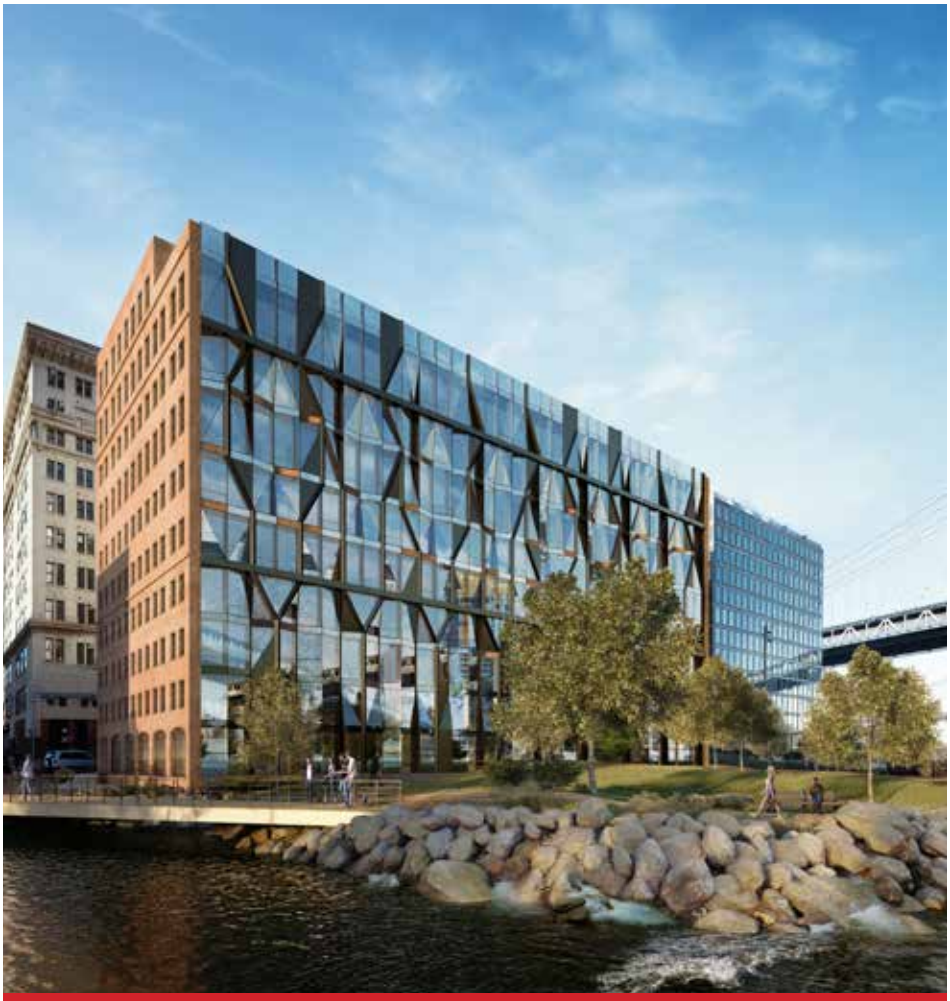
COMMERCIAL OBSERVER | FINANCE WEEKLY

The Insider's Weekly Guide to the Commercial Mortgage Industry



A rendering of 10 Jay Street.

COURTESY NEWMARK KNIGHT FRANK

Natixis Lends $205M on Dumbo's 10 Jay Street

The LEAD

EXCLUSIVE

Glacier Global Partners and **Triangle Assets** have scored a $205 million loan to refinance **10 Jay Street**—their 10-story office and retail waterfront development in Dumbo, Brooklyn—Commercial Observer has learned.

Natixis provided the floating-rate debt in a deal arranged by **Newmark Knight Frank**'s **Dustin Stolly**, **Jordan Roeschlaub**, **Dylan Kane**, **Chris Kramer** and **Nick Scribani**.

The debt refinances a $150 million bridge loan from 2017, provided by **ACORE Capital.**

Several lenders competed for the new financing, **Benjamin Stavrach**, Triangle Asset's director of leasing and property management, told CO.

"It is definitely the hottest building in Brooklyn, with an amazing tenant roster. Our construction was of the best quality, and you can truly see the finished product shine," he said.

The 222,228-square-foot asset sits on the **East River** waterfront next to **Brooklyn Bridge Park** and has protected, unobstructed views of Manhattan, the East River and the three bridges. It was constructed in 1890 by the **Arbuckle Brothers Coffee Company** as a sugar refinery and converted to a state-of-the-art, ODA New York-designed, Class A office building in 2014.

