COMMERCIAL OBSERVER | FINANCE WEEKLY

The Insider's Weekly Guide to the Commercial Mortgage Industry

In This Issue

"We're doing a lot of financing work around Hudson Yards and Manhattan West, and we're beginning to see an interesting trend in renovation to rentals."

—Julian Chung from *Q&A* on page 11

Meridian Arranges $48M Loan for NJ Multifamily Buy

The LEAD

EXCLUSIVE

Capital One Multifamily Finance has provided $47.8 million in financing to **Eagle Rock Properties** for the acquisition of the **Avalon at Freehold**, a multifamily property in Freehold, N.J., Commercial Observer Finance can first report.

Meridian Capital Group arranged the seven-year **Freddie Mac** loan, which features a fixed rate of 3.44 percent, and full-term interest-only payments. **Abe Hirsch** and **Akiva Friend** led the negotiations.

"It was a pleasure working with Eagle Rock in their acquisition of Avalon at Freehold," Hirsch said. "Based on our experience with Eagle Rock and their tremendous track record in the multifamily real estate industry, we expect this asset to perform very well as they execute their value-add business plan."

The Avalon at Freehold is a 296-unit rental apartment community located at **100 Lambert Way**. The property includes a swimming pool, a fitness center, a yoga studio and a playground. Equity real estate investment trust **AvalonBay Communities** was the complex's previous owner, and was represented in the sale by **BlueGate Partners**, according to company website information.

*See **Meridian...** on page 3*

1st Service Solutions Facilitates Ownership Transfer of $1.2B in CMBS Loans

EXCLUSIVE

1st Service Solutions assisted **Westwood Financial Corp.** in the transfer of a $1.2 billion portfolio of commercial mortgage-backed securities loans. The transfer was necessary as Westwood consolidated ownership of the portfolio under one real estate holding and operating company.

The portfolio comprised 76 shopping center properties and was split across 21 different pools, three master servicers and five special servicers. Borrower advocate 1st Service Solutions' role was to both facilitate and expedite approvals for all servicers, and

*See **1st Service Solutions...** on page 5*

J.P. Morgan Refis Three TIAA Retail Properties With $51M Loan

TH Real Estate, the real estate operating division of **TIAA**, along with recent joint venture partner Hamburg, Germany-based **Union Investment**, received a $50.8 million financing for the retail portions of two Manhattan properties and one Philadelphia retail property from **J.P. Morgan Chase**, according to mortgage documents filed with the city this week.

The financial services provider, also known as **Teachers Insurance Annuity Association**, sold a 49 percent stake in **636 Avenue of the Americas** and **1511 Third Avenue** in New York to the German real estate investment firm, which holds stakes in roughly 320 properties across 24 countries. The debt from J.P. Morgan was taken in conjunction with the formation of the joint venture, and replaces debt on the two Manhattan retail properties, as well as **1608 Chestnut Street** in Philadelphia, a spokeswoman for TIAA confirmed.

As part of the same transaction, Union Investment purchased an interest in **856 Market Street** in San Francisco. TIAA will continue to hold a 51 percent interest in all four of the retail properties through its **TIAA-CREF Core Property Fund**, which is being relaunched as **U.S. Cities Fund Series**, according to a release about the joint venture.

The first of the two Manhattan properties, 636 Avenue of the Americas between West 19th and West 20th Streets, is anchored by an 18,300-square-foot **CVS Pharmacy**. TIAA-CREF acquired the retail condominium from **Clarion Partners** in December 2014 for $42 million, as Commercial Observer reported at the time. The remainder of the seven-story building is owned by New York-based developer **William Macklowe**.

636 Avenue of the Americas.

The year prior, TIAA-CREF purchased the second of the two New York assets, the four-story, 60,000-square-foot 1511 Third Avenue, from **Related Companies** for $60 million, as CO reported. The property, located on the corner of East 85th Street, is anchored by a **GAP** and an **Equinox Fitness**, whose leases expire in 2021 and 2020, respectively. The retailer occupies the basement and ground floor, while the luxury gym spans the three upper floors and part of the basement.

A spokeswoman for J.P. Morgan declined to comment.—*Danielle Balbi*

Meridian... continued from page 1

"We've worked with Eagle Rock Properties before and were happy to once again leverage our agency relationships to find them a financing package that met their needs," said **Grace Huebscher**, the president of Capital One Multifamily Finance. "Avalon at Freehold is a high-occupancy, institutional property, and we look forward to seeing it flourish under its new owners."

