest corridor of Second Avenue. Popular destinations include design store Elemental and Plant the Future, a part-greenhouse, part-gallery home decors and landscape store designed by artist Paloma Teppa. Another tenant is the Haus Fashion Lab, a boutique concept of make-up artist and hair designer Emilio Uribe.

National retailers that want to move into Wynwood have to fit a certain profile, Furst explained. "You have to be entrepreneurial, design-focused, and have a specific point of view. Warby Parler is a good example. The price point and design are exceptional, with a beautiful but simple store build out," he added.

Driving the growth of the retail sector is the city's office market, which is seeing a supply-demand imbalance. More Class B office buildings are being converted into Class A space as demand rises from smaller law firms and boutique financial services companies. "In Miami, it's very entrepreneurial and small business growth is really driving the economy. Right now we've got a market that is more mature in terms of multifamily and condo, but there's not much product for sale on the office side. There has been no new construction, except some repositioned Class B getting Class A pricing," a broker told REFM.

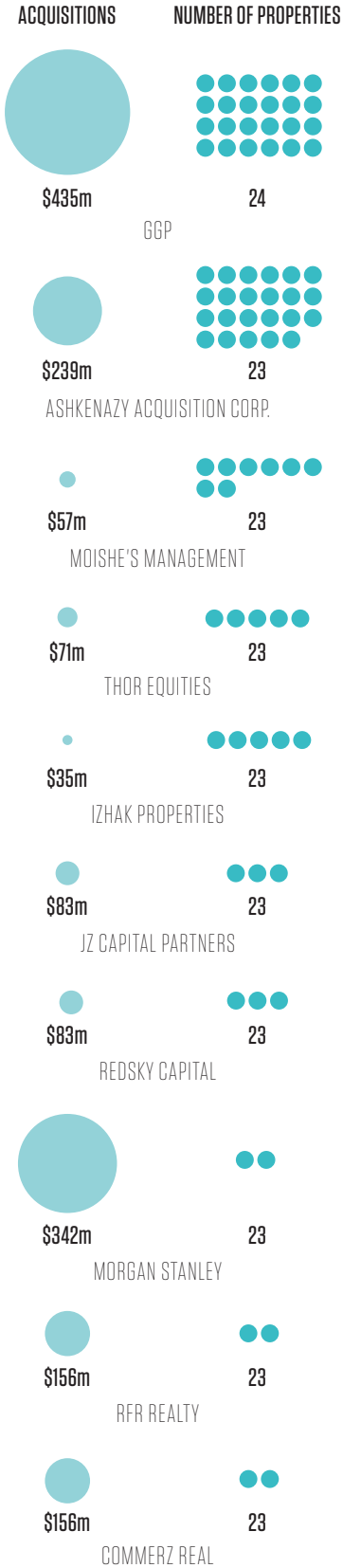
Crocker Partners' newly renovated 31-story SunTrust International Center is one such example. With the $15m renovations, including redesigned lobby, sky terrace and complimentary tenant fitness center, the building is well-positioned for the small tenants. "We are receiving a lot of interest from tenants and brokers, and we are getting more per square foot," said Angelo Bianco, partner, of the 75% leased SunTrust.

Crocker Partners is looking to develop a number of urban markets, including a mixed-use office/hotel/hotel-branded residential/retail in downtown Floradale and another mixed-use multifamily/retail in Boca Raton.

