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Property News

D.C. Apartments Selling at Low Cap Rate

Crescent Heights Inc. has agreed to acquire the 262-unit Palatine apartment complex in Arlington, Va., for $118 million from iStar Financial Inc. and Allied Irish Bank.

The sale price is expected to result in a capitalization rate of less than 5 percent, the lowest cap rate for a large Washington, D.C.,-area multifamily property since 2007. A year ago, such properties were trading at rates of 6.0 to 6.5 percent.

For example, CB Richard Ellis Investors is expected to realize a 6.25 percent cap rate from Mass Court, a 371-unit apartment complex in Washington that it acquired for $105.5 million from Prudential Real Estate Investors. That deal was struck last May, but did not close until February because the seller had to resolve issues related to the rights of tenants at the complex.

The sellers of the Palatine, at 1301 N. Troy St., were foreclosing on a construction loan to a venture of Monument Realty and an investment fund managed by Lehman Brothers. The fund is not part of the bankruptcy filing by Lehman.

The Monument-Lehman venture began developing the property in 2005 as residential condominiums, but was unable to sell units after the project

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M&A News

Centerline Recapitalizes, Sells Stake in Itself

Centerline Holding Co., which last July had struck a deal to have Island Capital Group negotiate the restructuring of its debt with lenders, has successfully recapitalized its business through a series of transactions.

In essence, it has divided itself into two operations: its commercial mortgage fund-management and special servicing unit, and its low-income housing tax-credit and agency-lending unit. The latter comprised the core business of Centerline when it was known as CharterMac and before it entered the CMBS space through its 2006 acquisition of ARCap Investors.

It has sold its special servicing and commercial real estate fund-management business, through which it acquired CMBS B-pieces, to C-III Capital Partners, an affiliate of Island Capital, which is led by investor Andrew Farkas, for $110 million. That was comprised of $50 million in cash and $60 million in assumed debt.

Centerline is left with its low-income housing tax-credit business, through which it raises funds that are invested in tax credits; its apartment mortgage origination business, through which it writes loans through various agency lending programs, and its affordable-

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Mortgage News

Kushner Wants New Terms for Office Debt

Kushner Cos. wants to negotiate new terms for the $1.2 billion of debt that backs 666 Fifth Ave., a Manhattan office tower that a venture it led acquired for $1.8 billion in early 2007.

The Florham Park, N.J., company said it has requested that the debt be moved to its special servicer, LNR Partners, to allow it to "engage in productive discussions with the lender."

The debt against the 1.5 million-square-foot office tower was divided into three pieces and securitized through Wachovia Bank Commercial Mortgage Trust, 2007-C33, which owns $395 million of it; Wachovia Bank Commercial Mortgage Trust, 2007-C31, which owns $285.5 million, and GE Commercial Mortgage Corp., 2007-C1, which owns $249 million. The remainder of the debt was set aside in reserve accounts.

The property is also encumbered by $200 million of mezzanine debt.

The securitized debt carries a 6.35 percent coupon and requires interest-only payments through its maturity in 2017. It is current, but that's because it has been relying on a reserve that has been whittled down to $64 million from $100 million when the debt was originated.

The property generated $34.2 million of net cash flow in the first nine months of last year, according to

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THEINSIDER

Calif. Real Estate Pros Launch Venture

Five seasoned real estate professionals in California have launched Ocean West Capital Partners to help lenders and servicers work out distressed loans they might hold.

The Santa Monica, Calif., company is pitching itself as a one-stop shop that could provide a host of management services as well as capital for troubled loans. It focuses on apartment and office properties in California.

The five principals of Ocean West are Troy Miller, who until last month was head of dispositions and workouts for Centerline Capital Group's West region; Russ Allegrette, a former managing director at Eastdil Secured, who most recently was president of Maguire Investments; Ted Bischak, who was senior vice president of asset management for Maguire Properties; Phil Choi, who was vice president of Maguire Investments, and Peter Swain, a real estate attorney who most recently was with Gilchrist & Rutter of Santa Monica.

The company aims to differentiate itself from other workout consultants with its ability to inject capital into properties securing troubled loans. It can also provide a slew of services needed in workout situations, such as property or asset management, leasing, bankruptcy and foreclosure counsel and due diligence.

Strategic Hotels Names New CFO

James E. Mead has resigned his position as chief financial officer of Strategic Hotels & Resorts, effective earlier this week, and is being replaced by Diane M. Morefield, who most recently was chief financial officer of Sam Zell's Equity International.

Morefield will assume her role next month. Until then, Stephen Briggs, Strategic Hotels' chief accounting officer, will serve as interim CFO.

Before joining Equity International, Morefield was CFO of Joseph Freed & Associates, a real estate developer specializing in retail, residential and mixed-use projects. And she previously was an executive with another Zell-related entity, Equity Office Properties Trust. Among her positions there was senior vice president for the company's Midwest region, where she oversaw the operations, management and leasing for a 19.5 million-square-foot portfolio.

"Diane has worked with many of our same key stakeholders on Wall Street, both on the buy- and sell-side, as well as lenders and bankers, and we look forward to her proven discipline in managing our company's financial assets," said Laurence S. Geller, president and chief executive of Strategic Hotels.

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servicer data compiled by Realpoint. That's only 58 percent of the amount required to service the securitized debt.

Cash flow will likely take another hit later this month when one of the building's largest tenants, law firm Orrick Herrington & Sutcliffe, moves out. It chose not to renew its lease for 200,000 sf, which matures at the end of the month.

Kushner's principal, Jared Kushner, ventured with George Gellert, president and chairman of Atalanta Corp., to buy the building from a venture between Tishman Speyer Properties and Prudential Financial for what was then a record high $1,200/sf.

The venture in 2008 sold a 49 percent controlling interest in 666 Fifth's 90,000 sf of retail space to a venture of Carlyle Group and Crown Acquisitions for $525 million, or a new record-high of $2,500/sf.

Sales proceeds from the retail portion are just about $75 million less than the equity that the Kushner-Gellert venture invested in the building. That relatively small amount of remaining equity, as compared to the $1.2 billion acquisition price, could factor in any thoughts the venture may have of walking away from the property.

Since its purchase, 666 Fifth's occupancy has dropped from an underwritten 98 percent to 86 percent as of last September, according to servicer data from Realpoint. And the property's cash flow is down 60 percent from the underwritten $114.4 million. It was on track to generate $45.6 million of cash flow last year, based on its performance during the first three quarters of 2009.

The venture bought 666 Fifth when property pricing and office fundamentals in Manhattan were at their peaks. The market's vacancy rate in 2006 had dropped 1.7 percentage points from the year before to 6.7 percent and average asking rents had risen by 22 percent to $54.62/sf, according to Cushman & Wakefield.

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