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Real Estate Finance & Investment

The weekly issue from **Real Estate Finance Intelligence**

www.realestatefinanceintelligence.com

Financing

Final Liquidating CMBS Of 2012 Flies Off Shelf

JPMorgan has sold the single tranche of SMAP 2012-LV1, an approximately $181.6 million liquidating trust backed by 12 commercial real estate loans originated by a joint venture between **Square Mile Capital** and **Invesco Advisors**. The deal was oversubscribed, as investors paid a premium for short-duration bonds that offered higher relative yields to comparable debt instruments. Calls to JPMorgan were not returned.

The collateral comprises nine performing and three non-performing loans backed by 13 commercial properties and one real estate owned property. The deal is rated Baa3 and BBB(low) by **Moody's Investors Service** and **DBRS**, respectively.

"Representing the fourth liquidation vehicle of 2012, this one pushed pricing levels to new heights with a base case return of under 3% for a one-year piece of paper. It was a great execution by

2012 CMBS Liquidation Vehicle Pricing

Deal	WAL	Coupon	Price
Rialto 2012-LT1	0.78	4.75%	$99.75
S2 Hospitality 2012-LV1	0.97	4.50%	$100
ORES 2012-LV1	0.8	4%	$100.50
SMAP 2012-LV1	1.16	3.50%	$100.50

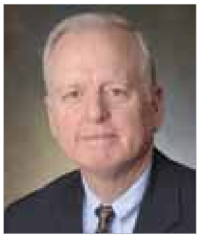
Source: ***REFI, published reports***

Square Mile," said **Ed Shugrue**, ceo of New York-based **Talmage LLC**, which invested in the deal. The bonds were priced at $100.5, with investors paying a premium for a deal backed by more

(continued on page 15)

Property

Prudential Pushes Into Apartment Development



Kevin Smith

Prudential Real Estate Investors is pushing further into apartment development in the U.S. The Newark, N.J.-based firm, which has $50 billion in assets under management, was concerned that residential rental acquisitions were losing luster for investors. Prudential's pre-emptive response was to change tack and build its own. *REFI* spoke to **Kevin Smith**, the firm's head of the U.S. business, to find out how the strategy is working out.

For the full interview, go to page 9.

2013 Outlook

Will Private Equity Funds Become The Key Players?

Cash-rich real estate private equity funds are poised to become the mainstay provider of capital across all sectors as commercial and investment banks continue to be limited in making large loans, conduit originators seek to regain their footing and local and regional banks grapple with troubled loans portfolios. At least that's the view of **Jeff Lenobel**, partner at **Schulte Roth & Zabel**. "We are seeing tremendous diversity in how private equity is dispersing their funds."

The funds are reportedly sitting on approximately $100 billion

(continued on page 15)

IN THIS ISSUE

EDITOR'S NOTE

The name of the game in this week's issue is following the money. Our Builders & Buyers section, which starts on page 12, is full of stories about investors that want to spread the money around in 2013. **The Lightstone Group**, **Vestar**, **Virtus Real Estate Capital** and **Elco Landmark Residential** are all planning to be major buyers in the coming year.

There's a lot of money in the market but there's also the question of how to place it. **Eleanor Duncan** attempts to tackle a small part of that question with a story on page 5 on foreign investors being squeezed out of the Big Apple office market. And on page 6, read a piece about **O'Connor Capital Partners**' recent acquisition of 55 Wheeler Street in Cambridge –the company is bullish on the market's office and residential sectors.

Max Adams, who wrote our top story this week on the fourth and final liquidating trust of 2012, also sat down with **Amherst Securities**' **Darrell Wheeler** to talk about the outlook for mezzanine and subordinated debt. In a story on page 5, Wheeler said to expect more in 2013 and also provides some tips for investors concerned about the trend.

On page 8, get a rundown of the latest episodes of REFI TV. **Fitch Ratings**' **Huxley Somerville** talks about the impact of Hurricane Sandy on the CMBS market and **Richard Bassuk**, ceo of the eponymous **The Bassuk Organization**, talks about his plans for New York's multifamily market.

Finally, this is our last issue of the year – look for your next *REFI* on Monday, Jan. 7, with online updates starting again on Monday, Dec. 31. Until then, have a happy and healthy holiday season and a fantastic New Year.

Best wishes from the *REFI* staff

Samantha Rowan, Max Adams, Eleanor Duncan, Ben Barczewski and Tom Lamont

Season's Greetings from the REFI Staff

Eleanor Duncan, Samantha Rowan & Max Adams

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Institutional Investor Intelligence

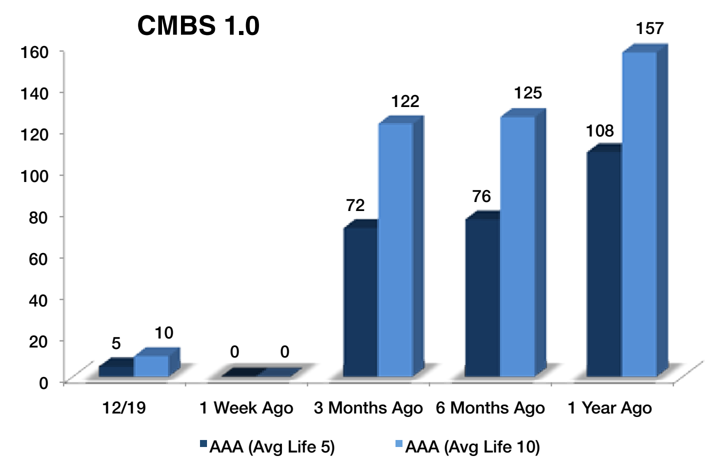
Financing

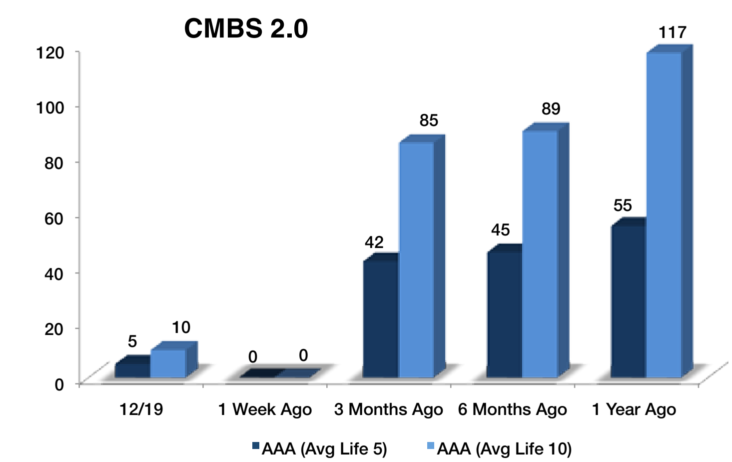
CMBS Market Snapshot

The flood of commercial mortgage-backed securities into the market in the fourth quarter slowed to a trickle this week. Just one deal was priced (see story, page 1) and investors and lenders told *REFI* that most shops have closed their books for the year. While the primary market has quieted, the rally in the CMBS secondary shows no sign of stopping. According to Trepp LLC, the A4 bonds from GSMS 2007-GG10 ended at 132 basis points over swaps midweek. New issue last cash flow bonds are trading in the secondary market at swaps plus 70-75 basis points, 10 basis points tighter than super seniors from the last new issue conduit.

CMBS SPREADS SNAPSHOT—DECEMBER 19

CMBS 1.0 comprises transactions through 2007 while CMBS 2.0 reflects deals completed after that date.