MIAMI BUYER SNAPSHOT

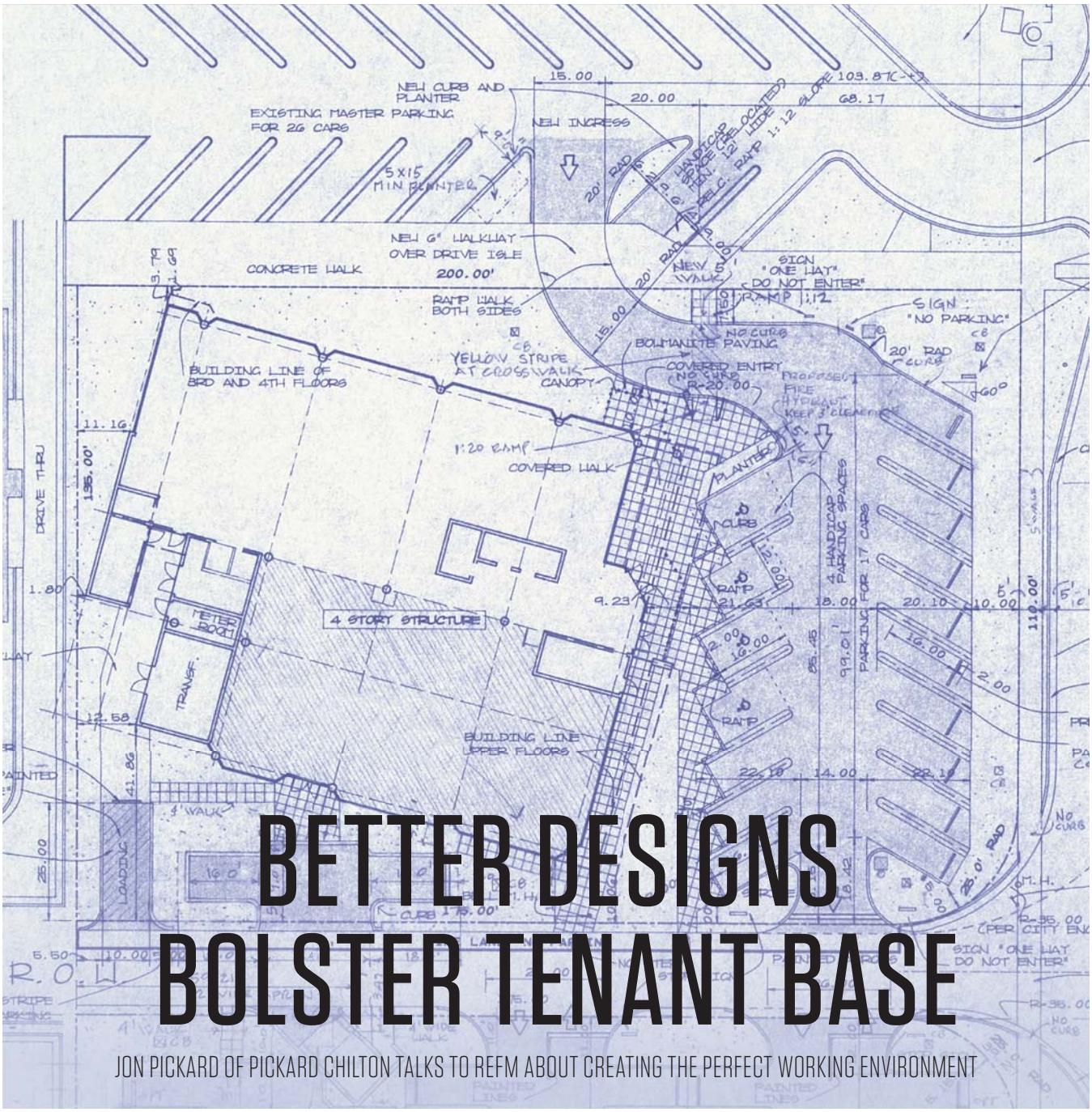
MOST ACTIVE BUYERS

JANUARY 2014 - PRESENT



Recent Design District/Wynwood Deals

- 1 Northeast 40th Street, $29m (Design District)
- 35 Northeast 40th Street, $28m (Design District)
- 2621 Northwest 2nd Avenue, $26m (Wynwood)



BETTER DESIGNS BOLSTER TENANT BASE

JON PICKARD OF PICKARD CHILTON TALKS TO REFM ABOUT CREATING THE PERFECT WORKING ENVIRONMENT

The old real estate adage of location, location, location as the primary factor that influences the success of a building is shifting slightly as factors such as design become more important for tenants who are looking for unique spaces that will help them to attract and retain staff.

"Carefully considered design can have an impact on tenant strength, which in turn has a direct impact on the financial strength of a building," said Jon Pickard, principal of New Haven, Conn.-based architecture firm Pickard Chilton. "We create better buildings that attract better tenants."

