www.REAlert.com

Real Estate ALERT

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

JULY 17, 2013

Office Sales Up 14%; CBRE Eclipses Eastdil

Sales of large office properties grew at a moderate pace in the first half, as **CBRE** pushed ahead of defending champ **Eastdil Secured** in the annual broker ranking.

Some $26.1 billion of office deals closed from January to June, according to **Real Estate Alert's** Deal Database, which tracks trades of at least $25 million. That's up 14% from $23 billion a year earlier. The growth, though healthy, is nothing like the leaps and bounds seen as the market revived from the recession. But brokers, citing strong pipelines of listings, predict a robust second half.

Buyers still seemed focused on core offerings in a handful of big markets — although the line-up of the most-active cities shifted, with Los Angeles and Houston supplanting San Francisco and Washington in the top five. Atlanta jumped up to sixth place, with its sales nearly quadrupling.

Meanwhile, some secondary markets saw large increases in volume, led by Austin, Philadelphia and Minneapolis. But investors remained cautious about suburban

See OFFICE on Page 8

JBG Marketing New Apartments in DC Area

JBG Cos. is looking to sell two more newly developed apartment properties in Greater Washington.

The Arlington, Va., complexes, with a combined 474 units, could fetch offers of $500,000/unit, or a total of about $237 million. Investors may bid on either of the adjacent buildings, but they're likely to trade as a package. **Cassidy Turley** is the broker.

The properties are in the Rosslyn neighborhood, about three blocks from the Rosslyn Metro Station. The 271-unit Sedona, at 1510 Clarendon Boulevard, was completed in January and is already 80% leased. It includes 55 affordable units with below-market rents. The 15-story building has studio, one- and two-bedroom apartments and six townhouse units.

The other building, dubbed the Slate, has 203 units that are all market-rate rentals. They're a mix of studio, one- and two-bedroom floor plans. Leasing began this

See JBG on Page 10

Fairmont Hotels in DC, Ottawa Hit the Block

Ivanhoe Cambridge is shopping two luxury hotels — in Washington and Ottawa — that have a combined value of roughly $310 million.

The 415-room Fairmont Washington D.C. Georgetown is expected to attract bids of about $185 million, or $446,000/room. At that price, the buyer's initial annual yield would be 5.5% to 6%. The 429-room Fairmont Chateau Laurier Ottawa has an estimated value of about $125 million, or $291,000/room. The capitalization rate at that price would be 6.5% to 7%. Each hotel has a long-term management agreement with **Fairmont Hotels & Resorts** of Toronto.

Ivanhoe, the real estate unit of Canadian pension-fund advisor **Caisse de Depot et Placement du Quebec,** will accept bids on either property or both. It is being advised by **Eastdil Secured** and **Colliers International Hotels.** Eastdil is likely to take the lead on marketing the Washington property, with Colliers shepherding the Canadian offering.

The properties are being pitched to investors looking for steady income. But a

See FAIRMONT on Page 11

THE GRAPEVINE

Julio Davila joined **Overseas Union Enterprises** this month to help the Singapore investment firm push further into U.S. property deals. Davila is executive vice president and chief investment officer for the Americas, based in Los Angeles. Overseas Union is looking for office, hotel, residential and development deals nationwide. The company, which has $7 billion of assets under management in Singapore, Malaysia and China, last month paid $367.5 million for the 1.4 million-square-foot U.S Bank Tower in Los Angeles. Davila spent the past two years at **EVOQ Properties** of Los Angeles and before that

See GRAPEVINE on Back Page

Florida Retail Offering With a Twist

A **Canyon-Johnson** partnership is pitching a community shopping center in North Miami Beach to redevelopers interested in repositioning the waterfront property and constructing luxury apartments on adjacent land.

The 235,000-square-foot Intracoastal Mall is on a 27-acre parcel that includes one of the last developable sites along the Intracoastal Waterway in the Miami Beach area. The offering is expected to attract bids of about $80 million, which would translate into an initial annual yield of roughly 4%. **Jones Lang LaSalle** has the listing.

Los Angeles-based Canyon-Johnson and its partner, Tampa-based **DeBartolo Development's** DeBartolo Opportunity Fund, assumed control of the property last year after buying its distressed mortgage, which had a balance of $59.8 million. The duo initiated foreclosure proceedings, but the borrower, **Woolbright Development** of Boca Raton, Fla., ended up surrendering the keys.

The shopping center, at 3501 Sunny Isles Boulevard, is 92% leased. The tenants include TJ Maxx, Old Navy Outlet and grocer Winn Dixie.

The offering could appeal to an investor seeking a land-appreciation play. A buyer could continue to operate the shopping center as is and hope to reap a big profit in 7-10 years if land values increase.