"My father purchased 10 Jay with his brothers

NATIXIS...continued on page 3

In This Issue

Williamsburg Hotel Nears $76M Refi to Cure Loan Default

EXCLUSIVE

The owners of the **Williamsburg Hotel** in Brooklyn are lining up a $76 million refinancing from **CREMAC Commercial Finance**, sources close to the deal have told Commercial Observer.

And the deal comes just in the nick of time. The property, at **96 Wythe Avenue** in Williamsburg, failed to pay off its bridge loan on time on June 9, according to **Kroll Bond Rating Agency**, which is tracking the delinquent debt.

CREMAC's refinance, which will get the property's developers—**Toby Moskovits** and **Yechiel Lichtenstein**—off the hook for the bridge loan, should be ready by the end of the month, sources at Cremac said. As is typical for the Brooklyn debt investor, the company will originate the loan and syndicate portions with a small group of other lenders, whom the sources declined to identify.

The 147-room hotel, located between North 10th and North 11th Streets, landed a $68 million loan from **Benefit Street Partners Realty Trust** in late 2017, which became the largest single mortgage in a collateralized loan obligation that it issued last year, **BSPRT 2018-FL3**.

At the time of the loan, the hotel had received temporary certificates of occupancy. But other integral parts of the business, like the swimming pool, the rooftop bar, and several other food-and-beverage options weren't open yet, KBRA said. All are now in full swing. But the

WILLIAMSBURG...continued on page 5

Silverstein in Negotiations to Step In at 125 Greenwich Street: Sources

The ownership partnership at **125 Greenwich Street** is in the midst of negotiating a few potential resolutions for the beleaguered residential condominium building with **Silverstein Capital Partners** (SCP), Commercial Observer has learned.

Time is ticking, with a Uniform Commercial Code (UCC) foreclosure auction scheduled for mid-August that was initiated this week by the project's mezzanine lender, **United States Immigration Fund** (USIF). In addition to that, the senior construction lender—**United Overseas Bank**—went forward with a mortgage foreclosure last month after the project's sponsors defaulted on roughly $196 million in payments.

However, a resolution with SCP will be ironed out within "four to five weeks," one source said.

A source close to the deal told CO that in the first scenario, the landlord lender has offered to inject capital into the asset to try to resume construction and get the condo project completed. The property "hasn't met construction hurdles," one source said, so its senior lender halted funding. Multiple sources estimated that the building is just 65 percent complete.

As one source put it, that situation isn't for the faint-hearted. "The hardest thing is to step into a construction project that's 65 percent completed," the source said.

Another option is that SCP will look to wipe the slate clean by entirely recapitalizing the asset. Sources said that a $530 million recap is in the works as another possible resolution, and that SCP is compiling a lending syndicate to resolve and refinance the defaulted senior and subordinated debt, with a plan to take a mezzanine position in the final deal. A source said there will likely be an additional mezzanine lender.

Sources confirmed that a **JLL** team led by **Aaron Appel** has been tapped to arrange the potential recap.

Lastly, SCP could end up executing both potential resolutions: injecting capital as well as working out a recap.

125 Greenwich Street.

COURTESY COSTAR GROUP

Whatever happens, multiple sources confirmed that the debt on the stalled, 88-story construction project in Lower Manhattan will likely not reach its scheduled August 15 UCC foreclosure auction sale, which CO first reported yesterday upon receiving confidential offering documents.

"It's a very complicated deal," one source said. "You have four layers of debt and three sources of equity, and one of those equity sources is also providing debt."

Last month, USIF—an EB-5 visa-program fundraiser that provided nearly $200 million in mezzanine debt to the developers in 2017—indicated its intent to initiate a foreclosure after the sponsors failed to meet debt repayment requirements. It followed through on the UCC action on Tuesday.

Dustin Stolly, **Jordan Roeschlaub** and **Nick Scribani** of **Newmark Knight Frank** were tasked with leading the UCC auction on behalf of USIF, according to yesterday's foreclosure auction notice. The brokers could not be reached for comment.

UOB's foreclosure, filed in June, claimed the sponsors were past due on almost $196.4 million in payments. **Bizzi & Partners Development**, **New Valley Real Estate**, **China Cindat** and the **Carlton Group** make up the ownership group.