This is particularly true with buildings that house law firms, many of which are located in outdated commercial buildings. "Many law firms are headquartered in existing 1960s-1970s buildings that do not provide the access to views and daylight that would support the firm's needs. We can work with a client to craft a new building that will meet their needs for decades to come," Pickard said.

This includes different designs and configurations to create floor plates that allow more attorneys on the perimeter of the space while at the same time reducing a firm's overall footprint. In one situation, the firm changed the configuration of a floor and also slightly reduced the size of the attorney's offices from 10 by 15 feet to 9.6 by 15 feet. With increased efficiency in planning, the law firm was able to reduce its occupancy costs by about 30%.

"When the building was sold, the strength of the law firm contributed to the strength of the building," Pickard said. "That, combined with the fact that the property was on an accessible, beautiful site meant that it set multiple records in the city. Architecture may not directly influence sales price but it clearly indirectly influences it and that story can be told about many projects we have designed."

> PRESENTEEISM IS THE RECOGNITION THAT A SIGNIFICANT PERCENTAGE OF THE EMPLOYEE BASE IS NOT MENTALLY OR EMOTIONALLY ENGAGED IN THEIR WORK
>
> JON PICKARD, PICKARD CHILTON

BIOGRAPHY

Jon Pickard, principal, has designed or collaborated in the design of some of the world's most recognized buildings, including the ExxonMobil Office Complex in Houston and the Devon Energy Center in Oklahoma City. Prior to the founding of Pickard Chilton, he collaborated with Cesar Pelli in the design of numerous landmark projects, including the World Financial Center in New York, and Kuala Lumpur City Centre in Kuala Lumpur.

Q How has architecture changed since you've started your career?

A rchitecture today is about working as part of a collaborative real estate team, not proclaiming: 'This is what we shall do!' It's about working with smart developers and brokers to be able to meet specific needs as well as expectations of tenants but to also make sure buildings are not so customized that when a tenant moves out the owners are left with a building that still has broad and flexible market appeal. The process is much more integrated than just the architect singularly making pronouncements.

I've noticed that there's been a shift in how the c-suite of a company looks at corporate headquarters. Real estate isn't just a place to work anymore.

Drawing on my experiences, which date back to the very late 1970s, real estate was a necessary cost. You had to house your staff in an appropriate place for them to do their work. There wasn't an enormous amount of care paid to the character or the quality of the space.

Q When did real estate shift from a necessary cost? Was it back in the 1990s when tech firms started adding climbing walls?

A I believe I first recognized the shift sometime in the 1980s, during my work with Cesar Pelli. There was greater sense of the image that a building would be sending out to the world. There was a rediscovery of the use of stone, which for many corporations meant that they were communicating the message that they were proud and strong.

Architects embraced the realization that the workplace can make a meaningful difference to an employee's ability to do their jobs. Today, one can observe a consistent reduction in the area dedicated to each employee. With the consolidation in the workplace, employers and their architects are dedicated to creating an environment that embraces the well-being and productivity of their employees. That increase in productivity more than compensates for the slight increase in rents that comes from creating a more welcoming collaborative environment.

Our client, Devon Energy, has seen a 40% increase in recruitment and a significant increase in retention. The cost to replace an employee is meaningful, so the value of retaining an employee becomes extremely important. As architects, we are crafting environments that will help our clients to reduce the absenteeism and presenteeism of their employees.

Q What is presenteeism?

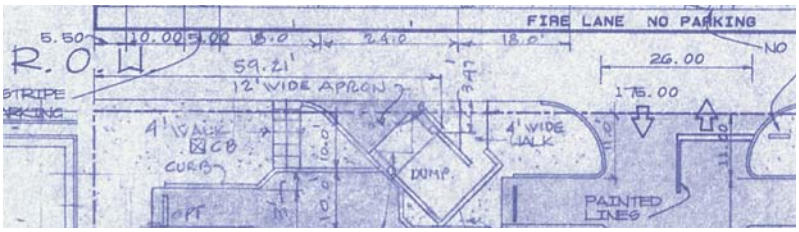
A Presenteeism is the recognition that a significant percentage of the employee base is not mentally or emotionally engaged in their work. The employee may be present but they are not attentive. They may be preoccupied with family issues or something that makes them not quite there. If we can create an environment that is welcoming and positively influences their attitude, that is a profound and direct benefit to the client. It's part of the reason why the c-suite is now paying much closer attention to real estate beyond occupancy costs.