TREPP'S CMBS SPREADS MATRIX—DECEMBER 19

CMBS 1.0

Fixed Rate	Avg Life	Benchmark	12/19	1 Week Ago	3 Months Ago	6 Months Ago	1 Year Ago
AAA	5	S+	72	76	108	162	224
AAA	10	S+	122	125	157	234	264
AA	10	S+	1,552	1,577	1,642	1,996	2,174
A	10	S+	2,161	2,189	2,252	2,641	2,782
BBB	10	T+	3,800	3,840	3,914	4,342	4,409
BBB-	10	T+	4,791	4,831	4,911	5,329	5,39624

Trepp's CMBS Spread Matrix (2.0)

Fixed Rate (Conduit)	Avg Life	Benchmark	12/19	1 Week Ago	3 Months Ago	6 Months Ago	1 Year Ago
AAA	5	S+	108	105	134	206	120
AAA	10	S+	124	121	150	231	152
AA	10	S+	264	262	314	378	233
A	10	S+	348	346	408	493	284
BBB	10	T+	561	559	633	740	406
BBB-	10	T+	618	616	639	748	411

Benchmarks as of March 28: 10-year Treasury=2.204 10-year Swap=2.269

Source: Trepp, LLC

Financing

Hall Sets $100 Million Lending Goal

Hall Structured Finance, a Texas-based member of the **Hall Financial Group**, is aiming to place $100 million through its lending platform over the next 12 months. The company is focused primarily on providing short-term financing on newly constructed hotels in the top 25 U.S. markets. "We are looking for a borrower with a good track record and good management skills," said **Mike Jaynes**, president of Hall Structured Finance. "Since hotels are on a daily lease as opposed to a yearly lease they are good inflationary hedges," he added.

Hall typically offers first lien financing in the $7-30 million range with an 8% to 9% coupon for an initial three-year interest-only period followed by two one-year extensions. After this period, the loans convert to a 25-year amortization. The loans are normally 60% to 70% loan to value. "We use our own cash to close deals quickly. This is often a good prospect for borrowers who have an early payoff opportunity," Jaynes explained.

Recent activity includes a $9.5 million refinancing of a first mortgage on the **Wyndham Garden Hotel** in Long Island City, N.Y., and a $10.5 million first lien financing on a **Courtyard by Marriott Hotel** in Charlotte, N.C. Lastly, Hall originated a $7.2 million first lien financing on Gateway Terrace Retail. "There has been a lack of liquidity and little to no new [hotel] product coming online. It is a great time for the right opportunity to bring a new hotel," Jaynes noted. All three properties came online in 2012.

To head up the push for more lending opportunities Hall opened a new office in California. Vice president **Matt Mumford** is heading up the West Coast office. "We have already made loans on a vineyard business in California, so it made sense to add someone out there to find and bring in some opportunities in California," he added.

MORNINGSTAR'S LOAN TRANSFERS TO SPECIAL SERVICING

The following is a list of loans included in commercial mortgage-backed securities deals that were recently transferred into special servicing.

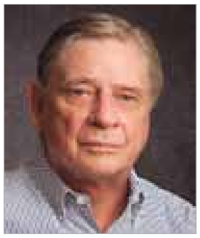
Property Type	Loan Name	Deal ID	City	State	Zip	UPB	Maturity date	Date xferd to S/S
Hotel	Hilton Washington DC	MSC07I15	Washington	DC	20009	$204,244,283.20	10/3/12	9/21/12
Hotel	"Marriott - Glen Allen, VA"	WBC06C23	Glen Allen	VA	23060	$28,370,957.96	1/11/16	10/22/12
Hotel	12 Atlantic Station	MSC07H13	Atlanta	GA	30309	$17,000,000.00	11/1/12	10/25/12
Hotel	Hampton Inn - Meriden (Equity Inns)	CD06CD3	Meriden	CT	6450	$3,384,185.79	10/1/16	10/19/12
Industrial	Northmont Business Park	CTG06C05	Duluth	GA	30096	$17,286,102.67	9/1/16	10/23/12
Industrial	Auburn Distribution Center	COB06C01	Worcester	MA	1610	$14,394,893.03	10/11/15	11/15/12
Industrial	Bridgestone Building	JPC07C19	Aurora	CO	80011	$13,350,000.00	4/1/17	11/27/12
Industrial	Beck Business Center	CSM06C04	Wixom	MI	48393	$9,771,033.01	8/1/16	10/30/12
Industrial	Supor Industrial Park	JPC02C02	Harrison	NJ	7029	$9,539,811.87	11/1/12	11/14/12
Multi-family	Bethany Phoenix Portfolio I	LBC07C03	Various	AZ	Various	$123,000,000.00	6/11/17	10/22/12
Multi-family	The Village at Chandler Crossings	CSF02CK4	East Lansing	MI	48823	$19,888,982.79	10/1/12	12/10/12
Multi-family	Roosevelt Place	COM07C09	Philadelphia	PA	19154	$15,076,274.98	7/1/17	10/6/12
Multi-family	Somerset Place & Woodridge Apartments	LBUB07C7	Jackson	MS	Various	$12,757,123.52	8/11/17	11/16/12
Multi-family	Magnolia Ridge Apartments	MSDW02I3	Metairie	LA	70002	$8,462,213.45	11/1/12	11/20/12
Office	One & Two Prudential Plaza	JPC06LD7	Chicago	IL	60601	$205,000,000.00	6/1/16	10/18/12
Office	Chiquita Center	COB06C01	Cincinnati	OH	45202	$64,215,374.04	11/11/16	12/10/12
Office	Capital Plaza	MSC06I11	Jacksonville	FL	32256	$39,308,914.50	5/5/16	11/21/12
Office	Glenview Corporate Center (6)	COB06C01	Bensalem	PA	19020	$27,348,137.55	12/1/16	12/7/12
Office	One Centennial Plaza	JPC05LD2	Piscataway	NJ	8854	$27,022,301.22	5/1/15	11/19/12
Other	Village Square	LBUB07C2	Cary	NC	27511	$10,652,066.41	4/11/17	11/29/12
Other	Spinnaker Plaza	MSC03IQ4	Milford	CT	6460	$4,424,764.98	4/1/13	11/10/12
Other	StorageMax - Princeton	MSC06HQ8	Johnson City	TN	37601	$2,028,911.30	12/1/15	12/3/12
Other	Budget Self-Storage	GMAC03C3	Newark	NJ	7105	$1,213,008.71	10/1/13	11/30/12
Retail	Rubloff Retail Portfolio	GSM206G8	Various	Various	Various	$56,678,683.22	10/6/16	11/20/12
Retail	Ballantyne Village	BALL06B1	Charlotte	NC	28277	$50,000,000.00	1/15/10	7/9/09
Retail	Colonial Mall Myrtle Beach	WBC06W07	Myrtle Beach	SC	29572	$45,813,259.66	12/15/12	10/30/12
Retail	Clybourn Galleria	GSM206G8	Chicago	IL	60614	$38,230,202.92	10/6/16	11/6/12
Retail	Springdale Center	CSM06C04	Mobile	AL	36606	$36,907,000.00	6/1/16	11/8/12

Source: Morningstar Credit Ratings, LLC

For more information, go to http://ratingagency.morningstar.com/ or call (800) 299-1665

Financing

New Broker Targets Hotel Sector


Chris Clark

Newly formed commercial real estate finance mortgage broker **db Capital Ventures** is looking to break into the hotel finance market in 2013, targeting commercial mortgage-backed securities and construction loans. The firm will arrange financing for hotel borrowers between 65-75% loan-to-value, but will go as high as 80% LTV. Rates will be in the low- to mid-4% range. "Today you are not finding a lot of loans at 75% LTV, so there is definitely a gap to be filled. [Leverage of] 80% isn't the norm, but if the [property] has upside and strong potential, you can get the leverage," said **Chris Clark**, founder and principal.