In UCC foreclosure sales, lenders can move faster than through the traditional mortgage foreclosure route, with the ability to move to a foreclosure sale in just weeks, not years. Unlike in mortgage foreclosures, UCC foreclosures give lenders a chance to go after the defaulted sponsor's business interest in the asset, as opposed to the real property.

The project at 125 Greenwich has been plagued by conflict between the developers and their financiers and, more recently, by mechanics' liens, in which the sponsors owe around $41 million, court records show, plus $11 million in contractor fees.

The building—designed by **Rafael Viñoly**—has struggled with lackluster sales as its been dealt blows by the "tremendous supply" in Lower Manhattan, one source said, plus "they wanted mid-$2,000s-per-square-foot pricing, in a $2,000-per-square-foot location."—*Mack Burke and Cathy Cunningham*

***NATIXIS**...continued from page 1*

and sister in 1989, and had the vision back then that one day Dumbo and the waterfront would turn into a beautiful place to work and live," Stavrach said. "I believe 10 Jay turned out to be even more magnificent than they had realized, sitting as the gem on the water in Dumbo."

The asset is flying high on strong leasing momentum. It is the new headquarters for **Rent the Runway**—which inked a lease for 83,000 square feet across four floors in May, including 10,000 square feet of outdoor space on the 10th floor overlooking the East River. It's also home to **Soho Works**' flagship New York City location. In January, the coworking outpost of hotel and private-club chain **Soho House** signed a 15-year lease for 50,000 square feet at the property, which is conveniently in walking distance from its **Dumbo House** location at **Empire Stores**.

"Sponsorship has done an incredible job transforming the old sugar refinery into the best creative office product in Dumbo. The waterfront views overlooking Brooklyn Bridge Park are second to none and the outdoor event space on the rooftop is a unique and significant demand driver," Stolly said.

"Over the past few years, Dumbo has received substantial investment and has really transformed from a traditional industrial neighborhood to a 24/7 live-work-play destination and an attractive alternative to Manhattan," Roeschlaub added.

Officials at Glacier did not return a request for comment. Officials at Natixis weren't available for comment.—*C.C.*

PGIM Lends $450M on Massive Sun Belt Industrial Portfolio

PGIM Real Estate Finance has provided $450 million in first mortgage financing to New York-based private equity firm **DRA Advisors**, backed by a sizable portfolio of industrial assets spread throughout the Sun Belt region, Commercial Observer can exclusively report.

EXCLUSIVE

The seven-year, fixed-rate loan covers 140 industrial assets located in and around eight major logistic markets, including Memphis, Tenn., Atlanta, Ga., and Houston, Texas, a source with knowledge of the deal told CO. The insurer had previously financed a majority of the assets currently in the portfolio.

"This portfolio represents a critical mass of core industrial assets that span several of the most active logistics markets in the Sun Belt region," PGIM managing director and transaction lead, **Tom Goodsite**, said in prepared remarks. "As a result of its well-located assets—many of which sit in sought-after infill locations—and the expertise of its ownership, the stabilized portfolio maintains near-full occupancy across its properties."

The properties are situated on 57 industrial developments across the eight markets and altogether comprise a whopping 9.8 million square feet; the buildings are occupied by 482 different tenants.

The largest concentrations of square footage are in Texas—Dallas, Houston, San Antonio and Austin—while the remaining space is in Atlanta and Memphis, as well as Tampa and Lakeland, Fla., sources said.

A few of the assets include **Southpoint Distribution Center I** and **II**, at **4655 East Shelby Drive in Memphis**, which is being leased by **Colliers International**; **3550 Southside Industrial** at **3550 Southside Industrial Parkway** in Atlanta; **Crosspoint Warehouse** at **1701 Crosspoint Avenue** in Houston; and **Southpark 3075** at **3075 South Park Boulevard** in Ellenwood, a suburb just south of Atlanta.

A selection of the logistics assets included in the portfolio.

COURTESY COSTAR GROUP

PGIM has a long track record of interest in lending on the industrial sector, with a focus in core and core-plus opportunities, which it expanded with its record volume of $18.1 billion in originations in 2018 and seems eager to continue this year.

In a February 2019 statement on the insurer's 2018 lending volume, PGIM Real Estate Finance CEO **David Durning** said, "We broadened our recent focus on affordable and market rate apartment and industrial property loans to include an increased emphasis on higher-yield loans to reflect secular trends around home ownership and e-commerce, and increased investor appetite for higher income producing assets."