Q As real estate in major markets becomes scarce, we've seen many very tall, very thin buildings go up. How do you design the interior of these spaces?

A Smaller floor plates are not as attractive for commercial tenants. A small floorplate cannot provide the same efficiency per employer as a larger floorplate. As you build taller and the floor plates grow smaller, you have to generate increasing revenue to substantiate it. It makes more sense to build two 20-story buildings than one forty-story building because of the costs and efficiency.

This is partly the reason that the vast majority of commercial buildings are less than 56 stories. There is a sweet spot below that height that makes economic sense. To build taller buildings, the structural and wind forces all begin to accelerate and you have to spend more money and resources. It's easy to justify a building of that size going up in Manhattan but in other markets, economics will drive it and you'll see buildings in 55-story range. ◘

Samantha Rowan
Head of content, REFM



MAY FUND LAUNCH ROUNDUP

A roundup of real estate private equity funds launched or raising capital during the first quarter of 2015, aggregated via our own reporting and published reports.

Source: REFM, published reports

Company	Fund Name	Equity Target/Amount Raised	Investment Focus	Geographic Focus
Gerrity Group	Gerrity Retail Fund 2	$400m (target)	Retail, necessity-based properties such as supermarkets, drug stores	US, primarily CA
Lubert-Adler Partners	Lubert-Adler Fund 7	$575m (raised)	Retail; multi-family	US
MKP Capital	MKP CRE Fund 2	N/A	Below-investment-grade CMBS; subordinated commercial mortgages	US
Oak Tree Real Estate Capital	Oak Tree Real Estate Capital Fund III	$400m (target)	Office; industrial; retail	US
Mesa West Capital	Mesa West Core Lending Fund (open-ended)	$800m	Commercial mortgages	US
Rialto Capital Management	Rialto Mezzanine Partners Fund	$300m (raised)	CMBS B-pieces	US
Waterton Associates	Waterton Residential Property Venture 12	$500m (target)	Residential, core and core-plus apartments	US
Kayne Anderson Real Estate Advisors	Kayne Anderson Real Estate Partners 4	$1b (raised)	Medical-office; seniors and student housing	US
Prudential Real Estate Investors	Senior Housing Partnership Fund 5	$629m (raised)	Senior living, including independent-/assisted-living and dementia-care facilities	US
LEM Capital	LEM Multifamily Senior Equity Fund 4	$400m (target)	Residential, senior living	US
Shopoff Realty Investments	Shoppoff Strategic Income Fund 2	$50m (target)	Undeveloped land	US

APRIL 2015 REIT DEBT AND EQUITY OFFERINGS

The following is a listing of all real estate investment trust debt and equity offerings completed in May.

Source: NAREIT

Common Stock

Company	Gross Amount Offered, Including Overallotment ($M)
Hudson Pacific Properties	172
Realty Income Corporation	278
FelCor Lodging Trust Incorporated	207
New Residential Investment Corp.	877
Spirit Realty Capital	273
Gramercy Property Trust	271
Blackstone Mortgage Trust	702
Starwood Property Trust	326
CoreSite Realty Corporation	219
Hannon Armstrong Sustainable Infrastructure Capital	85

Preferred Equity

Company	Gross Amount Offered, Including Overallotment ($M)
Colony Capital	288
New York Mortgage Trust	104

Senior Debt

Company	Gross Amount Offered, Including Overallotment ($M)
Ryman Hospitality Properties	400
Healthcare Realty Trust Incorporated	250
Communications Sales & Leasing	400
Communications Sales & Leasing	1,110

Market knowledge, experience and financial strength

Owners, developers, investment funds and real estate companies rely on the expertise of our Real Estate Finance Group for a full suite of commercial loan and financing programs.

