COMMERCIAL OBSERVER | FINANCE WEEKLY

The Insider's Weekly Guide to the Commercial Mortgage Industry

COURTESY SAVANNA

One Court Square.

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The LEAD

Savanna Recaps One Court Square in $880M Deal

EXCLUSIVE

Savanna has closed an $880 million recapitalization of its **One Court Square** in Long Island City, nearly a year after **Amazon** backed away from a plan to lease space in the building, Commercial Observer has learned.

Funds managed by **Apollo Global Management** provided a $580 million senior loan in the deal, which closed on Jan. 3, and **SL Green Realty Corp.** provided $100 million of subordinate debt, according to sources familiar with the transaction.

Junius Real Estate Partners provided the remaining $200 million in the form of a preferred equity stake, which it converted from a previous ownership position. The company is an investment division of **J.P. Morgan Asset Management**.

The debt replaces a $315 million CMBS loan that **Natixis** originated in 2016. That debt was set to come due this September, and Savanna had reportedly struggled to find a lender in the wake of Amazon's about-face.

SAVANNA...continued on page 2

Oxford Properties, CPPIB Seeking $975M Construction Loan for St. John's Terminal

EXCLUSIVE

Oxford Properties Group and the **Canadian Pension Plan Investment Board** are in the market for a $975 million construction loan to finance the development of **St. John's Terminal**, Commercial Observer has learned.

Lenders familiar with the financing request told CO that the loan works out at roughly 55 percent loan to cost and is being very heavily competed, with one interested party telling CO that "every major bank is fighting to get a piece" of the high-profile deal.

The debt assignment is being run by **CBRE**'s **James Millon**, **Tom Traynor** and **P.J. Finley**, sources said, with bids due Jan 31. CBRE officials did not immediately respond to a request for comment.

The financing request follows **Google**'s announcement that it will lease the 1.3-million-square-foot property in its entirety. The internet powerhouse announced plans to invest $1 billion in its Google Hudson Square campus in late 2018, which would include St. John's Terminal (at **550 Washington Street**), **315 Hudson Street** and **345 Hudson Street**. The latter two properties are owned by **Jack Resnick & Sons** and

OXFORD...continued on page 4

Morgan Stanley Lends $251M in HGI's Acquisition of LeFrak Office Property

EXCLUSIVE

LeFrak Organization has closed on the sale of its Class A office property at **545 Washington Boulevard** in Jersey City to **Harbor Group International** (HGI), multiple sources told Commercial Observer.

HGI paid $372 million for the waterfront asset, and the transaction closed on Jan. 6.

Morgan Stanley led the $251 million acquisition financing, with **Barclays** also participating in the deal, sources said.

Cushman & Wakefield's **Adam Spies**, **Doug Harmon, Kevin Donner**, **Gary Gabriel** and **David Bernhaut** represented LeFrak in the sale, while C&W's **Gideon Gil**, **Chris Moyer**, **John Alascio**, **Emily Johansen** and **Noble Carpenter III** secured the acquisition financing.

Real Estate Alert first reported in September that HGI was in contract to purchase the property for around $375 million, in what would be the second highest price ever for a New Jersey office property.

Built in 2001, the 866,706-square-foot asset is also known as **Newport Office Centre IV.** Roughly 80 percent of the building is leased to **J.P. Morgan Chase** and **Insurance Services Office** (ISO). Per *REA*, ISO's lease runs through 2033.

Located steps from the **Newport/Pavonia PATH** station, 545 Washington Boulevard is a 400-acre waterfront property. Its amenities include a full-service health club, a day care center and a restaurant, according to LoopNet. The property also features a helipad.

Newport, N.J., overlooking the Manhattan skyline.

COURTESY TONY SHI

LeFrak put roots down in the Jersey City in 1986, redeveloping the neighborhood into a 600-acre, master-planned mixed-use community on the Hudson River waterfront that comprised retail, residential and office properties. The developer sold another of its Jersey City properties — the 350,000-square-foot **Newport Office Centre 6** building at **570 Washington Boulevard** — in March last year to **iStar** for $170 million in a sale also negotiated by the C&W team, as reported by *The Real Deal*. LeFrak currently has another mixed-use project underway at **700 Washington Boulevard**, named "The Beach."

Officials at HGI, C&W and Morgan Stanley declined to comment. Officials at LeFrak did not respond to a request for comment.—*C.C.*

SAVANNA...continued from page 1

Cushman & Wakefield's **Adam Spies**, **Doug Harmon**, **Marcella Fasulo**, **Adam Doneger** and **Josh King** began sourcing equity for the deal a year ago, a competitive process that resulted in Junius taking the preferred equity position. **Kellogg Gaines, Aaron Neidermayer** and **Brian Buglione** of **JLL** also represented Savanna in the debt negotiations, according to deal sources. They did not respond to an inquiry.

Built in 1990, the 50-story building once stood out like an exclamation point above what used to be an often-overlooked neighborhood of warehouses and factories. Today, it stands in the middle of a newly dense district of skyscrapers that's now home to all five of Queens' tallest buildings, including five towers of at least 50 stories.

For almost 30 years, **Citigroup** lent its name to the tower and served as the building's anchor tenant. But as its lease neared a renewal date early last year, the bank moved out to make way for Amazon, which had pledged to rent 1 million square feet in the building as part of its plan, announced in November 2018, to build a headquarters in New York City.

The tech giant withdrew on Valentine's Day last year, temporarily leaving Savanna in the lurch. In June, the landlord got some relief when **Altice**, the telecommunications company behind the **Optimum**, agreed to lease 103,000 square feet at the tower. And by summertime, **Centene**, a health care company that offers managed-care plans, eased the burden further when it leased as much as 500,000 square feet in the building, according to Bloomberg.

Earlier, in February, the *Wall Street Journal* reported that Savanna was shopping for a $750 million refinancing while the Amazon deal was still alive. But talks with investors soon disintegrated when Amazon decided to focus only on building a headquarters just outside Washington, D.C., instead of coming to Queens.

