

Real Estate Finance & Investment

TENANT DEMAND MAKES TRANSPORT A PROJECT PRIORITY

BY SAMANTHA ROWAN

The old real estate adage 'location, location, location' may get a slight modification in the coming years to 'location, location, transportation' as more tenants and other end-users seek to live and work in properties that are close to public transportation or bicycle trails.

Mack Real Estate Group has made being close to public transportation and bike lanes a priority. This is particularly the case for its 50 North Fifth project in Brooklyn's Williamsburg submarket. "Every deal is different and while it would be wonderful that every project we did was near the ferry, the subway and bike lanes, as is our project in Williamsburg, not every city

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RICHARD MACK, MACK REAL ESTATE GROUP

has that infrastructure and not every site that is viable will have all of that. We build for the millennials and are heavily focused on urban locations next to bike lanes and public transportation," said Richard Mack, co-founder of the company and an avid cyclist.

In Seattle, the firm is working on Velo. Mack described the project as one that is both named after a bicycle and is in an area with lots of bike shops, bike lanes, bike paths and has good bus service to downtown Seattle and other parts of the city.

Another project in Los Angeles is less than two blocks away from the train that goes to the city centre and a third project planned for New York is adjacent to a subway stop on the Lower East Side. "We like to tell people, with a bit of humour, that one of the things we look for when we decide to develop is the preponderance of fixed-gear bicycles. If people do not get the joke then they are likely not our target renter," Mack said.

The light rail line near the company's Downtown Los Angeles development site goes to USC, Culver City and the city's CBD, and soon will expand to Santa Monica. In the CBD, light rail also connects to the subway for service to Hollywood.

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STANDALONE DEAL SEEN FOR 11 MADISON

A single-asset securitisation appears to be in the cards for a giant mortgage that has been originated on New York's 11 Madison Avenue. An unknown buyer, which is rumoured to be Tishman Speyer, is reportedly close to acquiring a 49% stake in the property from Sapir Organisation.

Bank of America and Morgan Stanley have agreed to originate a \$1.7bn mortgage and market players are expecting to see about \$1.1bn to 1.2bn of that in a commercial mortgage-backed securities deal. The remainder of the financing is comprised of mezzanine debt. That said, a deal is not definite as Sapir is also considering a recapitalisation, according to the Commercial Mortgage Alert.

The 2.2m sq ft building has an asking price of \$2.2bn up from an appraisal of \$1.5bn in 2012. The former Metropolitan Life Tower provides Class A office space, is currently anchored by Credit Suisse and is home to Eleven Madison Park, one of the country's most notable restaurants. Credit Suisse renewed its lease under a smaller footprint, and Sony signed a 15-year lease for 23% of the space. The building is 97% leased.

If the transaction is completed, it could be good news for a pre-crisis CMBS deal. An existing \$806m mortgage on the property makes up about a quarter of the collateral

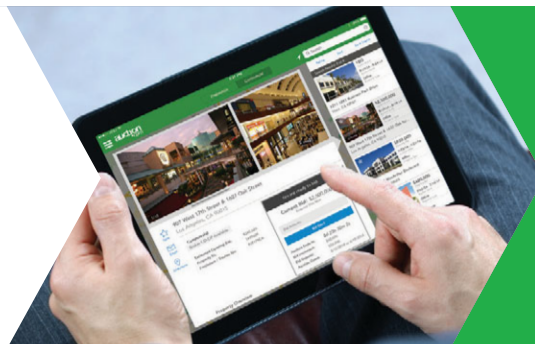
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Oregon fund adviser taps Procida for New York metro

Fairway America, a Portland, Oregon-based fund advisory and investment management company, has tapped Procida Funding and Advisors' 100 Mile Fund for a focus on the New York metropolitan area. Fairway America, which recently launched Fairway

America Fund VII, makes investments in other fund managers.