Canadian Imperial Bank of Commerce ranked as the strongest of the major banks (publicly traded) in North America

– Bloomberg Markets, 2014

NAIOP REX Award for Investment Deal of the Year*

$120,500,000 Interim / Construction **Mixed-Use** Watters Creek *New York, NY*	**$72,000,000** CMBS / Mezzanine **Office** Green Hills Corporate Center *Redding, PA*	**$221,500,000** Interim **Office** 311 South Wacker *Chicago, IL*
$103,000,000 Interim / Mezzanine **Office** 200 West Adams *Chicago, IL*	**$62,000,000** CMBS **Retail** Outlets of Mississippi *Jackson, MS*	**$78,900,000** CMBS **Indust. / Ware.** Pappas Commerce Center *Boston, MA*
$16,500,000 CMBS **Retail** Magnolia Town Center *Riverside, CA*	**$21,080,000** CMBS **Office** The Viridian Building *San Diego, CA*	**$55,000,000** Interim **Multifamily** West 7th Street *Ft. Worth, TX*

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* Investment Deal of the Year – CIBC acted as Advisor in the sale of 79 Canadian office and industrial properties to Slate Properties Inc., NAIOP REX, 2014.

The wholesale banking arm of Canadian Imperial Bank of Commerce includes its branches in Hong Kong and Singapore, as well as its wholly owned subsidiary CIBC World Markets Inc. and other directly or indirectly held subsidiaries including: CIBC World Markets Corp., CIBC World Markets plc, CIBC World Markets Securities Ireland Limited, CIBC Australia Ltd., and CIBC World Markets (Japan) Inc.

CIBC World Markets Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. CIBC World Markets Corp. is a member of the Financial Industry Regulatory Authority. CIBC World Markets plc is regulated by the Financial Services Authority. CIBC World Markets Securities Ireland Limited is regulated by the Central Bank of Ireland. CIBC Australia Ltd. is regulated by the Australia Securities and Investment Commission. CIBC World Markets (Japan) Inc. is a member of the Japanese Securities Dealer Association.

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APRIL 2015 REIT PERFORMANCE DATA

The FTSE NAREIT All REITS Index, the broadest benchmark of the US REIT Industry that contains both equity and mortgage REITS, produced a total return of -.85% and a dividend yield of 4% in April, compared to 1.92% and a dividend yield of 2.01% for the S&P 500 Index during the same period.

Source: NAREIT

NCREIF Fund Index Open End Diversified Core Equity

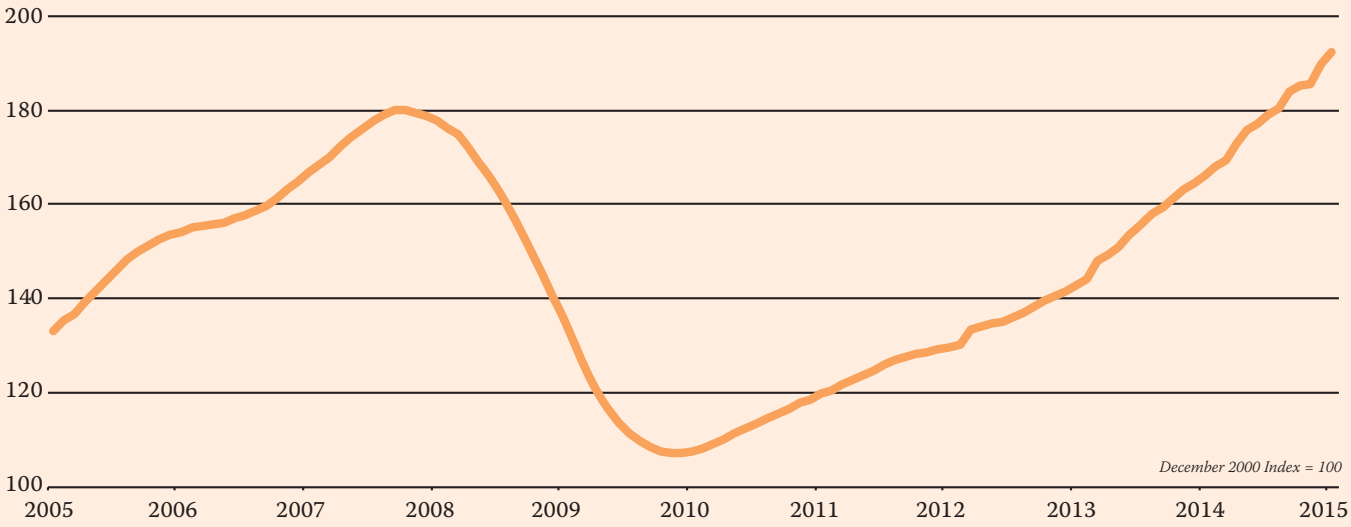
	YTD Total return	April 30 Div Yield	1-Year Annualized Total Return	5-Year Annualized Total Return	10-Year Annualized Total Return
FTSE NAREIT All REIT Index	-0.85%	4%	12.85%	12.87%	7.76%
FTSE NAREIT Composite Index	-0.99%	4.05%	12.56%	12.61%	7.54%
FTSE NAREIT All Equity REIT Index	-1.17%	3.57%	13.22%	12.90%	8.42%
FTSE NAREIT Mortgage REIT Index	1.64%	10.59%	5.82%	10.14%	-1.27%
S&P 500 Index	1.92%	2.01%	12.98%	14.33%	8.32%