Amazon executives changed plans after locking horns with activists and local politicians who questioned whether the company's arrival would be an economic benefit to native New Yorkers.

Until 2012, SL Green and J.P. Morgan Asset Management owned the tower outright. That year, they sold it to **Joel Schreiber**'s **Waterbridge Capital** and to **David Werner**, who together paid $481 million to buy One Court Square. Savanna paid more than $500 million to take over the tower three years later.

In addition to its office space, the building features a large, multi-level lobby and a branch of the **Queens Public Library**.

Skidmore, Owings and Merrill was responsible for the tower's design.

Representatives for Apollo and SL Green officials weren't available for comment. A spokeswoman for Junius declined to comment, as did Savanna officials. —*Cathy Cunningham and Matt Grossman*

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BentallGreenOak Seals Financing for 685 Third Avenue Acquisition

BentallGreenOak has closed on its acquisition of **685 Third Avenue**, a Midtown East office property and the last remaining asset in **Unizo Holdings'** Manhattan portfolio, sources confirmed to Commercial Observer.

EXCLUSIVE

The 31-story office property traded for around $450 million; **Heitman** provided $200 million of floating-rate leasehold financing in the deal, sources said. The debt works out at around 65 percent loan to cost for the leasehold component.

CBRE's **James Millon**, **Tom Traynor** and **Mark Finan** negotiated the debt, while CBRE's **Darcy Stacom** and **William Shanahan** marketed the sale. CBRE officials declined to comment.

As part of the deal, **Safehold** — a publicly traded REIT — also created a $180 million ground lease on the building.

The Real Deal first reported that Unizo was in the process of selling 685 Third Avenue to BentallGreenOak for more than $450 million. *Commercial Mortgage Alert* first reported news of the financing last month.

The 639,000-square-foot asset — between 43rd and 44th Streets — sits one block from **Grand Central Terminal**. Unizo Holdings purchased the property in 2017 from **Nuveen Real Estate**, paying $467.5 million. The sale of 685 Third Avenue is the final transaction in Unizo's divestment of its $1 billion Manhattan office portfolio in the midst of an ongoing takeover saga. In November, Unizo was weighing six buyout offers, including a $1.6 billion bid from **Blackstone** after fending off a hostile takeover bid from Japanese travel agent **H.I.S. Co.** in July. But on Dec. 22, **Lone Star** emerged as a white knight bidder after making an offer that topped Blackstone's.

685 Third Avenue.

COURTESY COSTAR GROUP

As first reported by CO, Unizo sold **40 West 25th Street** to **Kaufman Organization** and **AXA Financial** a few days earlier, with the buyers locking down $76 million in financing from **MetLife.** The CBRE team arranged the financing in that instance, too.

Previous dispositions include **24-28 West 25th Street**, sold to **Savanna** for $110 million in April; **370 Lexington Avenue** to **Broad Street Development** for $190 million and **440 Ninth Avenue** to **Taconic Investment Partners** and Nuveen Real Estate for $269 million, both in September 2018; and **321 West 44th Street** to **Related Companies** for $153 million in October 2018.

Officials at Heitman and BentallGreenOak didn't respond to a request for comment.—*C.C.*

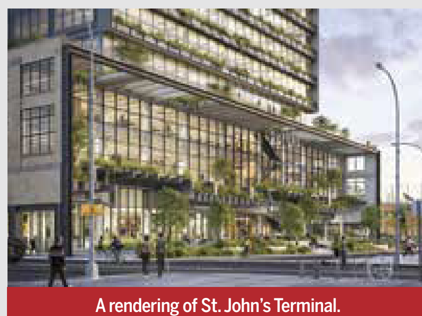
OXFORD...*continued from page 1*

a joint venture led by **Trinity Real Estate**, respectively.

Google expects to move into the Hudson Street properties this year and into St. John's Terminal in 2022.

Given the sheer size of the construction loan sought, some sources speculated that a bank syndicate will likely take it down. Another lending source echoed previous sentiments on the financing, saying: "It's one of the most buzzed-about projects and leased to one of the most in-demand tenants. If you can compete on this deal, you'll compete."

The property — which sits between Houston and West Streets next to **Hudson River Park**'s **Pier 40** — was originally built as the southern terminal for the High Line elevated railway and was constructed to hold up to 227 railcars.



A rendering of St. John's Terminal.

COURTESY COOK FOX ARCHITECTS

Atlas Capital Group and **Westbrook Partners** sold the southern portion of the sprawling industrial complex to Oxford and the Canadian Pension Plan Investment Board for $700 million in January 2018, giving Oxford a 52.5 percent controlling stake in the asset. (The sellers retained ownership of the northern portion of the site and are eyeing a residential project there.)

"We felt a tremendous responsibility to reimagine St. John's Terminal in an authentic yet modern way," **Dean Shapiro**, the head of U.S. Developments at Oxford Properties, told CO in a 2018 interview. "St. John's Terminal has a long history as a hub of innovation and productivity. Its unique form allows us to create workspaces that reduce the friction of expansion and change over time, so tenants can focus on productivity."

Officials at Oxford Properties weren't immediately available for comment.—*C.C.*

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Capital One Refis Upper Manhattan Apartment Building With $46M HUD Loan

Fairstead has picked up a $46.4 million loan from **Capital One** to refinance an apartment building in Upper Manhattan, Commercial Observer first reported.

EXCLUSIVE

The loan, on **680 St. Nicholas Avenue**, was made under the **U.S. Department of Housing and Urban Development**'s 223f program, according to Fairstead. Under the initiative, Capital One will be insured against default by the federal government throughout the permanent loan's term.

The eight-story building, constructed in 1900, has just over 100 units, which are subsidized. Eligible residents can also supplement their rent at the building, known as **St. Nicholas Manor Apartments**, with federal vouchers under the Section 8 housing program.