Hotel borrowers typically opt for shorter-term, floating-rate debt, Clark observed. There is, however, also demand for five- to 10-year money going into a prolonged low interest-rate environment. "The other big thing a lot of people are looking at is floating-rate recourse, or fixed-rate non-recourse loans," he said. Floating-rate money offers more flexibility in terms of the ability of the borrower to prepay, but borrowers have recently been able to find fixed-rate loans at favorable terms, especially as competition in the space has increased (*REFI*, 12/10).

The opportunity going into 2013 and beyond, Clark said, will be seen in the large volume of loans hitting the market in need of refinancing. "There is a tremendous amount of business out there that needs to be done and very few banks are stepping up to do that," said Clark. "As time goes on, there is going to be more product," he added.

U.S. Bank Tower Loan Moves To Special Servicing

A $260 million loan on the iconic U.S. Bank Tower in Los Angeles, owned by **MPG Properties Trust**, has been moved to special servicing. The move comes after debt service coverage dropped to 0.91x as of September, according to research notes from **Barclays** and **Fitch Ratings.** Calls to MPG were not returned by press time.

The loan is split pari passu, with $65 million securitized in MSC 2004-T13 and $64.7 million included in BSCMS 2004-T14. An additional $130.2 million is split between a $120.2 million note securitized in GCCFC 2003-C2 and a $10 million b-note held outside of the CMBS trust. Occupancy in the building dropped to 55% and has not seen any improvement this year, according to Barclays.

MPG, which announced it would be selling off its Los Angeles office portfolio (REFI, 3/23, 8/10), stated in a 10-K filing with the **Securities and Exchange Commission** in March that it did not intend to dispose of the U.S. Bank Tower. Barclays analysts note that normally, a property of this size that is nearly covering debt service would be modified. "However, it is not clear whether MPG intends to try to hold onto the property through a modification or give up the property," analysts there said.


U.S. Bank Tower

With relatively low leverage and its status as a best in class asset, a liquidation would not produce significant losses, analysts said. "These trophy properties tend to really be bid up when they go on the market," said one CMBS analyst.

The loan on the U.S. Bank Tower is among the largest to be sent to special servicing this year, but Barclays analysts told *REFI* that transfers to special servicing are trending slightly downward going into the end of the year.

Amherst: Prepare For Subordinate Debt Spike

Issuance of subordinate debt tied to commercial mortgage-backed securities loans could spike in 2013 and beyond, as lenders chase higher yields and borrowers reach for more leverage to refinance maturing loans. "Demand [for CMBS] has driven spreads down into the low double digits, which has motivated lenders to push for leverage," said **Darrell Wheeler**, CMBS analyst at **Amherst Securities**, in a report this week.

Offering subordinated debt will help raise issuance to a level similar to the $40 billion of conduit deals seen in 2012. There is just $33 billion of CMBS maturing in 2013, according to Amherst data, and issuance is not likely to pass the projected $60 billion mark. "From that standpoint, there aren't enough mortgages maturing, and that will also require a lot of the struggling mortgages to be cleaned up," he said. "You can't make mortgages out of nothing."

With the specter of an increase in subordinated debt, Amherst is telling investors to push for standardization and simplicity in subordinate structures. "The subordination of a position with a simple senior buyout option is a huge credit positive for the senior mortgage position," the Amherst report reads.

One New York-based mortgage broker said a number of mezzanine and subordinate lenders are preparing to come online in 2013. "A lot of firms are entering the market as one-stop shops, offering senior and mezzanine debt. That could become a popular trend next year," he added.

Property Sales

Real Capital Analytics has just released its U.S. commercial real estate transaction data for November, tracking $19.5 billion of deals – a 40% year-over-year increase. The increase suggests a strong finish for the year, with office transactions leading the gains. Year to date, transaction volume totaled $225 billion, slightly below the $229 billion completed in 2011. The full report is available at rcanalytics.com.

Synergy Locks Down Historic Asset

In one of the year's final deals in Boston, local investor **Synergy Investments** has Two Oliver Street under contract for a reported $50 million, or $225 per square feet. **Cushman & Wakefield** handled the deal on behalf of sellers **AEW Capital Management** and **Saracen Properties**.

The 108-year-old, 223,500-square-foot office was listed in October and local brokers say the quick turnaround is down to Synergy's reputation as a reliable deal-closer.

Synergy, headed by **David Greaney**, has been stockpiling well-located Class B offices in Boston this year. Earlier this year, the firm paid $31 million to acquire four mid-rises on Summer Street and High Street downtown and in the Financial District. The off-market transaction added 130,000 square feet to Synergy's portfolio. Synergy also bought 441 Stuart Street, a Back Bay building, for $40 million in June.

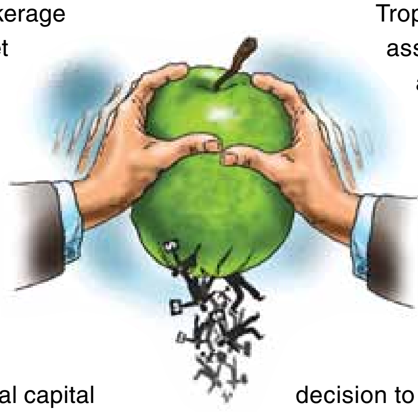
AEW and Saracen have made a large profit on the sale—the duo bought the asset two years ago for just $10 million, or $45 per square foot. The gain is largely down to the property's recent overhaul. The vintage building was renovated last year with the help of $25 million of bridge financing from **Webster Bank**. Improvements included upgrades to the heating and cooling systems, elevator cabs and main entrance and the creation of a second office lobby on Batterymarch Street.

Calls to Cushman's **Rob Griffin** and Greaney were not returned by press time.

Foreign Buyers Face Being Squeezed Out Of The Big Apple

Foreign buyers looking for core, well-located real estate may have to look elsewhere than Manhattan, thanks to intense competition and a lack of viable product up for grabs.

Bob Knakal, president of New York-based brokerage **Massey Knakal**, believes this problem will only get worse in 2013, particularly if the fiscal cliff talks fail and sequestration cuts happen. "The only way to get core assets is to pay up for them," he said. "We're anticipating that 20-30% fewer buildings will be sold in New York [next year] and so all of that capital will be chasing even fewer properties. The market dynamic will exert tremendous upward pressure on values."



Peter Hauspurg, ceo of **Eastern Consolidated**, said the firm is steering international capital that wants to be in New York to deals in the range of $25-100 million. "Our investors said 'We cannot sit and focus on what's not happening.' There are more of these deals so more are happening there," he said. Despite the struggle at the top, foreign buyers will not be distracted by other cities, Hauspurg said. "These are people who are New York-centric," he added.

Even if investors find the right asset, there are still pitfalls. Hauspurg noted that international buyers also have to be prepared to be more nimble. Indeed, Eastern's recent deal for 311 West 43rd Street went to a hard contract in two weeks (*REFI* 11/12). "That's what you've got to do in New York. The new capital tends not to be able to transact if it's not allied with somebody with boots on the ground," he said. Equity-rich investors are preferred over those that use leverage, he added.

