REFINANCING WAVE

REFI launched its first in a series of monthly breakfast panels on Thursday, January 22. Constantine "Tino" Korologos, managing director at Situs, Peter Muoio, head of research at Auction.com, and Shlomo Chopp, managing partner at Case Property Services, led a panel discussion on the 2015-2017 refinancing wave that was moderated by *REFI*'s Samantha Rowan.

Suburban offices, retail face refinancing worries

"WE'RE FOCUSING TOO MUCH ON INTEREST RATES… [WE] DID SOME RESEARCH AND FOUND THAT 48% OF LOANS ARE OPERATING ON A NON-DEBT YIELD. IT DOESN'T MATTER WHAT INTEREST RATES ARE – [WE] WILL HAVE ISSUES REFINANCING PROPERTY OVER THE NEXT FEW YEARS"
SHLOMO CHOPP

Owners of suburban office and non-dominant retail properties could find it difficult to get maturing loans refinanced, according to panelists at REFI's inaugural breakfast seminar last week. The event, which focused on the 2015-2017 refinancing wave, featured Tino Korologos, managing director at Situs, Peter Muoio, chief economist at Auction.com, and Shlomo Chopp, managing partner at Case Property Services.

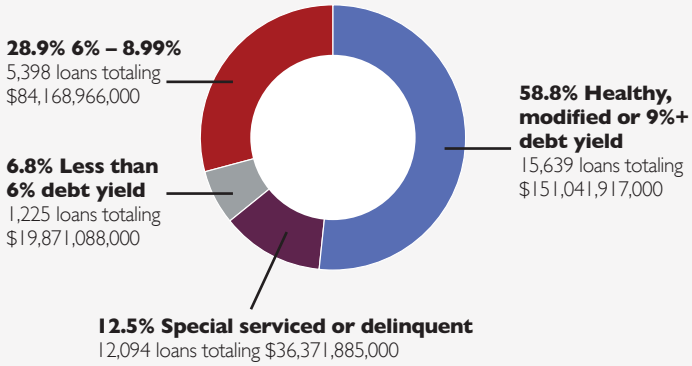
Chopp believes that there has been too much talk about the direction of interest rates and not enough about poorly performing properties. "I think we're focusing too much on interest rates. There are way more fundamental issues with properties right now," he said. "[We] did some research and found that 48% of loans are operating on a non-debt yield. It doesn't matter what interest rates are – [we] will have issues refinancing those property over the next few years."

Chopp and his fellow panelists highlighted the suburban office and retail sectors as particularly troubled areas. Many regions of the US are over-retailed at a time when online retailing is having an effect on the amount of space a retailer needs. The flip side of this, however, is the dichotomy emerging between urban and suburban supermarkets. While urbanites are following the trend of ordering groceries via websites such Fresh Direct, investors remain bullish in the sector because smaller cities such as Buffalo don't have the same kind of access to online grocers, Muoio noted.

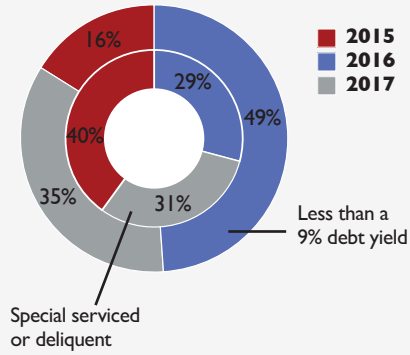
"PRICES, BECAUSE OF THE LIQUIDITY IN THE MARKET, HAVE GONE BEYOND WHERE THEIR VALUE IS. HOPEFULLY FUNDAMENTALS AND VALUES WILL CATCH UP TO PRICE"
TINO KOROLOGOS

LEGACY CMBS MATURITIES 2015-17

Research: Case Property Services, LLC; Data: Trepp, LLC



Refinancing risk type by year



Note: This analysis does not take into account expiring leases, deferred maintenance, modified loans that will default, or properties operating at a low DSCR.

Continued Suburban offices are facing a hard road. "[There are] pharmaceutical buildings out in suburban New Jersey that were built for a single company. Those companies merged, they've contracted, and left these buildings vacant," said Muoio.

"And they're not necessarily buildings that anyone wants in their current form. If someone can buy them they're going to have to rework those into something that is multitenant and useful," he added.