A renovation that Fairstead finished last year added a community room at the site, as well as improved telecommunications infrastructure for residents. Under the terms of a new agreement with the **New York City Department of Housing Preservation & Development**, Fairstead pledged to keep the building's apartments affordable to low-income residents until at least 2060.

"Affordable housing continues to be a scarce resource in this country, especially in New York," **Will Blodgett**, one of Fairstead's co-founders, said in a statement. "Public-private partnerships are key to creating and maintaining this affordability," he added, citing the local and federal officials that partnered on the deal.

The deal is the most recent of nine multifamily properties totaling 49 buildings that Fairstead has refinanced in the last six months using HUD-backed loans, according to the landlord. Others included four buildings in the Sunset Park section of Brooklyn, two buildings on Manhattan's West Side, and others in Brooklyn and Harlem. Those nine debt deals totaled $310 million.—*M.G.*

680 St. Nicholas Avenue.

COURTESY: FAIRSTEAD

Downtown Naperville, Ill.

COURTESY WIKIPEDIA

NKF Provides $61M in Agency Debt on Suburban Chicago Multi Buy

Newmark Knight Frank's multifamily capital markets group has originated just over $61 million in **Freddie Mac**-backed debt to a joint venture between **Cantor Fitzgerald** and **BH Equities** to finance its acquisition of **Railway Plaza**, a garden-style multifamily property located in Naperville, Ill., Commercial Observer first reported.

EXCLUSIVE

The borrowers locked in the 10-year, fixed-rate agency financing in a deal that was facilitated by an NKF team made up of Executive Managing Director **Bill Weber**, Managing Director **Henry Stimler** and Vice President **Daniel Sarsfield**. The purchase price could not be gleaned.

"This acquisition on behalf of BH Equities and Cantor Fitzgerald showcases the strength of the multifamily market in growing areas across the country," Stimler said in a prepared statement. "Multifamily properties like Railway Plaza that are well maintained and well located continue to be a strong choice for institutional investors looking to expand their portfolio of properties."

The 417-unit property — at **507 Railway Drive** in Naperville, which is around 33 miles west of Chicago's downtown and sits adjacent to the Route 59 train station, leading into the city — was built in 2000 and is made up of 13, three-story buildings. BH affiliate **BH Management** operates the property, as per its website.

The site features a recently renovated club room, a 24-hour fitness center, a business center and "cyber lounge," an outdoor pool and sun deck, a fire pit, outdoor grilling stations, and covered pavilions, as per the property's website. There is also a limited number of private car garages available to some tenants.

The apartments, which are one- and two-bedroom residences, include private patios and balconies, a fireplace, and each has in-unit washers and dryers, according to the property's website.

Monthly rents at the site range from around $1,200 for one bedrooms to just over $2,500 for two-bedroom units, according to information from Apartments.com.

NKF, through its multifamily capital markets and debt and structured finance divisions, recently facilitated a similar transaction for BH and Cantor in suburban Chicago. In November 2019, NKF originated a $50.8 million Freddie Mac-backed loan to the duo to fund its $78 million purchase of **Aurora at Summerfield** — a multifamily complex in located Aurora, Ill., not far from Railway Plaza — from **The Connor Group**, as CO previously reported.

Officials at BH and at Cantor did not respond to inquiries.—*Mack Burke*

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Debt on Kushner's Times Square Retail Condo Transfers to Special Servicing

Kushner Companies' retail condominium in Times Square is in trouble with its lenders again, according to **Kroll Bond Rating Agency**, which is monitoring the debt on the property.

EXCLUSIVE

The $285 million CMBS loan on the retail space at **229 West 43rd Street** has been transferred to its special servicer, an indication that bondholders have concerns about being paid back on schedule. Specifically, the loan's transfer to its special servicer **KeyBank** on Jan. 2 followed Kushner Companies' failure to fund "a shortfall on the loan's debt service payments and required reserves," KBRA said in a statement.

Kushner Cos., the New York City-based firm that was founded by **Charles Kushner** and is now led by his children, **Joshua Kushner** and **Nicole Kushner Meyer**, is also in default on the building's junior mezzanine debt and is currently in negotiations with that mezz lender, KBRA noted.

(*Disclosure*: Nicole Kushner Meyer's husband, **Joseph Meyer**, is Commercial Observer's publisher.)

The retail property, in a historic building that housed *The New York Times*' offices until 2007, has been on the special servicer's radar since the debt was watchlisted for potential troubles in Sept. 2017, according to data from **Trepp**.

The debt on the 250,000-square-foot retail space springs from a 2016 refinancing that closed after Kushner Companies bought the six-story space located between Seventh and Eighth Avenues five years ago. In the refinancing, it received a $285 million loan from **Deutsche Bank** that was securitized into four separate CMBS transactions, with the largest piece held in **CD 2017-CD3**, as well as a $70 million mezzanine loan from **Paramount Group** and a $15 million mezz loan from **SL Green Realty Corp**.

Retail assets have seen tough going across the CMBS universe, but the 229 West 43rd Street retail condo's problems trace back to its troubled tenancy. Several lessees have gone belly-up since Kushner bought the space.

It was home to **Guy's American Kitchen**, a restaurant led by celebrity chef **Guy Fieri**, who has hosted several Food Network television shows. But the 5-year-old eatery closed in 2017; it had received an infamously acerbic review from a *New York Times* food critic.

The Kushners also tapped chef **Todd English** to preside over a food hall in the building, but by 2018, they were locked in a lawsuit with English's company, **Outstanding Hospitality Management**, over rent payments, according to Bloomberg. The eatery never opened.

229 West 43rd Street.

COURTESY EASTDILL

More recently, the building has floundered because of problems with its two largest in-place tenants, KBRA said.

Its largest, a novelty attraction called **Gulliver's Gate** which invites visitors to wander past elaborate miniatures of famous global sites, defaulted on lease payments beginning in late 2018 and then pushed the Kushners into a reduced-rent agreement. But late last year, Gulliver's Gate filed for bankruptcy and isn't paying any rent at all, as per the rating agency.