But it is also being marketed to redevelopers. The likely strategy would be to add luxury high-rise residential towers above and beside the shopping center that would offer 360-degree water views, along with specialty restaurants and high-end stores catering to the wealthy surrounding area.

A buyer would have to seek approvals to build residential towers on the site, now zoned for 15-story towers with office, hotel or retail space.

A developer could build units to condominium specifications, thereby gaining the flexibility to sell them immediately or, more likely, down the road. Florida's condominium market imploded in 2007, leaving tens of thousands of unsold units on the market. However, most of that overhang has been absorbed, and 25 condo projects are in the works in Miami. Listings for a handful of apartment properties across the state are now highlighting condo-conversion potential.

The shopping center, which is about a mile from the Atlantic Ocean, could also benefit from an upgrade in the tenant mix. The rents are below the market rate, offering the potential to increase income as leases roll over. ❖

Chetrit Strikes Deal to Sell NY Tower

Two firms have agreed to buy a half-vacant office building at 123 William Street in Lower Manhattan for $133 million.

East End Capital and **GreenOak Real Estate** are teaming up to buy the 545,000-square-foot property from a partnership led by local investor **Joseph Chetrit.** The price equates to $244/sf. The deal was struck off-market, but **CBRE** was involved in introducing the parties, sources said.

The 27-story building, constructed in 1957, is on the east side of William Street between John and Fulton Streets in the Financial District. It is two blocks east of the **Metropolitan Transportation Authority's** $1.4 billion Fulton Street Transit Center, now under construction, and four blocks east of the World Trade Center site.

The Chetrit partnership purchased the building in 2005 for $108 million, but ran into trouble during the market downturn when multiple government tenants didn't renew leases. **New York State** has a lease on 40,000 sf until 2021, while marketing and advertising firm **GlobalHue** has a 40,000-sf lease until 2018, according to **CoStar.**

The property has an $81.8 million securitized mortgage that the buyers are believed to be assuming.

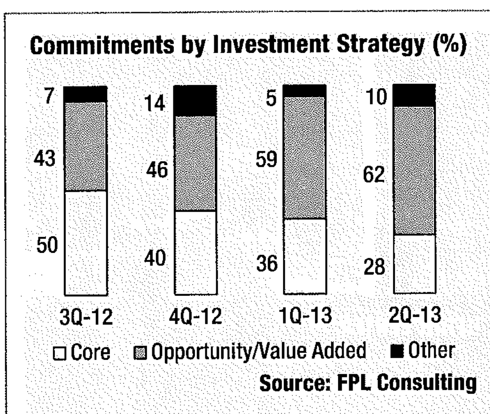
East End, led by former **Broadway Partners** staffers **Jonathon Yormak** and **David Peretz,** has partnered with GreenOak on $500 million of purchases in Manhattan. GreenOak was founded in 2010 by former **Morgan Stanley** real estate executives **Sonny Kalsi, John Carrafiell** and **Fred Schmidt.** Both firms are based in New York and focus on repositioning poorly leased buildings.

Last year, the duo and **RFR Holding** of New York bought the 530,000-sf office building at 285 Madison Avenue in Midtown Manhattan for $189.3 million, or $357/sf, from advertising agency **Young & Rubicam.** The seller, which fully occupies the building, will move out by yearend. ❖

Pensions Warming Up to Riskier Plays

U.S. public pension systems making fresh allocations to commercial real estate are showing an increased appetite for risk, according to **FPL Consulting.**

From April to June, 41% of equity commitments by dollar amount were earmarked for opportunistic strategies, up from 25% in the first quarter.



Overall, pledges to high-yield property vehicles — those with opportunistic or value-added strategies — have grown steadily over the past year, from 43% of commitments in the second quarter of 2012 to 62% in the latest period. Accordingly, pledges to core vehicles have fallen, to 28% from 50%. Pledges to vehicles that invest in loans or securities have hovered around 10%.

"The story here is the rotation out of core strategies and an increasing tolerance for risk," said FPL principal **Timothy Kessler.**

FPL, an affiliate of Chicago recruiting firm **Ferguson Partners,** tracks commitments by 125 public pensions with $210 billion of real estate assets and $2.7 trillion of total assets under management.

After getting off to a fast start this year, commitments to managers of real estate commingled funds and separate accounts slowed in the second quarter. Through May, pledges were up 23% from a year earlier, but they dropped off significantly in June. As a result, the $13.5 billion pledged from January to June ended up being flat with a year earlier.