MOODY'S/RCA CPPI INDEX

The Moody's/RCA CPPI is based on repeat-sales (RS) transactions that occurred at any time up through the month prior to the current report. This April CPPI report provides price indices through February 2015. These indices are estimated using transaction data collected through the month of March 2015.

Source: Moody's Investors Service

National All-Property Composite Index



Price Changes by Sector and Market Type: Value-Weighted Composite Tiers

Tier	Index	Month	3-Month	12-Month	Higher Tier Composite*	Share of Higher Tier Composite**
1	National All-Property	1.40%	4.70%	16.00%	N/A	100%
2	Apartment	1.20%	4.50%	16.40%	National / T1	28.60%
2	Core Commercial	1.50%	4.80%	15.80%	National / T1	71.40%
3	Retail	-0.70%	5.50%	11.50%	Core Comm / T2	27.20%
3	Industrial	2.40%	5.80%	18.70%	Core Comm / T2	20.70%
3	Office CBD	3.80%	5.60%	16.90%	Core Comm / T2	26.70%
3	Office Suburban	0.60%	2.40%	16.60%	Core Comm / T2	25.40%
3	Office	2.30%	4.10%	16.80%	Core Comm / T2	25.40%
5	Major Markets	2.30%	5.90%	17.90%	Standalone	46.90%
5	Non-major markets	0.50%	3.70%	14.30%	Standalone	53.10%

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NEWS ANALYSIS

GE PORTFOLIO SALE SIGNALS BROADER MARKET SHIFT

BY ELIZABETH BLOSFIELD AND DANIELLE BALBI

General Electric's decision to sell $23bn of its real estate assets to Blackstone Group and Wells Fargo & Co. is a sign of a changing commercial real estate market as well as a shift for the Fairfield, Conn.-based company.

"The surprise for us last week at the end of this transaction is that we had no idea that behind the curtain, GE was working on a much larger strategic decision with GE Capital," said Jonathan Gray, global head of real estate at Blackstone, speaking at NYU's Shack Institute of Real Estate REIT Symposium. "We didn't know that they would be doing something this transformative with the overall company."

Shortly after the deal with Blackstone and Wells Fargo was announced, GE indicated that the sale was part of a broader plan to sell most of its media, financial and appliance assets in order to focus on its industrial manufacturing business, as the company's financial business has been affecting its stock price since the downturn.

"If you went back and looked at GE's stock for 15 years leading up to the financial crisis, you would see that it was going up, and they were considered a growth company," Bob Stella, principal at Cressa, told *REFI*. "That totally changed after the crisis. GE Capital doesn't have the same kind of latitude to operate with the safety net of being a commercial bank and being able to ride out problems, so they've been trying to find their way and figure out what to do next."