The second-biggest tenant is **National Geographic**, which runs an exhibit about sea life called Ocean Odyssey in the building. Like Gulliver's Gate, Ocean Odyssey also defaulted on its lease and began paying a reduced rent under a stipulation agreement last spring. Then National Geographic also fell behind, even on the reduced payments.

Despite the trouble, the retail condo is not in default on its senior debt, as of the December payment. Citing tenants' financial issues, Kushner was about $28,000 short on a $1.3 million payment it owed to senior bondholders on Dec. 6, but it came through with the money three days later, according to the servicer's watchlist notes from December.

The property was 95.1 percent occupied as of June 2019, but that figure is expected to drop to 52.4 percent after excluding Gulliver's Gate and National Geographic, according to KBRA.

"The borrower continues to aggressively market these spaces for lease given the uncertainty around both of these tenants," the servicer wrote in watchlist notes from December.

Other current tenants include a **Bowlmor Times Square** — a bowling alley — and **Guitar Center**, which sells music and audio equipment.

A Kushner Companies representative did not respond to an inquiry.—*M.G.*

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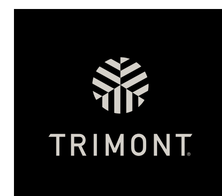

S3 Capital $50M Construction Loan Funds Brooklyn Rental Project

Loketch Group and **Meral Property Group** have picked up $50 million in financing to acquire and redevelop a parcel in Brooklyn's Clinton Hill, Commercial Observer first reported.

EXCLUSIVE

The loan, from New York City-based **S3 Capital**, will fund the developers' plans to build 90 apartments in two adjacent buildings in the well-to-do neighborhood, at **10 Quincy Street** and **26 Quincy Street**. The short-term loan aims to carry the developers through the approximately 20-month construction process, according to S3 Capital executives.

About half the apartments will be situated in the building at 26 Quincy that Loketch and Meral acquired from the **Salvation Army**, which used the space as a store and warehouse. Once the internal renovation of the 120-year-old brick building is complete, those units will be sold as condominiums.

The Salvation Army, a global Protestant charity based in London, announced in July 2018 that it would shutter the property, where it had operated for decades, according to Brownstoner. Francis Kimball, a noted architect who built stores and early skyscrapers in Manhattan and Brooklyn, designed the structure in 1899 as a department store warehouse.

Forty-one more rental apartments will go in a separate building next door that the development team is building from the ground up.

That split structure required a creative financing approach, according to S3's **Robert Schwartz**, because any future pay-down of the debt would come from split sources: a permanent refinance for the rental component of the project as well as individual condo sales.—*M.G.*

Clinton Hill, Brooklyn.

COURTESY: WIKICOMMONS

Hudson Yards.

COURTESY GETTY IMAGES

Rockrose Gets $255M Wells Fargo Loan for Resi Skyscraper

Wells Fargo is jump-starting **Rockrose Development**'s planned residential skyscraper near **Hudson Yards** with a $255 million round of construction financing, according to **New York City Department of Finance** records.

EXCLUSIVE

The San Francisco-based lender originated a $218.7 million building loan and a $36.3 million project loan on Rockrose's rental project, at **555 West 38th Street**, in a deal that closed a week before Christmas and was filed with the city on Dec.26. Plans for the building, drawn up by **Pelli Clarke Pelli Architects**, call for a 52-story glass tower at the site, between 10th and 11th Avenues.

The lot is two blocks north of Hudson Yards — the massive commercial development from **Related Companies** and **Oxford Properties** whose first phase opened earlier this year — and just across the street from the **Javits Center**.

Excavation on the site has already kicked off, according to New York YIMBY, which paid a visit to the project in late October. At its planned completion in 2022, the building is set to bring 598 rental units to a neighborhood that, thanks to Hudson Yards' residential component, has already added hundreds of apartments in the last few years.

Rockrose began buying the underlying land as early as 2001, *The Real Deal* reported, and added additional parcels in 2007 and 2012. It first filed land-use review applications in early 2016. Renderings of the project released by Rockrose show two tower trunks rising from a common base.

The building's apartments will be a mix of studios and one- and two-bedroom units, the developer has said. Rockrose's plan also includes about 1,600 square feet of ground-floor retail space.

Representatives for the development company and Wells Fargo did not respond to inquiries.

Residential rents in Midtown West grew at 3 percent between November 2018 and November 2019 — a figure that lagged behind stronger performance in most of the borough's other neighborhoods, according to residential brokerage **MNS Real Estate**.

Still, the neighborhood's rental units have fared better than its condominiums. At Related's **15 Hudson Yards**, nearly half of the building's condo units remain unsold three years after marketing began, *The New York Times* reported on Dec. 27. And buyers who have closed on units of late have paid, on average, rates discounted 7 percent from the building's peak in 2017.

Related has also walked back earlier promises that it would finish Hudson Yards' second phase by 2024, the *Times* said. A spokeswoman for Related did not respond to an email seeking comment.—*M.G.*

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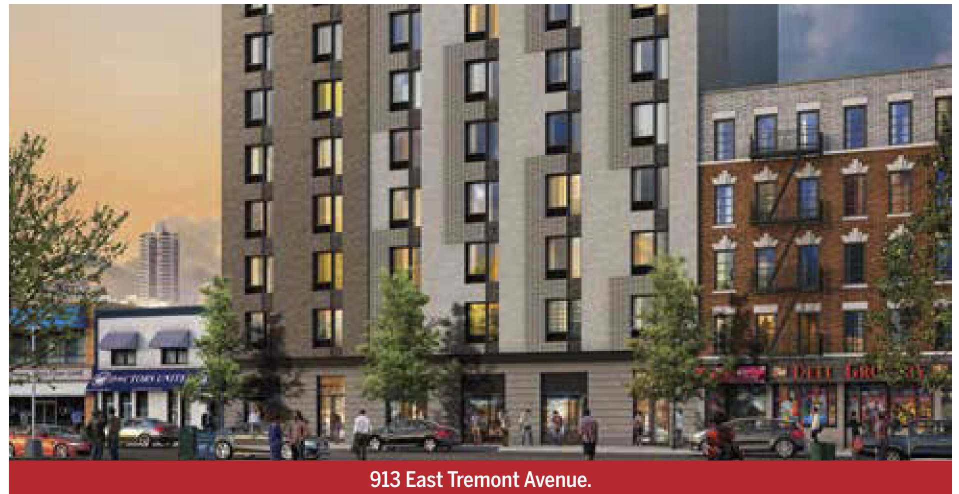
Camber, Westhab Land $46M in Financing for Bronx Supportive Housing Project