Trophy owners that do want to sell their prized assets are shifting more to an off-market approach, one New York-based broker noted. "We have to tell [international investors] the truth: The market is extremely competitive and the chance of winning an auction is infinitesimally small odds," he said. "And in 2012, we saw the off-market transaction volume increase and the on-market transaction volumes fail," he noted, citing George Comfort & Sons' well-publicized decision to refinance the $1.5 billion Worldwide Plaza.

New York has long been an off-market town, but local brokers agree that the trend has never been so pronounced. "Moving into 2013, our approach will be to elevate our global targeted market," noted **Eric Anton**, managing partner at brokerage Brookfield Financial, which has 14 offices across the globe. "We'll scour our offices around the world and speak to a highly qualified group of buyers."

And if international buyers are determined to buy New York's trophy assets through auctions? "They won't buy anything," answered Knakal. "You have to face the reality. If you are looking for unrealistic returns, you have to go to secondary markets."

Property Sales

Texas Muni Plots $600M In Real Estate Commitments

The **Texas Municipal Retirement System** (TMRS) approved a $600 million 2013 real estate placing plan at its Dec. 6-7 meeting, according to sister publication *Money Management Intelligence*. The $19.6 billion fund approved a plan of the same size at its meeting a year earlier, ultimately committing $500 million for the year.

Prior to 2008, the fund invested entirely in bonds. It has slowly diversified its portfolio, adding real estate, active and passive equities, and high-yield fixed income, as well as holding educational sessions on hedge funds. TMRS has a 10% real estate target.

TMRS approved a real estate investment plan of up to $400 million in core strategies and $200 million in value-add and opportunistic strategies, a spokesman confirmed. The plan was prepared by real estate consultant **ORG Portfolio Management**.

Before Texas Muni embarks on the 2013 spree, it's finishing up its 2012 commitments, worth $300 million. They include $100 million to **Mesa West Capital**'s *Core Lending Fund*, $100 million to **Harrison Street Securities**' publicly traded REITs strategy, and add-on commitments of $50 million each to Harrison Street's *Real Estate Capital* and **Stockbridge Capital Group**'s *Smart Markets* fund.

The board's previous 2012 commitments included $200 million to real estate at its March 29-30 meeting—$50 million to **Abacus Capital Group**, $50 million to **Rubenstein Partners**, $75 million to **Stockbridge Capital Group** and $25 million to **Walton Street Capital** (*MMI, 4/2*).

Kilroy Snares Tenant For San Francisco Office

Kilroy Realty has signed **Salesforce.com** as the sole tenant for its planned 450,000-square-foot office development at 350 Mission Street in San Francisco. Kilroy signed the lease with the cloud-focused customer management software company less than two months after acquiring the site. The company will break ground in 2013.

Kilroy's development will be located next to the new TransBay Terminal, a multi-billion dollar transportation hub now under construction. The building will feature a raised-floor system and column-free floor plates with high ceiling layouts. Kilroy acquired the site for $52 million in October.

Jones Lang LaSalle's **Chris Roeder**, who handled the leasing for Kilroy, said the deal demonstrates why San Francisco is now the strongest office market in the U.S. "We are seeing an unprecedented amount of growth from tech and media companies," he noted. Other companies interested in the site included a bank and a software company.

Average office vacancies in San Francisco are at 9.8%, down 2.3% from last year, according to third quarter data from Jones Lang LaSalle. Direct vacancy in Class A office buildings is at 9.2%. Average rental rates across the city are at $51.62 per square foot, which is a 20.4% increase from last year, and Class A office space commands $53.74 per square foot.

While many technology titans, including **Google**, are still located in the tech industry's Silicon Valley stronghold, Roeder is seeing more relocate to downtown San Francisco. "Employees of today want to work in cities. The downtowns of this world have been cleaned up and they've become much more popular for younger workers," he noted.

There are two other office developments underway in the city: **Tishman Speyer** and **JPMorgan**'s site at Foundry Square III, which is expected to be built on a speculative basis and **Hines** and **Boston Properties**' Transbay Tower. The planned 61-story tower will be the tallest office in San Francisco.

O'Connor Closes On Cambridge Office Buy

O'Connor Capital Partners has closed on the acquisition of 55 Wheeler Street in Boston's Cambridge submarket. The New York-based investment manager made the acquisition on behalf of its O'Connor North American Property Partners II fund, paying seller **New Boston Fund** $27 million. Although this equates to about $214 per square foot for the roughly 126,000-square-foot property, the six-acre site is not fully developed, said **Brian Fallon**, partner. Consulting firm **Abt Associates** is the sole tenant with a lease through March, 2018.

The company is bullish on Cambridge, best known right now for its growing roster of R&D office tenants and as an expanding residential market. Indeed, O'Connor is constructing a 428-unit apartment property on an adjacent site on 70 Fawcett Street on behalf of the same fund. The high-end apartment development is one of the first in the city in the past five or six years and is close to shopping and Fresh Pond, a reservoir and nature reserve, Fallon added.

O'Connor also acquired the 70 Fawcett Street property from New Boston Fund, negotiating the right of first offer on 55 Wheeler Street as part of the deal. In August, New Boston Fund issued the right of first offer and O'Connor decided to make the acquisition after conducting due diligence, Fallon noted.

The Cambridge office market remains one of the most active submarkets in the country, according to third quarter market research from **CB Richard Ellis**. Average vacancy rate is 5.8%, while average rental rates are $42.29 per square foot, with top tier space pushing rents into the low $60s per square foot.

REFI TV

Richard Bassuk, The Bassuk Organization

Richard Bassuk, chairman and ceo of **The Bassuk Organization**, foresees a busy year for his business thanks to the need for new development in New York's tight multifamily market. The company, which specializes in debt and equity financing for large-scale projects in the Tristate area, is not sleeping on the opportunity: The Bassuk Organization has just entered into a joint venture with lenders **Greystone Financial** to form the **Greystone Bassuk Organization**. The group's aim is to provide wider financing for multifamily clients across the U.S.

Financing for new apartment buildings is a must: New York's rental vacancy rate is now at 1%. "There are apartment projects on the horizon but it's not enough. In New York, the supply-side of the equation is very tight. It takes a long time to put together land and financing, even for the most able organizations. I don't see the vacancy rate changing," Bassuk said. The tech sector is driving the influx of new renters, he added.

To watch, go to http://tinyurl.com/refitv-bassuk

Samantha Rowan with Richard Bassuk

Huxley Somerville, Fitch Ratings

Huxley Somerville, managing director at **Fitch Ratings**, talks to *REFI TV* about Fitch's assessment of damage caused by Hurricane Sandy to downtown office buildings in New York. The agency went on a walking tour of Manhattan to assess the damage in the aftermath of the storm. It's good news: although the primary CMBS areas were in the direct line of fire, there are no notable loans that have gone delinquent as a result.

Hurricanes Irene and Sandy have set an unfortunate precedent for New York's real estate, Somerville acknowledged. "The immediate effect of the storm will be increases in insurance premiums, so we [at Fitch] will be making sure that deal underwriting reflects those increases," he said. But the biggest takeaway from Sandy? "Get your emergency generation equipment up higher. I think that new construction will ensure that that takes place and for buildings that are already there, owners must look at alternatives for the basement," he noted.