A representative for DRA was not available to respond to an inquiry.—*M.B.*

***WILLIAMSBURG**...continued from page 1*

delays caused two problems.

First, the hotel's struggle with the lagging amenities triggered a loan provision that raised the interest rate to 6.25 percent above LIBOR, from the base rate of 5.75 percent above the international benchmark. That may have made it more difficult for the operators to afford the debt.

Second, the delay may be linked to performance metrics which KBRA noted trailed behind what nearby hotels were achieving.

Occupancy between February 2018 and February 2019, a period when the hotel was affected by the delays, was just 65.6 percent, according to **Smith Travel Research**. That compares with 84.3 percent for comparable New York City properties.

The Williamsburg Hotel.

COURTESY HERITAGE EQUITY PARTNERS

Meanwhile, revenue per available room, an important lodging-industry benchmark, was $208.14. That's almost 30 percent below the rates for Smith's set of comps.

In March, sources told Commercial Observer that bidders had approached Moskovits with offers to buy the hotel for around $135 million. But Moskovits emphatically denied, at the time, that she'd put the hotel up for sale.

Moskovits and Benefit Street have a bit of a history. Moskovits and Lichtenstein also partnered with the lender on an $89 million refinance on **564 St. John Place**, a multifamily project they controlled in Brooklyn, in late 2017. Nine months later, the parties were in court after Benefit Street alleged monetary and non-monetary defaults, and tried to push the borrowers into a UCC foreclosure sale.

In that case, Moskovits was able to save the property with a clutch $97 million refinancing from **Arbor Realty Trust** last August.

CREMAC's forthcoming loan appears set to play the same role for the Williamsburg Hotel.

Moskovits declined to comment. —*Matt Grossman*

Venice-Themed Mall in Vegas Lands $975M CMBS Refi

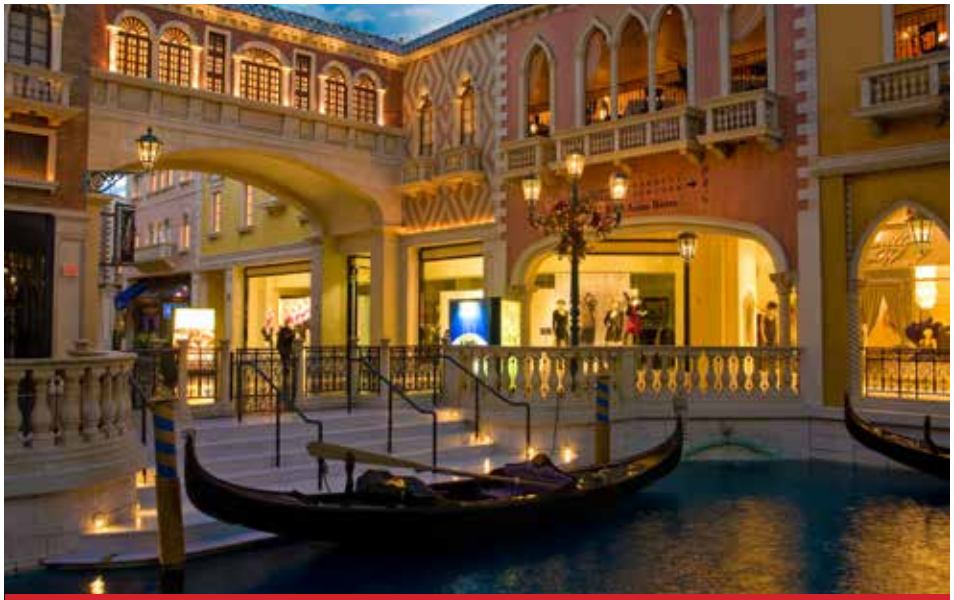
A thriving shopping center in Las Vegas is substantiating the notion that experiential retail is a billion-dollar buzzword.

The **Grand Canal Shoppes**, an indoor mall attached to the **Venetian Hotel and Casino** on the Las Vegas Strip, has pulled in a $975 billion CMBS refinancing led by **Morgan Stanley**, **Goldman Sachs**, **J.P. Morgan Chase** and **Wells Fargo**, according to **Kroll Bond Rating Agency**, which reviewed the transaction.

That quartet of lenders backed the deal's $760 million senior component, but the capital stack also includes a $215 million portion controlled by the **Canadian Pension Plan Investment Board**, according to KRBA. The 10-year deal comes with a 3.74 percent interest rate on the senior debt, with only interest payments required until the loan matures in 2029.