As part of an effort to help tackle New York's affordable housing shortage, **Camber Property Group** and affordable housing nonprofit **Westhab** have sealed over $46 million in financing for a planned affordable and supportive housing rental development at **913 East Tremont Avenue** in the West Farms neighborhood in the Bronx, Commercial Observer has learned.

EXCLUSIVE


913 East Tremont Avenue.

COURTESY CAMBER PROPERTY GROUP

The pair secured a $17.7 million as-of-right equity investment from **Wells Fargo** via the sale of low-income housing tax credits (LIHTC) and also received a combined $28.4 million in public debt subsidies from the **New York State Housing Finance Agency** (HFA) and the **New York State Homes and Community Renewal**, sources told CO. City records show a package of debt financing from HFA totaling just under $46.2 million across three separate mortgages.

The $50 million project — designed by **Aufgang Architects** and located between Honeywell Avenue and Daly Avenue — will stand 11 stories tall and will comprise 119 rental units and 6,500 square feet of rentable commercial space, sources said. **SD Builders** has been tapped to construct the building.

Sixty percent of the asset will feature apartments for residents who had previously been homeless, with the rest being reserved as affordable units. The property will have "wraparound supportive services" for the formerly homeless, sources said.

Rick Gropper, a co-founder and principal of Camber Property Group, said in a prepared statement that "housing formerly homeless New Yorkers is of the utmost importance to our firm and we are thrilled to partner with Westhab, NYS Homes and Community Renewal and Wells Fargo to deliver a high-quality product with comprehensive supportive services."

He added that the company is planning to welcome residents in late 2021.

The development will have a landscaped garden entrance and outdoor recreational space as well as a 1,300-square-foot "community room" included alongside the in-house supportive services operated by Westhab, a housing and social services nonprofit that primarily services Westchester County.—*M.B.*

Rabsky and Spencer Refi Brooklyn Triangle Development With $71M Loan

Rabsky Group and **Spencer Equity** have landed a $70.5 million loan from **Bank Leumi USA** to refinance a mega-development on the former **Pfizer** site in Brooklyn.

EXCLUSIVE

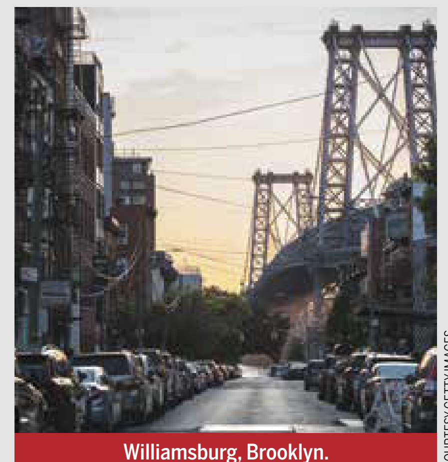
The one-year loan replaces a previous $65 million loan on the property, originated by **Centennial Bank** in 2018, according to property records. It carries an interest rate of 4 percent over Libor, a decrease of 50 basis points from the rate on the previous loan, according to documents filed on the **Tel Aviv Stock Exchange** (TASE).

Simon Dushinsky's Rabsky Group and **Joel Gluck**'s Spencer Equity are equal partners in the project, located at **174 Harrison Avenue**, at the nexus of South Williamsburg, Bushwick and Bedford-Stuyvesant, otherwise known as the Broadway Triangle. The project, which was embroiled in a discrimination lawsuit that was dismissed in 2018, includes 1,146 housing units — 287 of which will be affordable — and 65,000 square feet of retail.

Spencer Equity will take on a greater role in the project after an adjustment to the operating agreement at the request of the lender, per the TASE notice. Spencer and Rabsky will share management duties, with both required to approve any sale of the property or loan agreements, if the loan is above 50 percent loan to value.

Gluck previously fronted Dushinsky a total of $35 million on the project in two separate loans, with $20 million still outstanding. Gluck and Dushinsky also own a Downtown Brooklyn development site together, at **625-635 Fulton Street**. Financing for that site has also run into a few hiccups, and in March, Rabsky received a six-month extension on an $80 million loan, also from Bank Leumi USA, with the option to extend through January 2020, as CO reported at the time.

The developers are also seeking a construction loan for the first phase of the project and are in early talks with Bank Leumi USA to provide it.


Williamsburg, Brooklyn.

COURTESY GETTY IMAGES

"We'll be looking to provide the construction loan sometime in the future when they're ready," said a Bank Leumi executive. "[The project] is still in the pre-development stage."

Rabsky did not respond to request for comment.—*Chava Gourarie*

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The Umbrella Factory in Williamsburg.

LibreMax Capital Provides $64M Refi on Williamsburg Condo Project

EXCLUSIVE

New York-based asset management firm **LibreMax Capital** has provided $63.6 million in debt to a joint venture between **SL Development** and **Local Capital Group** to refinance previous debt encumbering its mixed-use condominium and retail development **The Umbrella Factory** in Williamsburg, Brooklyn, Commercial Observer learned.

The financing retires around $53.5 million in financing provided by **Madison Realty Capital** in the summer of 2017 to cover the $23 million purchase of the site at **722 Metropolitan Avenue** and to fund construction, city records show.