To watch, go to http://tinyurl.com/refitv-somerville

Samantha Rowan with Huxley Somerville

Billy Procida, William Procida, Inc.

Billy Procida, president of **William Procida**, **Inc.**, thinks that the current economic recovery is the real thing. In addition to more positive employment trends, a resurgent lending market and little to no new supply coming online, there is an increasingly positive sentiment. "It's like a football team coming out of the locker room at half time: if we all think we can win, we can win," he said.

In the coming year, Procida predicts that more investors will venture outside of the major markets. "Investors will start to learn about that second rim. There is no more money to be made in Manhattan – it's too crowded. Hopefully, the real estate community will start to rediscover our inner cities. You fix America's inner cities, you'll fix the entitlement issue and then those neighborhoods will produce tax dollars. The real estate industry can really fix America and make a lot of money doing it. That's my 2013 wish," he said.

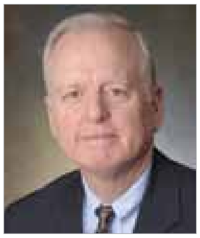
To watch, go to http://tinyurl.com/refi-billyprocida

Samantha Rowan with Billy Procida

Prudential Pushes Into Apartment Development

Kevin Smith is the head of **Prudential Real Estate Investors**' U.S. business and a member of the company's U.S. executive and investment committees. Previously, he was the senior portfolio manager for Prudential's flagship core real estate fund as well as its value-added fund.

Prudential Real Estate Investors is pushing further into apartment development in the U.S. The N.J-based firm, which has $50 billion in assets under management, is ahead of the curve: Earlier this year, there were concerns that residential rental acquisitions were losing lustre for investors. Prudential's pre-emptive response was to change tack and build its own. *REFI* spoke to **Kevin Smith**, the firm's head of the U.S. business, to find out how the strategy is working out.



"Over the last two years, we've gone forward on 1,300 units of multifamily developments. That's around 70 individual projects, with various partners." —Kevin Smith

How have you been investing in the multifamily market?
Over the last two years, we've gone forward on 1,300 units of multifamily developments. That's around 70 individual projects, with various partners. Since the downturn, we saw that apartment space was recovering quickly, and we felt like development was the best way to attack that opportunity.

Which markets do you target?
Our range has been pretty broad. We started with the notion that we thought the improvement in demand would show most quickly in the higher growth markets. These are located mainly in the South—Dallas, Houston, Denver, Atlanta and some of the Florida markets. We wanted to get into those markets early on shovel-ready projects, because we knew that others would follow.

How has your strategy adapted to the changing market conditions?
As the market's recovery has matured, more of our newer multifamily developments have been in markets that are harder to build in. Demand, while it hasn't been as quick to respond, is definitely there. It's not that we've moved out of markets as much as we're shifting dollars to markets that are more supply-constrained.

One market that we're worried about when we look at supply/demand balance is Washington, D.C. Supply has bounced back very quickly there but we're concerned. It's a market that could be a little choppy in terms of leasing, so we're being very cautious. There are a lot of investors that have gone to the sidelines with D.C. office, especially in Northern Virginia, where there are a lot of concerns with defense contractor tenants.

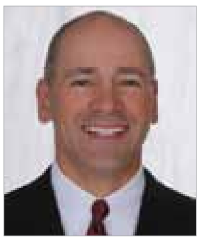
There was a flight to safety as we came out of the downturn and these markets remain magnets for job growth in a variety of industries. The prices for existing, core, well-located and well-leased assets in core markets have been bid up—there are no bargains. We're continuing to invest very carefully in both residential and office on an overall basis. We'll continue to do some apartment development, but we're increasingly looking to supply-constrained instead of growth markets.

What are your plans for the coming year?
We'll do more office acquisitions. Office development is just not justified in many markets. Our office acquisitions will largely be fully-leased for our core funds, but we'll also consider office that has vacancy and near-term rollover, because on an overall basis we think that the office market is poised for a slow and steady recovery.

2013 Outlook

A year ago, most commercial real estate executives were hopeful that a real recovery was about to begin. For the most part, that hope is now full-blown optimism about the prospects for a longer-term recovery, particularly now that the commercial mortgage-backed securities market is up and running again. Still, market participants have expressed concern that the amount of capital that wants to get into real estate could artificially inflate prices and that historically low interest rates could create another bubble. Read what some of the market's top executives think about the coming year.

Al Rabil
Kayne Anderson Real Estate Partners


Al Rabil

The problem with today's low interest rates is that you potentially create another bubble. It leads to a lack of discipline. Banks and other institutions have to look at cash-yielding investments and the **Federal Reserve** is forcing everyone into a risk-on trade. There is less financial discipline than there was 12 months ago, much less 24 months ago, and we're starting to see things built for the wrong reasons. Developers are a consistent bunch and if they can get the money, they will build with the plan of selling a year from now. All of the things you saw in 2002 to 2008 are happening again. Amnesia sets in quickly.

Jeff Lenobel
Schulte Roth & Zabel

I think that private equity is poised to take a leading role in the real estate capital markets in 2013 — private equity has the potential to flush the markets with liquidity and become an important supplier of capital in all real estate sectors. There are only several commercial banks that will originate large loans for their own portfolio and the CMBS world is originating less debt than it did in the go-go pre-2008 years. Local and regional banks continue to be burdened by distressed or defaulted loans. Various sources estimate that private equity funds are sitting on more than $100 billion of capital and we seeing tremendous diversity in how private equity is dispersing their funds. They are investors, operators, developers and lenders.

Dan Gorczycki
Savills


Dan Gorczycki

I see no reason why CMBS volume can't double next year. One, I think everyone will want to lock in rates – rates can't stay low forever – and on the demand side, you have retail bond investors looking for yield. They will be willing to step into the senior bonds. I think that conduits will become more aggressive and that will make them more competitive with banks and insurance companies. The one thing that could stop the CMBS revival is that there are not enough borrowers to feed it. If a borrower has a loan where the bank is willing to extend, the borrower might not have the impetus to go through with a CMBS loan.

Bob Gray
TerraCap Partners

We're starting to see a recovery take root, particularly led by the residential sector. This recovery is starting to be accepted broadly and is well-tracked by statistics from the **Case-Schiller Index**. Residences are stabilizing and rising in value and the health of the homebuilders has never been better. They used to be very highly leveraged but now their balance sheets have a lot more cash and a lot less debt. The criticism that people have been husbanding cash, with no hiring or expanding, is starting to change. We're seeing the multiplier effect—if you hire more people, they will spend more money—in some of our target markets.

Will Silverman
Studley

I think 2012 was a tale of two markets. If you were selling product that the market wanted, e.g. Midtown South office, well-located retail, or luxury multifamily, then a frenzy occurred. Assets that did not fall into these anointed categories had a much harder time finding an audience. The market is less driven by general momentum and more by specific strategies it likes. This trend of investors focusing on particular strategies as opposed to "momentum" bets is likely to persist in 2013 with everyone looking for the next Midtown South, the next Soho Broadway and the next Brooklyn multifamily.

2013 Outlook

QUOTES OF THE YEAR

"I always had the vision of where we were going with this. The building is like a large and powerful vessel. It's hard to steer and change direction, but we've had the vision and we've methodically set out to do what we said we were going to do."—**Anthony Malkin**, president of **Malkin Holdings**, on the infrastructure and energy upgrades to the Empire State Building.