The deal replaces a $627.3 million chunk of outstanding debt originated by Goldman Sachs seven years ago, allowing **Brookfield Property Partners** and **Nuveen Real Estate**, the co-owners, to cash out $333 million of equity.

The 760,000-square-foot Grand Canal Shoppes, built 20 years ago, immerses shoppers in a campy indoor simulacra of a Venice cityscape, presaging today's ambitious efforts to wow shoppers off the couch in the dawning era of e-commerce. Gondola rides are on offer to visitors willing to pay $36 per person to be sculled along a replica canal for 15 minutes, and the mall also features detailed models of Venetian landmarks.



The Grand Canal Shoppes in Las Vegas.

COURTESY GETTY IMAGES

Part of the collateral space—81,000 square feet—is rented by the Venetian Hotel's casino, the shopping center's single largest tenant. (None of the lodging component serves as security for the debt.) The other biggest lessees are **Tao**, a nightclubby Asian restaurant; a **Madame Tussaud** museum of celebrity waxworks; and **Regis Galerie**, which sells collectibles.

Ninety-four percent occupied, the mall counts a total of 200 shops and restaurants on its tenant roster. Indeed, the retail apocalypse has left the Shoppes, as of yet, unscathed: Net cash flow averaged $76.1 million annually between 2015 and 2017, the most recent years with available data.

Brookfield bought the property on its own in 2004 for $776 million. The new financing, with a 59.5 percent loan-to-value ratio including the junior debt, puts a $1.64 billion price tag on the Shoppes, more than double its value at Brookfield's acquisition.

Representatives for Brookfield and Nuveen didn't respond to inquiries.—*M.G.*

Defaulted Debt on Thor's 1006 Madison Avenue Is Up for Sale

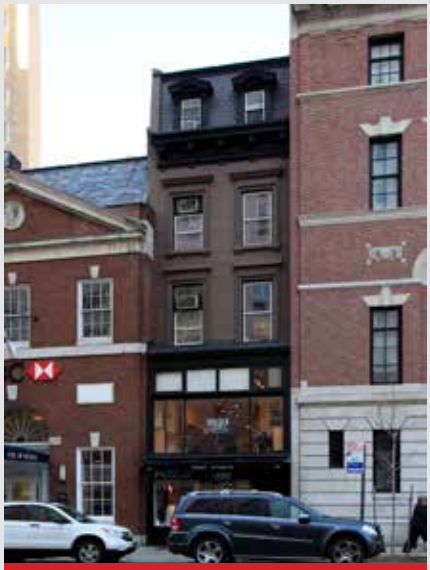
The $17 million non-performing CMBS loan on **Thor Equities**' retail property at **1006 Madison Avenue** is up for sale, according to information shared with Commercial Observer.

EXCLUSIVE

JLL's **Aaron Appel**, **Brett Rosenberg** and **Alec Mazliach** are facilitating the note sale, documents show. Indicative bids are due July 16 and the winning bidder will be selected on July 24.

The CMBS loan was originated by **Natixis** in December 2015 and is part of the **WFCM 2016-NXS5** deal. It is collateralized by the fee simple interest in the property—a five-floor retail townhouse located between 77th and 78th Streets, comprising 4,896 square feet.

The loan was transferred to the loan's special servicer, **Rialto Capital Advisors**, in October 2018 for imminent default. And in March, *The Real Deal* reported that Rialto had filed to foreclose on the asset.



1006 Madison Avenue.

COURTESY COSTAR GROUP

Designer and single tenant **Roland Mouret** shut his townhouse store at the property in December as part of a wider reorganization of the business, as reported by *Women's Wear Daily*. Mouret opened the store—which comprised roughly 1,900 square feet on the ground and mezzanine levels—in September 2016 after relocating from **952 Madison Avenue**.

The space was formerly occupied by lingerie retailer **Peress of Madison Avenue**, which moved to **1070 Madison Avenue** between East 80th and East 81st Streets.

It's not Thor's first trouble with CMBS debt. In May, a $30 million loan from Barclays on Thor's office tower at **545 Madison Avenue** was sent to special servicing due to "severe cash flow issues" as reported by CO.

Officials at Thor Equities declined to comment, as did officials at JLL.—*C.C.*

Guggenheim Funds Luxury Hudson River Multifamily Project With $70M Loan

Strategic Capital has scored a $70 million fixed-rate loan for the **River Club at Hudson Park**—a 213-unit multifamily development on the Hudson River in Yonkers, N.Y., Commercial Observer has learned.