A **JLL Capital Markets** team made up of Managing Director **Christopher Peck**, Senior Director **Peter Rotchford**, associate **Kristen Knapp** and analyst **Rob Root** arranged the financing on behalf of the borrowing party.

"Williamsburg's condo market is one of the best performing and fastest growing in New York City, given its superior transportation accessibility and neighborhood amenities," Peck said in a statement. "Condominiums in the area continue to thrive, outperforming the overall Brooklyn market by a wide margin."

The property is located between Manhattan Avenue and Graham Avenue — just steps from the **Graham Avenue** L train station — in Williamsburg, and the site had once served as the home of an umbrella factory, starting in 1933, hence the origin of the project's name. At the time of SL Development's $23 million purchase of the site in May 2017, it was reported that the firm was planning to erect four stories on top of the existing three-story brick facility.

The seven-story, 65,288-square-foot development — which sources told CO will be completed in August 2020 — will sport 69 condominium units and just under 4,000 square feet of ground-level retail space.

The residences will have exposed pillars and beams of domestically sourced "heavy timber," and the elevator building will feature amenities such as basement storage, a bike room, a fitness center, a laundry room, a 17-car parking garage, a roof deck and terraces and balconies.

Officials at LibreMax Capital — founded after the crisis in 2010 by investor **Greg Lippmann**, who was famously portrayed by actor **Ryan Gosling** in the 2015 film "The Big Short" — could not be reached.—*M.B.*

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The Cuffs Come Off: The New Decade Brings an Uptick in Cov-Lite Loans

Those who lived through the global financial crisis and survived to tell the tale no doubt have bad memories of the term "cov-lite."

EXCLUSIVE

The widespread acceptance of covenant-lite (cov-lite) loans — borrower-friendly loans that were made with a lack of protective covenants for the benefit of the lender — was a trend that was firmly in play pre-crisis.

While we've come a long way since the Wild West days of 2006, more than a decade later cov-lite is one hard lesson from the crisis that's apparently being unlearned. Today's competitive lending environment, buoyed by the proliferation of debt funds post-crisis, has created a borrowers' market and the resurgence of cov-lite — and, some say, almost cov-free — loan structures.

One of the largest loans to hit the commercial mortgage-backed securities (CMBS) market last year was the $1.2 billion mortgage on Century Plaza Towers, a pair of office towers in L.A.'s Century City neighborhood. The non-recourse loan was structured without a bad-boy carve-out guarantor, thereby limiting loan liability to the borrower entity should a "bad act" occur, and waiving the accountability of the borrower entity's parent company, or "warm body" guarantor.

The debt on the property, which is owned by J.P. Morgan's Strategic Property Fund and a Hines joint-venture, was chopped up into several CMBS deals.

"The loan does not have a non-recourse carve-out guarantor for certain 'bad boy' acts, such as fraud, gross negligence, or violating the loan's [special-purpose entity] covenants," reads a Standard & Poor's report on one of the deals, which listed the risk factors behind the loan. The debt, originated by Deutsche Bank, Wells Fargo and Morgan Stanley, does not amortize over its 10-year term and also doesn't carry a separate environmental indemnitor, according to loan docs.

A Deutsche Bank spokesperson declined to comment on the structuring of the bad-boy carve-out, as did Hines and J.P. Morgan officials.

Deals like this — which include some of the industry's heaviest hitters — are illustrating exactly how far lenders are willing to stretch for certain sponsors and setting high expectations for other market participants.

"When we're bidding on deals today, we're being told that the market has agreed to light covenants and we have to respond to that in order to compete," said one balance sheet lender, who spoke with CO on the condition of anonymity, adding, "we absolutely have agreed to covenants that make us uncomfortable."

There's been an increase in the number of cov-lite loans as lenders scramble to compete.

PHOTO ILLUSTRATION COURTESY JEFFREY CUYUBAMBA

Let there be lite

The push for cov-lite structures in deals has strengthened over the past 18 months, sources said, with the market awash with capital and strong sponsors calling the shots.

"Four years ago, you saw very large sponsors with low-leverage requests starting to push back [against covenants] and getting some traction," said Seth Grossman, a senior managing director at Meridian Capital Group. "So, the request from borrowers has always been there but up until recently, most lenders didn't give much leniency. Today we see movement for the right sponsors and projects. It's not typical that a lender will give away everything, but reasonable requests for reasonable sponsors you'll see get done."

Conversely, you won't see much stretching on covenants for the weaker or lesser known sponsors unless they're working with lenders who charge hefty fees.

"If a traditional bank that offers a very low rate is not willing to move on covenants, sometimes the sponsorship can go through a different lender and pay a higher rate by several hundred basis points and, as a trade-off, they'll have several of those covenants lighten up," Grossman said.

Alternatively, a less experienced sponsor who is requesting cov-lite portions in its loan agreement may have to drop its leverage request from 55 to 50 percent in return for its cov-lite requests being accommodated, Grossman said, adding, "You weren't seeing that [bartering] five years ago."

The uptick in cov-lite structures has undoubtedly been driven by the cut-throat competition for deals, Grossman said. "They're still trying to be prudent, but in each category, lenders are having to figure out creative ways to win the business. And rather than cut up pricing or win deals on rate but make less money, they're keeping the rate where it is and trying to win on covenants because they still believe in the deal."

Indeed, winning deals is no walk in the park these days.

"It's extremely competitive," Danielle Duenas, a vice president at Mesa West, said of today's lending environment. "There's a lot of capital in the market; it's very liquid, and rate compression has been consistent. There are multiple lenders playing within the same space, with some bleeding into other lenders' spaces."

Josh Zegen, co-founder of Madison Realty Capital, concurred that competitive forces are

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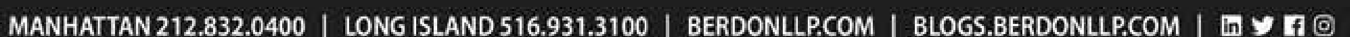

what's driving cov-lite structures.