There continues to be a divergence between primary, secondary and tertiary markets. While valuations have risen steeply in primary markets, secondary and tertiary markets continue to lag.

"Lots of deals in 2006 and 2007 ran out of product in big cities and started doing loans in smaller markets… maybe [some] haven't recovered yet," Korologos added. This raises the chances that there will be a large slug of zombie loans that may have enough cash flow to cover debt service, but will not be able to refinance given existing leverage, he said.

"THERE'S A LOT OF TECHNICAL, STRUCTURAL CHANGES TAKING PLACE ACROSS THE VARIOUS PROPERTY SEGMENTS"
PETER MUOIO

KeyBank closes $334.4m Fannie Mae deal

KeyBank Real Estate Capital has originated a $334.4m, 10-year loan via Fannie Mae for Enlivant, a Chicago-based owner and operator of senior care facilities, the company announced. The loan is backed by 54 assisted living properties in 12 states. The loan was originated and closed in less than 60 days by the bank's healthcare mortgage banking team.

Berkshire buys San Francisco apartments

An affiliate of Berkshire Group has acquired a 75-unit apartment community in Oakland, Calif., for an undisclosed amount from Madison Park Financial, the company announced. Berkshire Communities will manage the Class A apartment complex, which is located in Downtown Oakland near major transportation and amenities.

TruAmerica seals huge SoCal apartment deal

TruAmerica Multifamily has purchased a 14-property multifamily portfolio for $482m from JH Real Estate Partners, the company announced. The transaction is the largest in the multifamily asset purchase Southern California has seen in the last two decades, with a total of 2,669 units, mostly class B apartment communities in Los Angeles County, San Diego County and the Inland Empire.

TruAmerica plans to invest $40m in exterior and interior unit upgrades, including community amenities. The firm joined forces with The Guardian Life Insurance Company of America, Allstate, and other domestic and international institutional investors to close the deal. Fannie Mae financed the deal via a mix of fixed and floating-rate debt, with a blended interest rate of 2.59%.

Kushner, Extell line up financing for NJ buy

Kushner Companies and Extell Development Company have tapped Fannie Mae and Freddie Mac to finance the acquisition of Pier Village in Long Branch, NJ, the company announced. The partners acquired the mixed-use property for $180m in two phases, with Capital One providing bridge financing in November. Capital One then provided a $97m Fannie Mae loan while PNC Bank originated a seven-year $32m Freddie Mac loan for the second phase. Pier Village includes 492 residences and more than 100,000 square feet of retail.

Georgetown Co. closes on Chicago retail

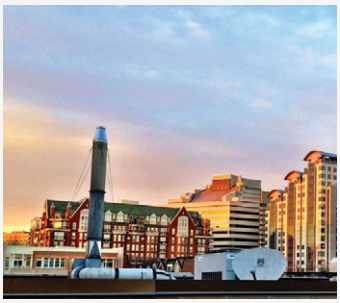
The Georgetown Co. purchased Lincoln Park Centre, a 61,000-square-foot Chicago retail property, for $64m. The two-story property is in the Lincoln Park/Old Town neighborhood at 755 W. North Avenue, and is close to two CTA subway lines. Tenants include Sur La Table, Carters, Eddie Bauer, and Design Within Reach.

Memphis hotel deal for Ashford Hospitality

Ashford Hospitality Trust has inked a deal to acquire the Memphis Marriott East Hotel in Memphis for $43.5m, the company announced. The 232-room hotel, which was recently renovated, is close to restaurants and shopping, and provides 8,960 square feet of meeting space. The acquisition price represents an approximate cap rate of 8.6% on net operating income as well as an estimated 10.3x forward EBITDA multiple.

SEC sets S&P CMBS ban

The Securities and Exchange Commission has banned Standard & Poor's from rating new issue conduit commercial mortgage-backed securities deals for one year, according to published reports. The ban applies only to new issue conduit deals and Freddie Mac deals, and doesn't affect outstanding offerings or single-borrower deals.

HFF SETS $103M MARYLAND LOAN

HFF has secured $103m in refinancing for an 11-story, 274,526 square foot office building in downtown Bethesda, Maryland, on behalf of an affiliate of The JBG Companies, the company announced. The refinancing includes a floating-rate loan with SunTrust Bank with a four-year term and a one-year extension option. Tenants include Edens, Linowes & Blocher, Singapore Economic Development, University Research, Enviva and StonebridgeCarras.