The shift in investor appetite for risk was also reflected by a movement away from separate accounts to closed-end commingled funds, which generally shoot for higher yields. Closed-end funds garnered 55% of first-half commitments, up from 44% for full-year 2012. Pledges to separate accounts fell to 31% from 43%. Open-end funds, which have core or core-plus strategies, were roughly flat, at about 14%.

Pensions plowed one-quarter of commitments this year into vehicles targeting a single asset class, down from 35% in full-year 2012. Among those pledges, multi-family funds continued to dominate, collecting 43% of commitments, up from 30% in full-year 2012. Vehicles investing in industrial properties garnered 28%, up from 12%. Office-only funds continued to see their share fall, to 7% from 23% last year.

Foreign vehicles attracted a larger piece of the pie, as pledges to vehicles targeting investments in North America slipped to 59% in the first half, from 71% in full-year 2012. Pledges to Europe-focused vehicles nearly quadrupled, to 11% from 3%. And investments in Asian vehicles doubled, to 8% from 4%. Kessler attributed the shift overseas to the availability of higher yields than in the U.S.

There were 182 commitments in the first half, up from 144 a year earlier. The average commitment size was $74 million, down from $94 million.

FPL will release a report summarizing its findings this week. ❖

Long Island Mall Out for Bid

Vornado Realty is marketing a suburban New York mall that could fetch $110 million.

The listing encompasses 996,000 square feet of the 1.1 million-sf Broadway Mall in the Long Island community of Hicksville, N.Y. At the estimated price, the buyer's initial annual yield would be 7%. **Cushman & Wakefield** is handing marketing duties for Vornado, which has been shedding malls in an effort to rebalance its portfolio.

Broadway Mall is 92.6% occupied. Its main anchors are a 301,000-sf Macy's whose lease runs until 2017 and a 214,000-sf Ikea with a ground lease that expires in 2088. Together, the two stores account for one-third of the property's revenue.

Also anchoring the property are a 141,000-sf Target, whose separately owned store isn't part of the offering, and a 75,000-sf Multiplex 12 Cinemas, whose lease runs until 2015. Other major tenants include Forever 21 (26,000 sf), H&M (23,000 sf) and Old Navy (17,000 sf).

Despite the mall's high occupancy rate, a buyer would be positioned to boost revenues. That's because the 239,000 sf of in-line space is only 84.4% leased and 33,000 sf of outparcel space is just 79% occupied.

The property is at the junction of Routes 106 and 107, where 58,000 vehicles pass each day, and is about a half-mile from the Northern State Parkway and the Long Island Expressway. There are 346,000 people with an average household income of $122,000 living within a five-mile radius.

Because of severe restrictions on development on Long Island, only one mall has been built in the area since the 1970s.

Vornado bought Broadway Mall for $153 million in 2005. That deal resulted from an unsolicited offer that the New York REIT extended to the previous owner, **Gregory Greenfield & Associates** of Atlanta. ❖

Rare Silicon Valley Package Available

AEW Capital is marketing four fully leased industrial buildings in Silicon Valley, including one leased to **Apple.**

The 312,000-square-foot package, encompassing two manufacturing buildings and two distribution warehouses, could fetch a combined $42 million, or $135/sf. At that price, the buyer's initial annual yield would be 5.5%. **CBRE** is representing AEW, a Boston investment manager, which wants to sell the properties as a portfolio.

The four buildings are clustered on the border of Santa Clara and Sunnyvale, Calif.

Apple's lease covers the 134,000-sf distribution building at 2940-2990 Mead Avenue in Santa Clara. Apple has spent nearly $12 million on improvements to the property, including a new ventilation system. The warehouse has a minimum ceiling height of 24 feet.

Vander-Bend, a sheet-metal fabricator, uses the other three buildings as its headquarters. It expanded its space under a new lease this year. The largest of those buildings is a 105,000-sf warehouse at 123-127 Uranium Drive in Sunnyvale. It has minimum ceiling heights of 24 feet. The other two buildings, both used for manufacturing, are at 3000-3008 Kifer Road and 2855-2865 Uranium Drive in Santa Clara. The Kifer Road facility encompasses 43,000 sf, with a minimum ceiling height of 22 feet. The Uranium Drive property encompasses 30,000 sf, with a minimum ceiling height of 20 feet.

The industrial-property market in Silicon Valley is dominated by long-term owners, resulting in a scarcity of listings. Industrial space in the area also been dwindling as it is converted for other uses, with the total shrinking from more than 115 million square feet in 2000 to about 100 million sf now. That contraction, in turn, has helped keep occupancy levels high — at 96.7% in Santa Clara and 94.9% in Sunnyvale — while fueling projections that rents will rise 40% in the next five years, according to CBRE. ❖

Cornerstone Pitches SF Offices

Cornerstone Real Estate is marketing an office building in San Francisco's coveted South of Market neighborhood that is expected to attract bids of at least $500 a square foot.