"I don't think it's so light that it's aggressive," Zegen said, "but lightening up on guaranties and pari passu funding [which puts lenders on equal footing in making a claim on assets securing a loan] — that's where things are becoming a little more aggressive."

Knowing they're in the driver's seat, borrowers are routinely pushing back on covenants surrounding everything from minimum leasing guidelines to parameters around future funding to carve-outs around bad-boy guaranties.

"Outside of basic structure such as proceeds and pricing and in addition to collateral performance tests — LTV, DSCR, debt yield — we are seeing heavy negotiations [around] loan term, extensions, Libor floor, hurdles for future fundings, and cash management," Duenas said. "There are a multitude of levers involved in negotiating terms, so you see a lot of pushing and pulling; if you give up structure, you have to price that risk in. But there is a limit to the amount of risk each lender is willing to take on."

One lender CO spoke with gave the example of his shop waiving cash management for the first 18 to 24 months on a transitional loan, when it really should be in place from day one.

"Where we have concerns on these cov-lite deals is that you can be in a position on a value-add loan where you start to see cash flow erode and a business plan going sideways, but you just have to stand by and watch things get worse without any ability to start sweeping cash or call default," he said. "You can be in a very tough position where your borrower is seeing value erode and your hands are tied — you can't do anything about it."

Playing with the big boys

Several of those CO spoke with said that the behemoth borrowers are often able to command out-of-market terms today thanks to their name and reputation alone, with one lender adding that certain industry titans, "basically write the term sheets for you. They have out-of-market provisions that they've had in place for forever, like caps on their liability on some carve-outs in a bankruptcy scenario," he said. "Frankly, there are a few names we know and we like, but we essentially won't lend to them because they demand too challenging of a structure in our view."

But that doesn't stop other lenders from happily agreeing to next-to-no covenants when those big shops come calling.

"There are a few borrower names out there where the perception as an [equity] limited partner is 'if you invest with them, you don't get fired,' or as a lender, 'if you make a loan to them, you're not going to get fired,' " the anonymous lender continued. "They're doing large deals, and so [the overarching perception is] 'hey, good job, you made a big loan to a really high-quality sponsor.' "

But lenders should be wary of placing all their trust in a name, Duenas said.

"It may initially seem easier to justify a deal because [big sponsors] have deep pockets, but you ultimately have to look at your basis and ask, 'Are we comfortable with where this deal is going to go or could go in a downside scenario?' Because who knows, what if you do get the keys back, what if the operating partner in a joint venture isn't as strong and isn't able to execute?" Duenas said. "It's exciting to do a deal with big sponsors, but at the end of the day, it doesn't mean that you should agree to metrics that don't conform to your investment strategy and risk profile. We've all seen the tide turn."

As such, Mesa West is staying the course in terms of their lending parameters, she said.

"We aren't doing deals that are outside of our wheelhouse; we're still very disciplined," Duenas said. "A Mesa West deal is going to have a certain amount of structure in it, and if someone pushes outside of that structure then it's not our deal."

But while several lenders are passing up deals that don't necessarily conform to their strategies, others are happily diving in.

Speaking on a Commercial Observer panel last December, Troy Miller, head of Starwood Property Trust's West Region, noted that the push towards cov-lite structures comes down to the sheer number of players in the system.

"When everyone is gravitating around a similar spread or coupon level, guys are winning deals [by offering] cov-lite," he said.

As one of the biggest borrowers in the industry on the equity side of its business, Miller said Starwood's lending platform has an insider view into exactly what lenders are granting borrowers today: "I see what our guys can get on the buy side and it's crazy; almost no covenants," he said. "Of course, everyone knows what others are getting and we all push for that."

A risky business

So, which lenders are saying yes to the cov-lite deals that others are passing on?

"It's usually lenders I've never heard of before," Mark Fogel, president of ACRES Capital, said, speaking of the waiving of bad boy guaranties, specifically. "New lenders in the space with a lot of capital to put out who aren't too concerned with what happens two years down the road. The groups that are grasping for deals are the ones that will really bend on covenants."

There isn't one group out there who is considered the "Wild West" lender right now, "at least in our space," said a bridge lender who also spoke to CO on the condition of anonymity. "There are groups where you'll talk to anyone there and they'll say, 'We're maintaining structure, we're not agreeing to any cov-lite deals' … Yet … these deals are getting done."

The stretching on covenants is also trumping the relationship aspect of the lending business on occasion.

"We've lost or passed on deals with borrowers we've done a lot of business with because someone is coming in way more aggressive," Duenas said. "Even if we get last look on a deal, sometimes the terms are something we simply won't compete with, or cannot get comfortable with, and we confidently pass."

Bad boys, bad boys, whatcha gonna do?

Several sources said the biggest area of pressure on covenants and the most worrying trend is the number of lenders allowing the pushback against non-recourse bad-boy carve-out guaranties. The Century Plaza Tower deal is one example of this covenant being waived, but it's hardly the only one.

"Most loans originated today outside of the traditional banking arena are non-recourse," Jonathan Roth, a co-founder of 3650 REIT, said. "Non-recourse loans have a certain level of recourse for 'bad boy' acts, but what I'm starting to see most prevalently is the willingness of lenders to accept corporate entities rather than a 'warm body'. Where the behavior against which a lender seeks protection is 100 percent within the sponsor's control, the elimination of the warm body really makes me scratch my head."

Fogel concurred that bad-boy guaranties are what borrowers are really fighting back on — hard.

"Covenants are not really all that painful to deal with, but what can be very painful for a borrower is … bad-boy guaranties," Fogel said.

To the extent that a borrower does something wrong, his or her loan becomes full recourse. This includes things like misappropriation of funds, fraud and bringing in new partners without the lender's consent.

"All of those things can put a lender in a really bad spot — that's why we have covenants in there — not so much because you're going to recover money but because it gives you the leverage to control the transaction if things start going sideways," Fogel said.

"We've seen more loans being done at typical value-add advancement rates in that 65 percent loan-to-value context with borrower-only carve-outs," the bridge lender said. "It's not something that we've done but we've definitely seen some of our peers in the debt fund space do it and we've lost deals because we've walked away."