Eagle Rock currently has a portfolio of approximately 6,000 multifamily apartments across New York, New Jersey, Connecticut and Pennsylvania. It completed this most recent acquisition through its **Multifamily Property Fund II**, which targets Class B multifamily assets in the northeast.

"We are excited to further expand our footprint in New Jersey. Avalon at Freehold, together with Presidential Place in Lebanon, N.J., gives us two high-quality assets in strong markets," **Jim Hausman**, Eagle Rock's portfolio manager, said in prepared remarks. "Execution is essential and we would like to thank Meridian, AvalonBay, Capital One, Freddie Mac, BlueGate Partners, the attorneys and local officials for their hard work and commitment to getting the deal closed."

Officials at AvalonBay Communities and BlueGate Partners did not respond to requests for comment.—*Cathy Cunningham*

139-141 Orchard Street.

Fortuna Realty and Elk Investors Use Goldman Sachs Credit Facility for Buy of Bankrupted LES Hotel Development

A long-stalled hotel development site at **139-141 Orchard Street** on the Lower East Side finally has a new owner.

Morry Kalimian's **Elk Investors** and **Morris Moinian**'s **Fortuna Realty Group** scooped up the 16-story hotel skeleton between Delancey and Rivington Streets for $30.8 million in a U.S. Southern District bankruptcy court auction, according to documents filed with the city.

Elk Investors used $30.8 million in debt from **Goldman Sachs** for the purchase, and that financing is part of a $40 million revolving credit facility the firm has with the investment bank. Part of the remaining $9 million on the credit facility will be used toward construction costs, Kalimian said.

"We're trying to capitalize on the other great hotels in the area, and this is going to be positioned as an independent boutique and lifestyle hotel," **Asish All**, a director at Elk, told COF. The 100-key hotel will be completed within the next 18 months, he said.

"We're going to have five different [food and beverage] outlets within the hotel," Kalimian added. "It's unique to have a hotel with five different restaurants when there are only 100 keys."

Moinian's firm, which he founded in 1984, owns several hotels across the city including **Hotel Hugo** at **523-525 Greenwich Street** in Hudson Square, the **Wyndham Chelsea** at **37 West 24th Street** and the **Indigo Chelsea** at **127 West 28th Street**. At the time of the auction, he told *TRD* he planned on completing the Lower East Side hotel within the next 18 months.

DAB Group, out of Valley Stream, N.Y., bought the site in March 1999 and took a $5.5 million loan and $19 million loan from **Brooklyn Federal Savings Bank** in November 2007 and August 2008, respectively, city records indicate. **Maverick Real Estate Partners** took over the defaulted $5.5 million note in June 2011 and by October 2012 assumed the property.

A spokesman for Goldman Sachs did not return a request for comment.—*D.B.*

1st Service Solutions... continued from page 1

the process was complete within 90 days, closing last month.

"I created this firm in 2005 to do exactly what we did on this Westwood Financial transaction," **Ann Hambly**, the chief executive officer of 1st Service Solutions, told Commercial Observer Finance. "We are in our 11th year of expediting CMBS assumptions and have it down to a science. There is no way this transaction would have gotten done in this period of time without our involvement."

Stephanie Miles, an asset manager, led the project for 1st Service Solutions. "This was a highly complicated transaction with multiple servicers and pools and required everyone's contribution and complete focus to get this large of a transaction closed within 90 days—the borrowers, servicers, law firms and others," Miles said. "It was an honor to work with the dedicated team at Westwood Financial."

Los Angeles-based owner and operator Westwood Financial has been actively acquiring anchored retail properties for 40 years. "This $1.2 billion transaction would not have happened without 1st Service Solutions," said **Joe Dykstra**, a co-CEO at Westwood, in prepared remarks.—*C.C.*

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AGENDA & SPEAKERS

How Volatility Is Shaping Global Lending Patterns

- David Durning, President & CEO, Prudential Mortgage Capital
- Michael Higgins, Managing Director & Head of Real Estate Finance, CIBC Capital Markets
- Jerome Sanzo, Head of Real Estate Finance, Industrial and Commercial Bank of China, New York Branch

Empire State of Mind: Lending Hotspots

- Peter D'Arcy, Regional President, New York City and Long Island & Head of Commercial Real Estate Segment, M&T Bank
- Ralph Herzka, Chairman & CEO, Meridian Capital Group
- Steven Kenny, Senior Vice President, Bank of America Merrill Lynch
- Rick Lyon, Executive Vice President, Head of Commercial Real Estate, Capital One Bank

Getting Creative: Who's Stepping in to Replace Traditional Lenders

- Tony Fineman, Managing Director, ACORE Capital
- Greta Guggenheim, CEO, TPG Real Estate Finance Trust
- Jason Kollander, MSD Partners, L.P.
- Peter Sotoloff, Managing Partner & CIO, Mack Real Estate Credit Strategies

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Midway Mall.