EXCLUSIVE

Guggenheim Commercial Real Estate Finance provided the debt in a transaction arranged by **Newmark Knight Frank**'s **Dustin Stolly**, **Jordan Roeschlaub**, **Chris Kramer**, **Daniel Fromm** and **Nick Scribani**.

The 24-story property—which opened in February and is currently in the lease-up stage—represents phase three of the 16-acre Hudson Park Development Project being undertaken by Strategic Capital, the real estate investment arm of **China Construction America**. It joins Hudson Park South, a 266-unit luxury apartment building completed in 2003; and Hudson Park North, a 294-unit luxury apartment building completed in 2008.

River Club at Hudson Park is the tallest residential tower on the Yonkers waterfront and boasts views of the Palisades Cliffs as well as the Hudson River. Building amenities include an indoor pool, a fitness center, a rooftop lounge and a 206-space parking garage.

"The unmatched amenity package and unobstructed views make the River Club at Hudson Park the premier new multifamily property in Yonkers and will certainly continue to attract a vibrant tenant base," Stolly said in prepared remarks.

"The quality of location and strong leasing momentum allowed us to procure long term, fixed-rate financing for the property prior to stabilization," Roeschlaub added.

Officials at Strategic Capital could not be reached for comment. A spokesperson for Guggenheim did not respond to a request for comment.—*C.C.*

River Club at Hudson Park.

COURTESY COSTAR

A rendering of Residence Club at Ocean Reef in Key Largo, Fla.

COURTESY RESIDENCE CLUB

ACRES Provides $75M in Construction Debt on South Florida Luxe Resi Condo

Long Island-based middle market lender **ACRES Capital** has provided $74.5 million to a joint venture group to finance the construction of **Residence Club at Ocean Reef**, a planned luxury residential condominium in Key Largo, Fla., Commercial Observer can exclusively report.

EXCLUSIVE

The two-year loan will facilitate the construction of the 48-unit condo, which will be situated within a 2,500-acre gated community called **Ocean Reef Club**, just north of Key Largo.

"With this loan, [we were] attracted by the opportunity to provide financing to highly experienced sponsors with local expertise who are developing a truly unique luxury condominium property," ACRES CEO and President **Mark Fogel** said in prepared remarks. "The combination of strong sponsorship, limited existing supply and high barriers to entry for further new development within Ocean Reef Club made this a compelling opportunity."

The borrowing group for the loan includes **John Grunow III** and **John Grunow Jr.** of **The Grunow Group** and **Ronald Terwilliger**, a former executive at prominent multifamily firm **Trammell Crow Residential**, according to a representative for ACRES.

Terwilliger and the Grunows, along with **Redwood Real Estate Group**'s **Martin Levine**, are listed as development partners for the massive Ocean Reef Club in which this new condo will be situated. The Grunows have been members of the club since 1992, according to the club's website.

Residence Club—located at **1 Golf Village Drive**—will span 103,700 square feet of residences across three buildings, featuring one-, two- and three-bedroom units, according to information from ACRES.

The building will feature covered parking, climate-controlled storage and also access to Ocean Reef Club's 18,000-square-foot private clubhouse and the rest of the club's offerings, including its marina and golf club.

In a joint statement, the borrowers said they met with "numerous" lenders who were vying for the financing but said they chose ACRES because the shop provided "the best economic terms" and a quick close on an "extremely complex development deal."—*M.B.*

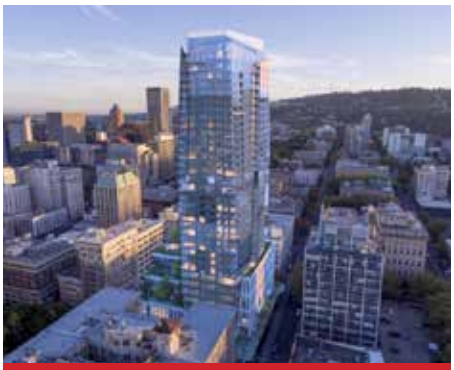
Mosaic Lends $460M on Downtown Portland Mixed-Use Project

Mosaic Real Estate Investors has provided $460 million in senior debt to **BPM Real Estate Group** for a massive planned mixed-use development called **Block 216** in Downtown Portland, Ore., according to information from Mosaic.

The four-year loan will cover the construction of the 35-story, 1-million-square-foot development, which will include the city's first luxury hotel, a 251-key, five-star **Ritz Carlton Hotel**, according to Mosaic.