The 100 Mile Fund originates development and bridge loans of \$3-30m within 100 miles of Procida's headquarters in Englewood Cliffs, New Jersey. The fund, which was launched in 2011, aims to set up borrowers to be able to refinance short-term projects with long-term conventional debt. This typically takes about 14 months. "What make us different than our peers is we think like developers and act like contractors," Billy Procida, president, added.

As part of the deal, Fairway will handle Procida's fund administration going forward. "Additional back office and administrative

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support that will let us do what we do best: put money out and earn returns for our investors," Procida said. The fund has averaged returns of more than 13% annually since inception.

CONDO MARKET UPDATE

STRONG DEMAND CARRIES MIAMI'S CONDO MARKET INTO THE WINTER BUYING SEASON

Despite significant growth in condo inventory in the Miami condo market, game players expect to see a strong winter buying season, with October's numbers exceeding what was seen during the same period in 2013.

October's condo sales grew 6.5% from October 2013, and condo prices increased as well, marking the 40th month of growth in the last 41 months, according to Miami Association of Realtors. The increase in inventory is due to the preconstruction sector and current condo owners pushing their units onto the resale market in preparation for this buying season. Strong local and international demand keeps market players confident that the market not only is in a healthy place now but will continue to be.

"In this wave of the cycle, developers seem to be a lot more conservative. Basically, you won't receive financing as a developer until you reach a certain level of presales," said Ophir Sternberg, founding partner and CEO of Lionheart Capital in Miami.

The pre-crisis Miami market was characterized by speculators who were looking to quickly flip properties, and the over flux of inventory led to a significant decrease in pricing. "The model has changed and has been enforced by the lenders," said Albert Lopez, the Southeast managing partner in BDO's Assurance Services. "In the model you see now, by the time you go to contract, buyers put down about 50% of the purchase price." With buyers helping allocate capital, banks are providing 50% or less in construction financing, and private equity groups are becoming more involved, said Lopez.

"In the last three month there's been a decrease in closings, and that's because you see pricing going up. Or maybe Miami is not as attractive as a year ago, but there's still a lot of demand," explained Lopez. "Our market is a little bit different than the rest of the United States... the rest of the cities depend on local economic growth, job



Miami's South Beach

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CAPITAL

opportunities, job growth, where in South Florida we have the local economy, but we also have foreign investors."

In closed sales, all-cash transactions in Miami-Dade County decreased from 61.7% in October 2013 to 55.8% in October 2014. Nonetheless, the number is double the national 27%, and 90% of foreign buyers in Florida purchase properties in all cash.

"You're not dealing with the same type of buyers who were prior to the last crash because they're over-leveraging the debt," said Jason Halpern, founder of JMH Development.

The buyer profile not only includes the obvious younger working professionals more interested in city living and snowbirds explained Lopez. "You have also have baby boomers, who, as they retire, are looking to sell their homes and are

looking for condo living. It's safer and provides less maintenance."

Foreign buyers also occupy a large percentage of condo-owners, typically as their second homes, but it doesn't always stay that way. "For example, because of the political issues going on in Venezuela, buyers who purchased second homes in Miami are now living there. Their second home has become their first home."

Sternberg, who works in the ultra-high end segment of the market and is currently working on the Ritz-Carlton Residences in Miami Beach, described a different buyer: "Besides having better weather, Miami has become a world-class city with great restaurants, great tax benefits, and the fact that there is no state income tax has drawn in a lot of hedge fund managers," he said. "Heavier on amenities and service – that's what the buyers want."

Although the demand is consistent, other challenges characterize the Miami market, especially in Miami Beach. "With South Beach specifically there's somewhat of a natural balance of supply and demand because of the geographic limitations. You only have so many prime locations that are available and typically you're dealing with historic structures. Often, this makes it challenging to find a large-scale development. What we've been successful with is historical redevelopment," said Halpern. "We've had a great amount of interest. We're getting loans. We're buying good assets, good locations... basically trophy assets with strong market fundamentals."