"When there's a Google in the jungle, they jump up and down and shake the whole tree. It's like anything else—people like to go where the trend is."—**Corey Abdo**, senior v.p. at New York-based leasing brokerage **Winoker Realty Capital**, on the emergence of New York's Hudson Square submarket.

"We did nothing wrong here apart from signing a commitment with a bank that failed. We and the community are just collateral damage of a dysfunctional financial system."—**Ed Kalikow**, ceo of **The Kalikow Group**, on the impact that the failure of **Colonial Bank** had on a project the firm was working on in North Carolina.

"What is interesting about this is that no one expects the cliff to actually occur and yet everyone seems to be in this mentality of tread water and wait and see."—**Kevin Thorpe**, principal and chief economist at commercial real estate brokerage **Cassidy Turley**, on how the commercial real estate market is reacting to the potential of the fiscal cliff.

"In September [during the height of the European debt crisis] everything was a negative what-if and Europe was going back to medieval times with castles and serfs with the sovereign debt crisis. It's time to come up with positive what-ifs."—**Jerry Harris**, president of **Sterne Agee**, a Birmingham, Ala-based brokerage, on the impact of the mainstream media on the broader economic and commercial real estate recovery.

"The life companies have been very conservative in their LTVs but their pricing was great. Conduits were giving higher LTVs but their pricing was obnoxious."—**Gary Mozer**, principal at **George Smith Partners**, on the recent shift in the commercial real estate lending market.

"There is always an argument that will be made when people are affiliated with each other—that there is a conflict of interest. Much of that argument is borne out of a lack of understanding of what the facts are."—**Bob Lieber**, executive managing director of special servicer **CIII**, responding to the suggestion there is a conflict of interest between servicers and their affiliated brokerages.

"It is time to break the glass and start thinking about a world where LIBOR might not be available. We are suddenly developing risk views for LIBOR."—**Rick Jones**, a partner at law firm **Dechert LLP**, on the possibility of a world without LIBOR.

Builders & Buyers

Lightstone Sees Value In Select Service Mart


Mitchell Hochberg

The Lightstone Group sees opportunity nationally in the select service hotel market, with plans to acquire at least 30 properties in the coming year. The New York-based investor expects to close on six properties by the end of this year and is targeting assets in secondary markets. "Institutional money has been disregarding these assets," **Mitchell Hochberg**, Lightstone's newly appointed president, told *REFI*. "Select service hotels are not as glamorous as luxury properties but it's a simpler business model with fewer personnel. It's also easier to control expenses," he said.

The company believes its focus on secondary markets will allow it to achieve cap rates that are 100 to 300 basis points wider than primary markets. It is looking at **Marriott**, **IHG**, **Hilton** and **Starwood** properties, all brands that will allow Lightstone to tap into their reservation systems. "The properties will be managed by our third-party managers who will be able to achieve better margins," Hochberg noted.

Lightstone, which invests in undervalued properties in all of the major sectors, also likes the prospects for apartments in Manhattan and New York's outer boroughs. The company is working on high-rise buildings in Manhattan, Queens and Brooklyn. "One is topped off and two others will break ground in the coming year. The challenge is to buy the land at a price to make the numbers work but we've been fortunate to put together assemblages that work," Hochberg said.

Hochberg will take the reins of the company in January from **Peyton Owen**, who is retiring. Owen, who spent about five years at the company's helm, will stay on as the president of two of the company's non-traded real estate investment trusts.

Virtus Sees Value In Emerging Assets

Virtus Real Estate Capital, a Texas-based private equity investor, is bullish on four emerging asset classes: self-storage, student housing, medical office and senior housing. The connecting factor between these asset classes is recession resiliency and strong, stable yields, said **Kevin White**, director of business development.

The firm launched the *Virtus Real Estate Diversified Fund* in the first quarter to tap into these niche property types. "The thesis behind the fund is demographic real estate investing. We studied the macro-demographic trends that are happening in the U.S. and tied it back into property types," explained White. The fund has had a robust acquisition pipeline in 2012, and usually invests with partners. "Our partners are typically on the ground managing properties and implementing the business plan, while we put up the money," he said.

While not the most glamorous of real estate asset types, self-storage has become a favorite with investors chasing stable returns. "Self-storage is an event business, whether a job change, or starting a new school, or downsizing a house," White noted. The company focuses on properties in markets that have year-round growth.

With the exception of student housing, all of the asset classes tend to follow macro-level demographics, White said. "Student housing is a lot less dependent on macro-level economics—it's school-specific," he noted.

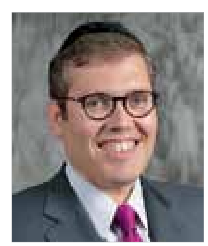
One problem, however, is that everyone wants into these assets. To circumvent potentially problematic bidding wars, Virtus relies heavily on partners who have established relationships in its markets.

Eastern Union Streamlines Focus To Fuel Expansion

Eastern Union Funding, a New York-based mortgage brokerage, has been building its business by scaling it back. "Most of our competition is focusing on different markets and larger deals. We are focused on providing better resources to our brokers to get their clients," said **Ira Zlotowitz**, partner. "Before the crash, we focused on a lot of different things but now we have fewer offices, fewer people and better relationships with banks and borrowers."

The company made the shift after analyzing how its brokers conducted business and obtained feedback from its clients. "Some of the small and mid-sized clients weren't feeling the love from larger firms," Zlotowitz noted. This has translated into a big increase in closings in 2012, with the company further projecting that it could double its roughly $1.2 billion of production in 2013.

While part of this increase is driven by Eastern Union's strategy shift, a major factor has been banks returning to the lending market. "Banks are more comfortable with current valuations and rents and have a lot of money to put out. Rates should stay low, especially in the beginning of the year, and lenders will look to jumpstart their production to make sure that they hit their numbers in 2013," Zlotowitz said.


Ira Zlotowitz

One area that Eastern Union is particularly focused on is **Department of Housing and Urban Development** loans. HUD loans can be difficult and time-consuming to close, even with a streamlined process, and Eastern Union has brokers on staff who are well-versed in the process and have connections at different HUD lenders, Zlotowitz said.

Builders & Buyers

Elco Stays Bullish On Multifamily in 2013

Multifamily real estate owner and operator **Elco Landmark Residential** has high hopes for the multifamily market in 2013, seeing strong positive trends driving growth. Elco recently acquired four multifamily housing properties in Florida for about $100 million. "We're continuing to see opportunities in repositioning plays within the multifamily world," said **Joseph Lubeck**, ceo. The firm targets middle-market properties with a value-added component, and will aim to redevelop and modernize the amenities of its four recent acquisitions, he added.

The purchase of the properties was funded through **Freddie Mac**'s capital markets program and will be securitized, he said. Even though the fate of the Freddie Mac and **Fannie Mae** as providers of multifamily debt seems uncertain, with some talk of unwinding the government sponsored enterprises, Lubeck said Elco will stick with the property type in 2013 and aim to acquire several thousand units in the Southeastern U.S. "We like secondary markets in the South, the Carolinas and Texas in particular because of their strong job markets," Lubeck said.

The recovery in single family housing, investors say, could pose a danger to multifamily growth as the economy recovers over the next several years. Demand for multifamily boomed during the recession as home prices dropped and residential mortgage lending froze up. Real estate investment firms in 2012 have also been buying up large lots of real estate-owned residences with aim to lease them up. "I'm not worried about shadow market rentals. People still want professionally managed communities with full service and high-end amenities," Lubeck said.