"The high-leverage loan request, in and of itself, made this a very complex financing," **Alex Ovalle**, Mosaic's head of originations, said in a prepared statement. "It was made even more complicated given that it is also the first development of its kind in Portland to offer this mix of uses. However, we were able to approach and understand the valuation of each of the separate components. Combined with the strength of sponsorship, it created a situation that was perfect for us."

Los Angeles-based brokerage **George Smith Partners** arranged the debt, led by principal and managing director **Malcolm Davies** and senior vice president **Zachary Streit**. Competition for the debt placement included banks, debt funds and foreign investors, according to information provided by Mosaic.



COURTESY MOSAIC REAL ESTATE INVESTORS

A rendering of Block 216 in Portland, Ore.

"We recognized that due to the size and complexity of this project, we were going to focus on groups that would have the ability to finance a project of this scale," Davies said in prepared remarks. "We cast our net to a variety of capital providers that included construction, mezzanine and 'stretch' (senior and mezzanine combined) lenders."

The property will cover an entire city block in Portland's downtown and will feature 160,000 square feet of office space, 7,800 square feet of ground-level street retail, the Ritz Carlton Hotel and 138 Ritz Carlton-branded condominium residences.

Portland-based BPM will break ground this summer, and it's expecting construction to wrap in 2023.

Howard S. Wright, a company affiliate of **Balfour Beatty**, is the site's general contractor, according to Mosaic. Portland-based **GBD Architects** designed the project's exterior, with Dallas-based **HKS Architects** handling the interior design. Idaho-based landscape architect, **PLACE**, designed that aspect of the project.

Plans for the site's redevelopment were filed in April 2018, *The Oregonian* reported the time. And several months later, that December, the development received design approvals from the **Portland Design Commission**, according to a report from the Daily Journal of Commerce.—*M.B.*

Centennial, TPG Lend $167M for Development of Napa Valley Luxury Resort

The Nichols Partnership has landed a $167 million floating-rate construction loan for the development of **Stanly Ranch**, a 500,000-square-foot project in Napa Valley, Calif., Commercial Observer has learned.

EXCLUSIVE

Centennial Bank and **TPG Real Estate Finance Trust** co-originated the debt in a deal negotiated by **Newmark Knight Frank**'s **Dustin Stolly**, **Jordan Roeschlaub**, **Nick Scribani** and **Chris Kramer**.

Sources close to the transaction said that Centennial provided senior financing to TPG Real Estate Finance Trust's retained loan investment.

The Stanly Ranch Resort & Spa and **Stanly Ranch Villas** is a resort development located within Napa Valley's 712-acre Stanly Ranch. Anchoring a destination winery and residential community, the project will comprise a 135-room resort hotel and spa, 20 condominium villas, six single family homes and a winery. Construction commenced late in 2018 and is expected to wrap in the first quarter of 2021.

The city first approved plans for the luxury resort in 2010, with the project receiving City Council endorsement in 2016, as reported by the *Napa Valley Register*.

COURTESY REIBER DEVELOPMENTS

Stanly Ranch Resort & Spa.

The **Auberge**-branded destination is the fourth hotel of its kind in Napa, and the company's first residential project in the area. Other assets include the 50-room **Auberge du Soleil**.

"The premium master development at Stanly Ranch will be an ultra-luxury resort and residential community unlike anything else in Napa Valley, creating a unique and highly sought-after vacation and residential destination," Stolly said.

The Nichols Partnership, based in Denver, Colo., and headed by founder **Randy Nichols**, has been developing on the Colorado Front Range for more than two decades and has a portfolio that spans multifamily, residential, retail, office and hotel properties. The company takes a community-driven approach to its developments—which range from $4 million to $175 million in size—and typically involve complex financial structures, public-private collaboration and significant community involvement, per its website. It is also the developer behind the **Immortal Estate** winery, which sits on the border of Napa and Sonoma.

"The local expertise from The Nichols Partnership and their extensive track record of premier real estate development make them the ideal sponsor for this complex project," Roeschlaub added.