The 187,000-sf property, at 795 Folsom Street, is fully occupied. At the estimated value of $94 million, the capitalization rate would be about 5%. But below-market leases on 40% of the space roll over within two years, so a buyer should be able to boost its return.

The six-story building is one of the few San Francisco offices currently on the market after a couple of years of blockbuster activity. **Cushman & Wakefield** is advising Hartford-based Cornerstone, the real estate investment-management arm of MassMutual.

Kabam, a video-game designer, has a lease on 40% of the space. Other tenants include **AT&T** and workspace provider **Regus.**

The building is at Fourth Street, across from a planned subway station and three blocks from a Bay Area Rapid Transit system station and Yerba Buena Gardens. It was developed in 1977 and last renovated in 1999. Cornerstone acquired it in 2011 for $70.2 million, or $375/sf, from **Westcore Properties** of San Diego.

Technology and Internet companies such as **Airbnb, Twitter** and **Yelp** have flocked to the South of Market district, driving up the average office occupancy rate to 96.7%. ❖

Phoenix Apartment Package in Play

Bank of America is shopping four Class-B apartment properties in the Phoenix area.

The garden-style complexes, encompassing 885 units, are expected to attract bids of about $50 million, or $56,000/unit. **Cushman & Wakefield** is representing BofA, which will consider bids for the properties separately or as a package.

The complexes each contain a mix of one-, two- and three-bedroom units, and have amenities including pools and fitness centers. They are:

- The 235-unit Colony, at 4337 North 53rd Lane in Phoenix.
- The 224-unit Mill Pointe, at 4130 South Mill Avenue in Tempe, Ariz.
- The 218-unit 201 West, at 201 West Hermosa Drive in Tempe.
- The 208-unit Acacia Pointe, at 8344 North 67th Avenue in Glendale, Ariz.

The properties were built in the 1970s and 1980s. BofA purchased them in 2006 via a community-development vehicle it ran, at which point a portion of the units were designated as affordable housing and carried below-market rents. Now, all of the apartments are leased at market rates.

The average occupancy level across the portfolio is 95%. That's in line with the 94.6% average for the Greater Phoenix market, where leasing activity is almost back at pre-crash levels and investors have been scooping up a stream of listings. In the largest of those deals, a partnership between **Greystar Real Estate** of Charleston, S.C. and **Goldman Sachs** purchased six properties with 1,575 units from **Equity Residential Properties** of Chicago in March for $180.3 million, or $114,000/unit. **CBRE** brokered that sale. ❖

San Diego Medical Offices Available

Kilroy Realty is shopping a fully leased medical-office building in San Diego.

The 51,000-square-foot Pacific Medical Plaza is expected to attract bids of about $35 million, or $686/sf. Kilroy, a Los Angeles REIT, has given the listing to **Jones Lang LaSalle.**

The three-story building, at 4910 Directors Place in the Sorrento Mesa submarket, was developed in 2009.

The tenants include a surgical center and several doctors with private practices. **University of California San Diego Health System** has a lease on the second floor that runs for another 10 years.

San Diego's office market has recovered steadily from the recession. The average office occupancy rate is about 85%, but Sorrento Mesa's average has crept back up to 89%.

In June, Kilroy began shopping a dozen of its 40 San Diego office properties. **HFF** is marketing the 1 million-sf package, which is expected to attract bids of $300 million. ❖

Top 10 Landlords for US Government

Following is a list of the investment firms that own the largest amounts of space leased to the **U.S. General Services Administration,** which manages the real estate needs of federal agencies. The compiler, **Colliers International,** believes it is the first such ranking. The list, up-to-date as of this spring, excludes space leased directly by individual federal agencies. Most of the leases involve office space, but also included is industrial space — such as warehouses, port facilities and underground document storage. In some cases, full credit was given to operating partners of investment groups. For more information, see CapitolMarkets.com.

		Leased By GSA (Mil. SF)
1	Government Properties Income, Newton, Mass.	5.6
2	JBG Cos., Chevy Chase, Md.	4.2
3	Vornado Realty, New York	3.8
4	UrbanAmerica/Behringer Harvard, Addison, Texas	2.8
5	LCOR, Berwyn, Pa.	2.7
6	NGP 5, McLean, Va.	2.3
7	Saban Capital, Los Angeles	2.1
8	Boston Properties, Boston	2.1
9	Space Center, St. Paul, Minn.	1.7
10	HPI, Charlotte	1.7

Source: Colliers International