Morningstar: Specially Serviced Mall-Backed Loans Could Face Heavy Losses

Morningstar Credit Ratings predicts a whopping $1.88 billion in losses on 53 specially serviced mall-backed loans, according to a report released this week by the rating agency. The loans in question have an unpaid principal balance of $3.4 billion, equating to a 55.3 percent loss severity.

Of the loans, three will likely suffer losses of more than $100 million. Morningstar forecasts a $147 million loss on the $240 million **Westfield Centro Portfolio**, which accounts for 43.3 percent of the **J.P. Morgan**-sponsored **JPMCC 2006-LDP7** transaction. Five properties, totaling 2.4 million square feet located in secondary and tertiary markets in five states, comprise the collateral, and multiple anchor tenants have vacated four of the properties. The 1.1-million-square-foot **Midway Mall** in Cleveland represented roughly one-third of the loan balance and has been the "primary strain" on the portfolio, analysts wrote, after failing to keep up with competing retail properties **SouthPark Mall** in Charlotte, N.C. and **Crocker Park** in Westlake, Ohio. Midway Mall's occupancy dropped to 62 percent in 2012, while the other four properties held steady at 90 percent. An appraisal from June valued the Westfield Centro Portfolio at $124.9 million, a 63.9 percent dip from its original appraised value of $345.9 million at the time of the loan's origination.

After multifamily, retail is the second-most common property type backing commercial mortgage-backed securities—regional malls alone back approximately $48.6 billion in CMBS.

According to the Morningstar report, factors impacting the retail landscape—including increased online shopping, decreased consumer interest in department stores and a landslide of store closures—have led to $3.89 billion in liquidations since 2010. This, in turn, has resulted in $2.88 billion in CMBS losses, or a 74 percent loss severity. Liquidations aside, a further $3.81 billion—or 7.8 percent of loans backed by malls—are in special servicing, of which $2.82 billion are set to mature in 2017.—*C.C.*