Officials at Centennial Bank did not return a request for comment, nor did officials at The Nichols Partnership. Officials at TPG Real Estate Finance Trust declined to comment.—*C.C.*

The Takeaway

Two Big Late Loans Help Push CMBS Delinquencies Higher

"The notable uptick in the CMBS delinquency rate for the month of June to 2.84 percent—an 18-basis-point increase—was the result of the $754 million Innkeepers Portfolio loan (CLNS 2017-IKPR) being marked as non-performing beyond maturity last month," wrote Catherine Liu, a Trepp analyst. "Backed by a portfolio of 47 hotel properties managed by Island Hospitality Management, the loan was slated to mature in June. But the borrower recently exercised one of its three one-year extension options, which should bring the loan status to current next month. Another distressed asset that became newly foreclosed is the $90 million loan behind the 450,154-square-foot Two Westlake Park office complex located in Houston's Energy Corridor. The loan was transferred to special servicing in July 2018 due to local market weaknesses stemming from the industry-wide contraction in the oil sector. Occupancy had dipped to 68 percent for fiscal year 2018 due to significant downsizing by energy tenants BP and ConocoPhillips." **Source:** Trepp

Month	CMBS Delinquency Rate
June 2018	3.95%
July 2018	3.81%
Aug. 2018	3.64%
Sept. 2018	3.41%
Oct. 2018	3.42%
Nov. 2018	3.33%
Dec. 2018	3.11%
Jan. 2019	3.02%
Feb. 2019	2.87%
March 2019	2.88%
April 2019	2.82%
May 2019	2.66%
June 2019	2.84%

CMBS Delinquency Rate by Property Type

Property Type	June Delinquency Rate
Industrial	1.94%
Lodging	2.41%
Multifamily	2.11%
Office	3.02%
Retail	4.44%

Q+A

Andrea Balkan

Managing Director at Brookfield Asset Management

Commercial Observer: The most obvious thing that sets Brookfield apart as a lender is that it's also a gigantic landlord. How does that color your work?

Andrea Balkan: The number one way is the fact that we have great access to information and real-time data. This is one of the most collaborative organizations there is. Anytime we're looking at a deal, there's somebody I can call to ask detailed questions about the market, so we can immediately get information.

Can you give me an example of the sort of info someone from Brookfield's equity side might be handing you?

Our lending group does appraisals like everyone else, but an appraisal is giving you data on everything that's happened up until now—or, really, up until three months ago. With access to an actual landlord who's in the market, you can understand what's happening now. What do tenants want in this market? Who is moving out of the market? Before the credit crisis, we had the opportunity to get involved in a loan in Seattle—I can't give too much detail, because we said no to the deal. It's not a market that Brookfield was invested in at that point, so we went out there and we met with a number of leasing brokers in the market, which our Brookfield equity team helped set up. And what we discovered was that the building we were looking at wasn't where tenants wanted to be.

Had Brookfield done any mezzanine lending before you came on in the early 2000s?

Brookfield had always been an opportunistic investor for their own balance sheet. If they saw an interesting piece of debt, they would buy it. [We thought] if we could marry up Brookfield's real estate expertise with our debt structuring expertise, we could create a great business.

Can you take me through the trajectory from there?We raised our first fund in 2004, which was a $600 million fund. Brookfield invested a third of it, and the other $400 million were large institutional investors. Fast forward and we're now on our fifth mezzanine fund, which is really in our flagship style: 60 percent to 80 percent loan to value, on more transitional assets.

Why does Brookfield prefer to take down whole loans and then sell off the senior portion, rather than buying smaller loans at auction?

Andrea Balkan.

COURTESY SASHA MASLOV

Everybody's got a different strategy. There are some lenders who are more focused on buying a small mezzanine loan, but that's not so interesting to us, because then, you're buying the debt retail. Once in a while we will team up with a senior lender. But we're not so interested in buying at auction. Another one of the biggest differences between us and everybody else is that we don't use repo financing. Some people will take down the loan and finance it with a repo facility from a bank. I attribute [our unwillingness to do] that to our having been doing mezzanine lending for a long period of time.

So you used to have an appetite for repo, but don't anymore?

Yeah. Having been here before, during and after the credit crisis, and watching the way repo got handled by banks, we just think it's a risk we're not willing to take.

Thinking about your role as a transitional lender, are there any business plans that you steer clear of? There's no one thing. We'll even do construction loans. But if we're going to do a construction loan on for-sale housing, we want to make sure we're in at a really good basis. Listen, if the deal doesn't go right, there's going to be basis creep. If you take over the asset, you can say, "I'm thrilled to be in at $1,000 per square foot, because the market's at $3,000 per square foot." But if you end up owning it, between paying interest on the first mortgage, and carrying costs and sales costs, you're not going to be at that basis for very long. We're very conscious of what our basis is.

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