Vestar Looks To Splash $750M On Value-Added Retail

Phoenix-based **Vestar** is looking to deploy $750 million into retail acquisitions over the next two years, targeting value-added properties of $40-100 million in major markets in the Western U.S. The company is investing via a newly formed investment fund, *Vestar Strategic Retail Partners*.

Bob Cavanaugh

Vestar's pitch is simple: The firm will use its in-house capabilities for each stage of its acquisitions, from underwriting to executing a deal. The tactic means the company can bring more accountability to the table than its competitors, noted **Bob Cavanaugh**, cio. At a time when the retail market is at a crossroads thanks to the rise of internet shopping, the firm expects investors to respond well to its structure.

"[The value-add retail market is] an interesting place to play because the retail environment is challenged today. Retail tenants are re-evaluating their place in the market, and in many cases tenants will consolidate their locations," Cavanaugh said. "These tenants will fall back to the best stores, and we intend to have the best locations from an economic and demographic perspective."

Vestar has 25 years of experience in the retail sector, but previously invested with a capital partner. "A good question is why would we raise a fund when we've had so much success doing joint ventures?" Cavanaugh acknowledged. "We want the flexibility that comes with discretionary capital." The firm will target cash-on-cash returns of 8-10%, thanks to the low cost of debt and a conservative leverage of 50-60% for each acquisition.

"[The value-add retail market is] an interesting place to play because the retail environment is challenged today. Retail tenants are re-evaluating their place in the market, and in many cases tenants will consolidate their locations"

—Bob Cavanaugh

Although the fund's first close is not expected until the first quarter of 2013, Vestar has already made a number of acquisitions. "The acquisition program is ahead of the capital, so we're still buying in joint ventures," Cavanaugh noted. Vestar, in a joint venture with **UBS**, recently closed on an $84.8 million deal to buy Riverside Plaza, a 475,211-square-foot retail center located in Riverside, Calif. The sale marked one of the largest transactions in the Inland Empire in the past 10 years, according to published reports.

People & Firms

BlackRock Acquires RREEF's U.K. Property Holdings

BlackRock has agreed to buy U.K. property funds run by **Deutsche Bank AG**'s **RREEF** real estate affiliate valued at more than $543 million, according to *Bloomberg*. BlackRock's U.K. Property Fund will add 27 real estate investments, bringing assets under management to more than GPB2.4 billion. RREEF's U.K. retail, office and industrial property funds are included in the acquisition.

Azerbaijan's Oil Fund Makes First Property Investment

Sofaz, Azerbaijan's State Oil fund, has bought an office complex in London's West End for $287 million, or GPB177 million. The acquisition is its first investment in real estate, and aims to diversify reserves. The Class A office building was acquired from **RREEF Real Estate**, the real estate arm of **Deutsche Bank**. The building is leased to **HSBC Bank** through 2023.

Philadelphia Mall Note Receives Modification

A $290 million note backed by the Franklin Mills mall in suburban Philadelphia has received a hope note modification with an interest payment reduction, according to December remittance reports. The loan moved into special servicing in April after co-owner **Simon** did not include the mall in a transaction in which it bought out 26 Mills properties from co-owner **Farallon Capital**. The loan is split pari passu between a $174 million note in JPMCC 2007-LDP11 and a $116 million note in GSMS 2007-GG10.

Manhattan Development Site Sold

Cushman & Wakefield has arranged the sale of a development site in Midtown Manhattan, according to a press release. The site at 546 West 45th Street was sold by **Pasha Group LLC** for $50 million to a partnership between **DHA Capital**, **USAA Real Estate Company** and **Crimson Real Estate Fund**.

Prologis Forms European JV

Industrial real estate owner and operator **Prologis** has formed a joint venture with **Norges Bank Investment Management**, the firm announced in a press release. The partnership, **Prologis European Logistics Partners Sarl**, will aim to acquire a portfolio of high quality distribution facilities in 11 select European markets.

RADCO Pumps Cash Into Atlanta Multifamily

The RADCO Companies has increased its Atlanta multifamily portfolio to 3,000 units, having completed seven closings in the past two weeks, according to a press release. RADCO's latest acquisitions include the 132-unit Audubon Town & County in Fairburn and Audubon Brook, a 94-unit property in Conyers. The transactions were financed through bridge debt from several lenders and $15.2 million in equity raised over the past 30 days from private sources. "There is liquidity in multifamily, and the fundamentals make value-add multifamily the perfect fit for us today," said **Norman Radow**, president and ceo.

Blackstone, Ranieri Bet On FHA Loans

Hedge funds and private-equity investors including **Lewis Ranieri**'s **Selene Investment Partners** and **Blackstone**-backed **Bayview Financial** are betting on delinquent home loans being sold by the **U.S. Federal Housing Administration**, according to *Bloomberg*. The government agency is accelerating debt sales to avert a bailout and to stem foreclosures.

Savanna Sells NYC Office

New York-based private equity and asset management firm **Savanna** has sold 104 West 40 th Street, a 210,000-square-foot Class A office building, to **Princeton International Properties**, according to a press release. The sale price was undisclosed. Savanna sold the building after increasing occupancy to more than 70%, up from 25% at its 2010 acquisition. **Eastdil Secured**'s **Adam Spies** and **Doug Harmon** represented the sellers.

Ohio Police & Fire Preps $200M Real Estate Drive

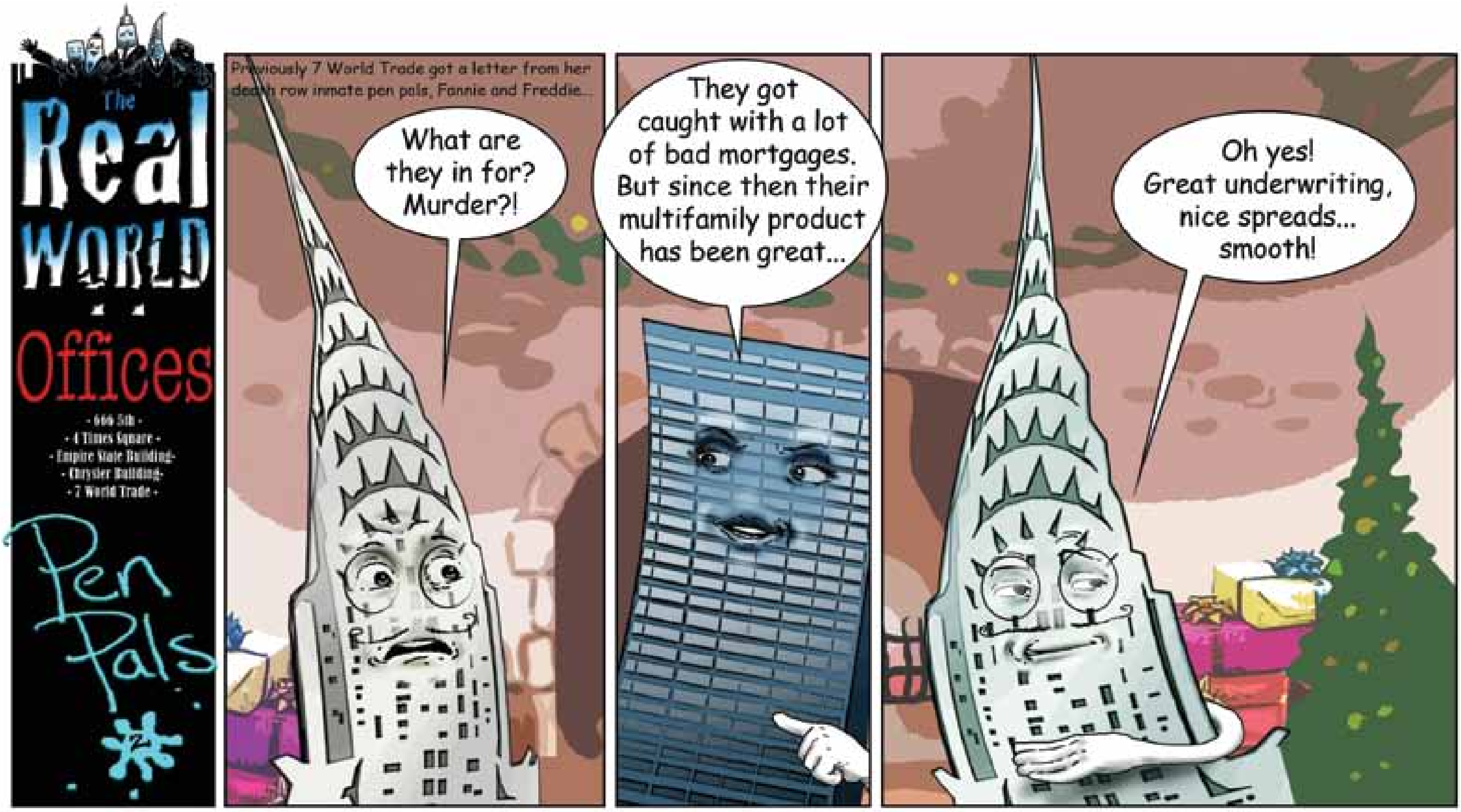
The $12.4 billion **Ohio Police & Fire Pension Fund** plans to commit between $170 million and $230 million in non-core real estate next year to hit its 12% target, according to *REFI* sister publication *Money Management Intelligence.* The fund's goal is to better balance the real estate portfolio between its core and non-core positions in the coming year and it expects to award mandates of $30-70 million in size. It is open to strategies with an international focus.