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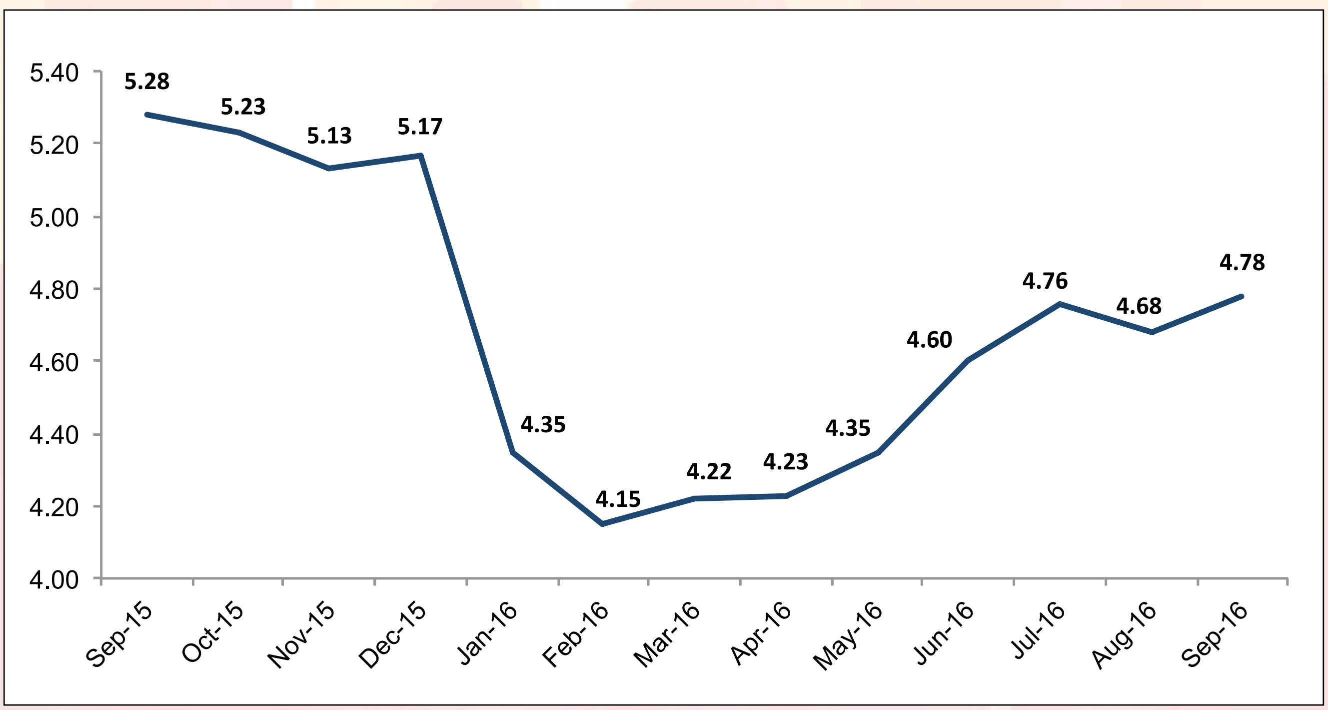
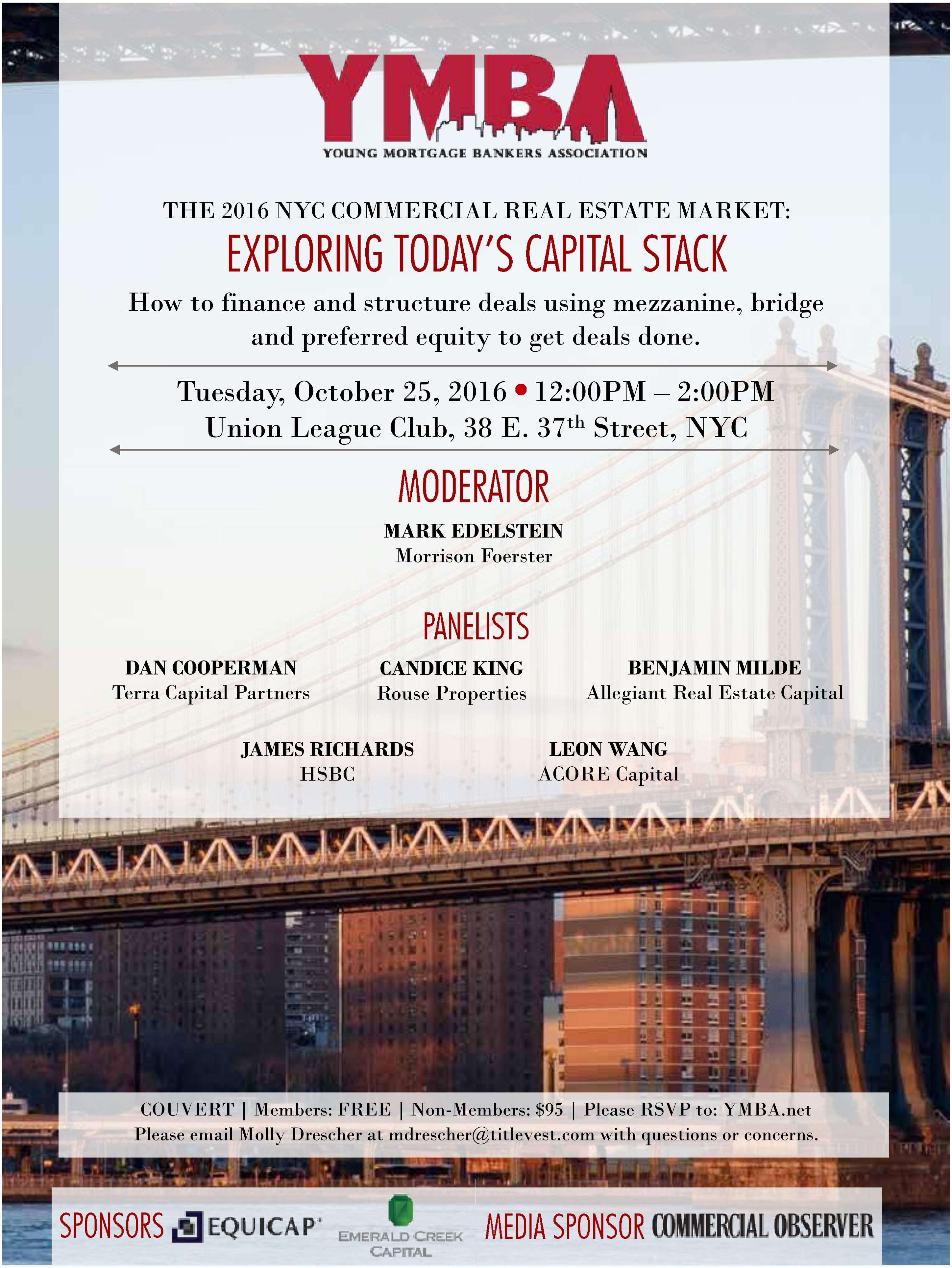
The Takeaway