The recent deal with Blackstone represents the largest commercial real estate transaction since the downturn and one of Blackstone's

"THEY WANTED TO EXIT AS MUCH OF THE REAL ESTATE INDUSTRY AS POSSIBLE IN ONE TRANSACTION"
JONATHAN GRAY

biggest real estate transactions since 2007, in which it acquired Equity Office Properties Trust in a $39bn deal. "In some ways, this reminded me of our Equity Office transaction, but even that was like child's play compared to what we did here," Gray said.

Alec Burger, president and ceo of GE Capital Real Estate, approached *Continued on page 11*

BORROWERS TURN TO BRIDGE LOANS TO STEM REFINANCING GAP

BY DANIELLE BALBI

Borrowers with weaker properties that haven't yet turned the corner are increasingly seeking out bridge loans to fill the financing gap. "There are clearly going to be assets that are coming to their loan maturity in 2016 and 2017 that are not stabilized," said Keith Largey, a managing director at JLL in Chicago. "[Those assets] were bought at peak or near peak, and some have not seen sufficient capital reinvestment. Instead of [choosing] new, long-term financing, [some of] these deals will be recapitalized with bridge loans that will help fund improvements."

Demand for bridge loans and capital has always been prevalent, but the growth of debt funds has accelerated in the last 18 months. "Most of these transactions are structured as three to five year loans. There is significant upfront funding plus future funding to provide capital to stabilize the asset—costs for tenant improvements, leasing commissions, and capital improvements," Largey added.

"Bridge loans quite frankly have always been an integral

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PEOPLE MOVES

Hermes Investment Management appoints Philip Nell

Hermes Investment Management appointed Philip Nell as a fund director for its £6bn real estate division, Hermes Real Estate. Nell will join in July from Aviva Investors, where he most recently led its European retail funds. He will work alongside Hermes Real Estate CEO Chris Taylor to build the group's strategic partnerships and joint ventures.

Ben Patton to direct Hermes' real estate debt team

Hermes also appointed Ben Patton to a new role directing the firm's real estate debt team. Based in London, Patton will be responsible for originating and executing commercial real estate debt transactions for the Hermes Real Estate Debt Fund – a £400m fund launched in 2013. Patton previously served as vice president in the real estate team at Barclays Bank.

Colliers International hires Mel Myrie

Colliers International brought on Mel Myrie as the firm's regional finance & operations manager to expand its U.S. Eastern Region platform. Myrie's responsibilities include operational coordination, financial planning and analysis support. He joined Colliers from Marcus & Millichap were he served as associate director of capital markets. Myrie has more than 15 years of experience in real estate.

John Elliott joins Madison Marquette

Real estate development and investment firm Madison Marquette appointed John Elliott as the company's new CFO and chief administrative officer. Elliott will oversee the firm's financial operations as well as the information technology and human resource teams' activities. He has more than 20 years of real estate accounting experience, most recently serving as senior vice president at New Tower Trust Company, a division of Bentall Kennedy.

Paladin Realty Partners gain Felipe Miguez in Brazil office

Felipe Miguez joined Paladin Realty Partners as investment manager in the firm's São Paulo, Brazil office. He will source and manage all of the fund manager's investments in Brazil. Prior to joining Paladin, Miguez worked at Direcional/Forcasa, an affordable homebuilder in Brazil, overseeing new business development, land acquisitions, and residential projects. He also previously worked at Cyrela where he was in charge of new developments in the São Paulo region.

Timothy Chi to join DiamondRock's board of directors

DiamondRock Hospitality Company hired Timothy Chi to the company's board of directors, expanding the REIT's board membership to eight. Chi is the co-founder and CEO of WeddingWire, a global marketplace for the wedding and events industry. Previously, he cofounded Blackboard Inc. and assisted in its initial public offering.

Redefine International adds Donal Grant as CFO

U.K. REIT Redefine International appointed Donald Grant as the company's new CFO. Donald will join in August from Capital & Counties Properties PLC, where he served as financial controller for the last six years. He is a qualified Chartered Accountant and has 17 years' prior experience of working with banking and broking institutions.