RKF, Ackman-Ziff Sell $139M Retail Portfolio Sale

RKF and **Ackman-Ziff** have arranged the $139 million sale of a 53,260-per-square-foot retail portfolio in Miami's South Beach on behalf of **South Beach Tristar Capital**, according to a press release. **Terranova Corporation** and **Acadia Realty Trust** teamed up to acquire the portfolio in an all-cash deal. Tenants in the fully-occupied portfolio include **Aldo**, **Fossil** and **Steve Madden**.

Blackstone Names Two New RE Partners

Property giant **Blackstone** has promoted **Tyler Henritze** and **Tuhin Parikh** to senior managing directors, increasing its number of real partners to 18, according to *Bloomberg*. Henritze joined New York-based Blackstone in 2004 and worked on the **Equity Office Properties Trust** acquisition. Parikh joined the firm in 2007, and oversees property investments in India. The country has been a particular focus for Blackstone, who plans to raise its first property fund for the Asia Pacific region next year.



Will Private Equity *(Continued from page 1)*

and can wear a number of hats: investor, developer, operator and lender. "The private equity funds are bringing their money into all facets of the real estate world. There is intense competition for Class A assets and they will start to look at properties of all classes in secondary and tertiary locations," Lenobel said. "They have the potential to flush the market with liquidity."

Although 2013 will be a relatively small refinancing year, with just $33 billion of commercial mortgage-backed securities loans coming due, according to data from **Amherst Securities**, the big numbers will start to stack up in 2014. It's still unclear if property values will increase enough to bridge the refinancing gap, Lenobel said, noting that the private equity funds could come in as mezzanine or preferred equity investors.

Ira Zlotowitz, a partner at **Eastern Union Funding**, said that the New York-based mortgage brokerage is seeing a different kind of gap that needs to be filled – one where a bank will value a building at less than what the borrower has agreed to pay. "Two years ago, when banks were lending at 65% LTVs, there was a gap. But with lower cap rates and higher rents, that gap started to go away. The shift that we are seeing is that the gap is coming on new acquisitions rather than refinancings," he said.

Private equity funds historically have targeted internal rates of return of about 20% and are seeking investments that will allow them to hit returns in a 15-20% range, noted one senior New York-based brokerage executive. It's impossible to hit these numbers with first mortgages so some of these funds could end up targeting development, particularly in the apartment sector where there is true pent-up demand.

—Samantha Rowan

Final Liquidating *(Continued from page 1)*

performing loans than its predecessors.

The first liquidating trust of 2012, **Rialto Capital** 2012-LT1, was the first such deal since the 1990s and paved the way for similar offerings. The bonds were backed mostly by distressed assets and sold at $99.75. Shortly after pricing, that deal was set to pay off significantly ahead of schedule (*REFI, 6/22*). The quick pay feature of these deals is a strong selling point for investors seeking short-duration paper with high relative yield.

Some investors, however, pointed out that this duration is also a problematic feature of the structure. "The problem comes up when you look at these deals on a yield-to-maturity basis versus a holding period basis," said one CMBS investor at a major investment firm. At the time it priced, the Rialto deal was set to yield more than 4%, but on a holding period return, the yield is 1.39%, according to the investor. "Your holding period return is much different than what you originally booked as your yield to maturity," he added.

—Max Adams

Lynn Pens Real Estate Wealth Management Tome

David Lynn, the ceo and founder of New York-based **Lynn Capital Management**, is writing a book that aims to help investment managers and financial planners better integrate real estate into the portfolio of wealthy investors. "The book is designed to educate wealth managers about real estate as a viable, lower-correlation investment class," Lynn told *REFI*.

Real Estate For the Private Wealth Advisor follows Lynn's previous books, *Emerging Market Real Estate Investment*, which lays out the case for investing in emerging commercial real estate markets such as India, China and Brazil, and *Active Private Equity Real Estate Strategy,* which outlines how to turn macro-level analysis into actionable strategy.

Lynn, who left **Clarion Partners** earlier this year to launch his own firm, is investing his first fund. The *LCM Total Return Fund* makes investments in real estate securities such as commercial mortgage-backed securities, real estate private equity funds and direct investments. It targets yield-oriented plays with low correlation and volatility.

QUOTE OF THE WEEK

"The only way to get core assets is to pay up for them."—**Bob Knakal**, president of New York-based brokerage **Massey Knakal**, on how the influx of capital into commercial real estate is squeezing some foreign investors out of the Big Apple (see story, page 6).

ONE YEAR AGO

Spreads on generic, AAA-rated commercial mortgage-backed securities hit six-month tights, as the A4 bonds from GSMS 2007-GG10 came in to 282 basis points over swaps. Wall Street firms were said to be quietly picking up bonds in anticipation of a 2012 rally. [Spreads on GG10 A4s are now around 140 basis points]…Conduit lenders were seen dipping their toes back into the lending market after a several-month hiatus brought on by volatility in the capital markets. Conduit lenders were beginning to take more risk and began bringing spreads into levels closer to their insurance company counterparts.

FIVE YEARS AGO

Scott Stelzer, head of **Morgan Stanley**'s commercial mortgage-backed securities proprietary trading desk, left the firm…Manhattan players were watching **Hiro North America**'s sale of 650 Madison Avenue to get a better sense of the health of the market. With the freeze-up in the CMBS market and the global credit crunch, brokers said it was becoming difficult assess property values.