“The Trepp commercial mortgage-backed securities delinquency rate reversed course in September and resumed its climb that began in March,” said Sean Barrie, an analyst with Trepp. “The delinquency rate for U.S. commercial real estate loans in CMBS is now 4.78 percent, an increase of 10 basis points from August. The rate is 50 basis points lower than the year-ago level and 39 basis points lower from the beginning of the year. In September, CMBS loans that were previously delinquent but paid off with a loss or at par totaled about $850 million. Removing these previously distressed assets from the numerator of the delinquency calculation helped move the rate down by 17 basis points. Almost $500 million in loans were cured last month, which helped push delinquencies lower by another nine basis points. However, almost $1.3 billion in loans became newly delinquent in September, which put 28 basis points of upward pressure on the delinquency rate. A reduction in the denominator due to the maturation of performing loans accounted for the remainder of the difference.”

Source: Trepp

Percentage 30+ Days Delinquent

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Q+A

Julian Chung

Finance Partner at Fried, Frank, Harris, Shriver & Jacobson

Commercial Observer Finance: What was your path to commercial real estate finance?

Chung: I grew up in Hawaii and moved to New York to go to college at New York University and then to Benjamin N. Cardozo School of Law. I'm not one of those people who knew that I wanted to do real estate finance from the beginning. I started out in the finance practice at Simpson Thacher & Bartlett and began gravitating towards real estate clients because they were they most interesting to me. They were a lot of fun, very colorful. In the mid-2000s, when real estate was really taking off, I did a number of financings for large portfolio acquisitions, and that's when I really started to have the emphasis on real estate finance. I've been with Fried Frank for about 18 months now, and it's been wonderful.


Julian Chung.

You worked on SL Green Realty Corp.'s $2.6 billion acquisition of 11 Madison Avenue [the largest single-building transaction in New York City history]: How was that experience for you?

That deal was a career highlight for me. SL Green is a great client, and it was my first big deal at Fried Frank. It was one of the first deals at Fried Frank where I worked across practices and with various partners, and everyone was incredibly supportive. There were many complex issues that we had to take into consideration in the financing. In addition, we had to collaborate closely with other law firms handling the acquisition. I've been practicing for over 20 years, and there are a few transactions that really stand out for me. For example, I represented the U.S. Treasury on the General Motors and Chrysler bankruptcies. Experiences like those are few and far between, and I'd put 11 Madison right up there.

What's the biggest change you've seen in the industry since you began practicing?

The biggest change in the industry is increased regulation. Then, in terms of the asset size, the assets are getting bigger and the ownership structures are becoming far more complicated. The biggest complexities tend to be on the sponsor side—because the prices of the marquee properties are larger, it's very difficult for single investors to acquire a big property, and so they need to form a joint venture.

What trends are you seeing in the industry?

We see a lot of construction and development in New York, Miami, San Francisco and L.A. We're doing a number of financings for lender clients in those areas, and we're also seeing a good deal of refinancings ahead of the Dec. 24 risk retention compliance deadline. Also, with the current low interest-rate environment and the threat of the increased interest rates, people are trying to refinance as quickly as possible. Another factor that we think is influencing the refinancing market is the 10-year papers coming due in CMBS. Lastly, in New York City we're doing a lot of financing work around Hudson Yards and Manhattan West, and we're beginning to see an interesting trend in renovation to rentals.

I understand that you've also been busy with the change of control process for securitized loans.

Yes. It's very difficult for single investors to invest in expensive properties on an individual basis, so you might see a couple of sponsors in a joint venture. So, the difficulty we have with securitized transactions is that you're working with a servicer that was not a party to the original negotiations, and that servicer has to read the loan agreements in a way that is strictly most favorable to the lenders. So, when you're entering into these financings you have to really be cognizant of what your borrower clients' strategies are in the long term and, if they intend to do a transfer, that the path is very clear and manageable. The other thing to keep in mind is that servicers don't have a lot of latitude or dimension, so when you're delivering support for the conditions to any permitted equity transfer, you have to give the servicer sufficient information.

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