HFF hires Christopher Phaneuf

HFF has hired Christopher Phaneuf as a managing director in its Boston office, where he will focus on local and national institutional investment sales within the office, multifamily and retail sectors, the company announced. Phaneuf joined HFF from Eastdil Secured, where he previously served as a senior vice president and co-founder of the Boston office.

Cornerstone brings on business development chief

Cornerstone Real Estate Advisers has appointed J.D. Sitton as a managing director in business development, the company announced. Sitton will succeed Graham Bond, who will be retiring on August after seven years at Cornerstone and more than 35 years in the real estate investment industry.

Madison International Realty hires Andrew Schaffler

Madison International Realty has hired Andrew Schaffler as its director of listed real estate securities to oversee the firm's public markets investment activities, the company announced. Schaffler will be based in Madison's New York office. Before assuming this role, he served on Cohen & Steers Capital Management's portfolio management team.

Federal Realty take on three new hires

Federal Realty appointed three executives to its core portfolio team. Jeffrey Mooallem was named managing director of Core Shopping Center Operations, reporting to the CEO. Mooallem has 20 years of real estate experience in operations, leasing, acquisitions and development. He will be responsible for the REIT's 58 shopping centers comprising 11 million square feet. Federal Realty also hired Jarett Parker and Michael Linson on Mooallem's team. Parker was brought on as vice president of asset management in the Metro DC Region. Linson was hired as vice president of finance for the Core Shopping Center Division.

MONTH IN REFM

LAUNCH

Behringer Securities and Meritage Capital have launched a strategic partnership to develop, manage and distribute a series of specialized investment funds, according to a press release. The funds, led by Meritage Capital, will encompass multiple investment strategies and aim to address challenges presented by market volatility. Behringer Securities will lead capital-raising for the funds through its relationships with a wide network of independent financial advisors.

FUNDRAISING

Los Angeles-based DealPoint Merrill and Sperry Van Ness International Corporation have formed a real estate private equity investment platform, according to a press release. The venture is set to raise $100m in its first year to invest in commercial real estate properties in the US. The partnership is looking to buy discounted assets in the apartment, multi-tenant retail, self-storage and medical office sectors.

DEAL

Colony American Homes priced its third securitization transaction – a $640m pass-through certificate for issuance and sale of 3,879 single-family rental units. The deal features a blended interest rate of LIBOR plus 188.8 basis points and is slated to close on June 11, 2015.

ACQUISITION

TruAmerica Multifamily purchased a 315-unit, Class A apartment community in Salt Lake City, marking its first investment in the state. The 4,200-acre property, Crossing at Daybreak, was constructed in 2011 by seller Western National Properties, and features one-, two- and three-bedroom homes, as well as amenities such as a 24-hour gym, picnic and barbecue areas and a pool. The deal features a 5-year interest only term, with a 2.15% floating rate.

ACQUISITION

A fund advised by CBRE Global Investors has acquired Gateway at Burbank, a 74,391-square-foot, two-building Class A grocery-anchored neighborhood shopping center in Burbank, the company announced. One building is a free-standing grocery store while the other is a multi-tenant retail building anchored by a drugstore. The property is fully leased to seven tenants. The property is 93% leased.

MERGER

Cushman & Wakefield and DTZ have struck a deal to merge, becoming one of the largest global real estate services companies, according to a press release. The new company, which will operate under the Cushman & Wakefield brand, will have revenues of more than $5.5bn, over 43,000 employees and will manage more than 4 billion square feet globally on behalf of institutional, corporate and private clients. The transaction is valued at $2b.

ACQUISITION

Clarion Partners and New England Development have completed the acquisition of Palm Beach Outlets in West Palm Beach, Florida from Palm Beach Mall Holdings, an ownership entity comprised of New England Development, Eastern Real Estate and Lubert-Adler, according to a press release. New England Development will continue to be responsible for all development, leasing and management activities for Palm Beach Outlets. The 460,000 square foot retail property has more than 100 stores.

FUNDRAISING

JPMorgan's Gavea Investimentos Ltda subsidiary and Brookfield Asset Management are in the market to raise as much as $1.2b to invest in Brazil, according to Bloomberg. The partners are in talks with international investors for the offering.

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