The anonymous bridge lender said that his peers who agree to these loans use justifications such as "they're never going to let this loan go bad. They're never going to file bankruptcy." (Sound familiar?)

That said, "Fannie Mae and Freddie Mac don't even require a warm body if you're below 65 percent leverage and some other lenders will waive that as well, although most lenders won't," Grossman said. "There's a lot more movement that sophisticated sponsors are getting in terms of the negotiation around carve-outs. No matter what, if you commit fraud or have willful misconduct of gross negligence you'll trigger a carve-out. But there's a lot of gray area in the

loan documents and a lot of borrowers are pushing it away and getting really skinnied down carve-outs."

Like the lender who spoke with CO, Grossman said he's also seeing carve-outs being capped at certain dollar amounts. So even though there's a warm body held accountable, the lender would be limited in the amount it can recoup.

Then, there's the chipping away of the guarantor's financial covenants.

"It's very standard for a value-add bridge loan to get a net-worth covenant of 100 percent of the loan amount and liquidity of 10 percent from our guarantors," the bridge lender continued. "That has progressively been chipped away at, particularly for larger loans, and there's an acceleration of it over the last 12 months."

R.I.P., structure?

Don't go out and buy a black suit just yet, though. A degradation in covenants doesn't necessarily signal a massive wave of upcoming defaults, losses or lawsuits.

"Top lenders are making movements for top sponsors," Grossman said. "Where you may see more issues are with the alternative lenders who are lending at higher leverage and higher rates and giving more away. But those lenders are lending at what is considered equity returns for debt and so they should be ready for there to be some issues. The expectation is not that all these loans are going to perform perfectly."

"For the most part, lenders continue to exercise discipline," Roth said. "Lenders are looking the other way, however, on things that historically we wouldn't necessarily want to look away from. But will this be the death knell or the reason to lead us into the next real estate recession? I don't think so."

Roth continued with another prediction: "I candidly believe that the next crisis could very well be born out of all the leverage that's currently embedded in the system, " he said. "Lenders that go out and leverage the ownership of their loans will be impacted most when some event occurs in the capital markets where the lenders to those lenders have to make margin calls or exercise some other remedy."

"I don't think lenders are making stupid loans right now relative to what they could be doing or relative to 2007, 2008," Grossman said by way of conclusion. "I think they're definitely giving away more than they want to give away, so it's a time to be cautionary, but it doesn't feel like the end.

"If you come back to me in six months and I say, 'We're getting bad-boy carve-outs removed for any deal under 70 percent' or [we're] waiving completion guarantees on construction loans — that would be a scary thing," Grossman continued. "To me, it feels more like nibbling around the edges to try to win transactions versus giving away the farm."—*C.C.*

2890 East Yosemite Avenue.

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Mosaic Funds $69M Construction Loan for California Student Housing

A large student-housing project in Merced, Calif., will go up with help from a $68.8 million construction loan from **Mosaic Real Estate Credit**, the lender announced last month.

The 885-bed private dormitory, which is being constructed by Michigan-based **Shamrock Acquisitions**, will go up near the campus of the **University of California, Merced**, which opened in 2005 and remains the U.C. system's newest university. Shamrock will use the proceeds to refinance outstanding development debt and to pay for construction and other site work, according to a Mosaic spokesman.

Merced Station, as the project is known, will rise at **2980 East Yosemite Avenue** in the San Joaquin Valley town in Central California about 75 miles east of San Jose. The building site is about equidistant between the U.C. Merced campus and downtown Merced, a city of about 80,000 that's also an important center for almond and dairy farming.

Scott Meredith of **George Smith Partners** arranged the mortgage loan on behalf of Shamrock.

The sprawling Merced Station will include 15 residential buildings on a 17-acre site that will also provide common spaces and some retail tenants. Students will live in a mix of two-, three- and four-bedroom units. And, as has become de rigueur for new-construction private student housing, the development will also feature its fair share of resort-like amenities, such as a swimming pool and a spa.

Along with **U.C. Davis** and **U.C. Riverside**, U.C. Merced is one of only a few of the nine other U.C.-system schools not located in one of California's densely populated coastal regions. Planning for the Merced campus began in 1985, and it has proved a popular draw for its primarily California-native student body, which has quadrupled to 8,500 students since 2005.

The university expects that figure to grow to 10,000 by the end of next year, and has planned a $1.3 billion campus expansion that will double the size of its facilities. Construction of Merced Station is set to be finished in time for the beginning of the 2021-2022 school year.

Drawn to the sector by growing student populations, developers have joined the race to build private dorms from coast to coast, but their efforts have not always landed on solid footing. Commercial mortgage-backed securities (CMBS) lending — which offers easily tracked data — tells the story well: More than 15 percent of the $1.53 billion in CMBS student-housing debt issued over the last 10 years is currently delinquent, a rate six times higher than for the overall CMBS market.

The tactic of wooing students with a slew of la-di-da amenities — which elsewhere include features such as tanning beds and video game rooms — has contributed to the sector's instability, according to **Manus Clancy**, an executive at **Trepp**.

"Somewhere along the line, the notion of the starving student disappeared," Clancy told Commercial Observer in September. "Now [developers are chasing] the student who wants the apartment that has everything. That doesn't seem quite as steady."

Representatives for Mosaic and Shamrock didn't respond to inquiries.—*M.G.*

The Takeaway

CMBS Delinquencies Flat as Calendar Turns to 2020

"The CMBS industry ended 2019 on a flat note, with the U.S. delinquency reading remaining unchanged month over month at a post-financial crisis low of 2.34% for December," wrote Catherine Liu, an analyst at Trepp. "This follows a five-month stretch of consecutive declines in the monthly rate in the latter half of the year. Overall, last month's tally is down 77 basis points from the same period a year ago and 50 basis points from six months ago. The largest percentage changes came from the industrial sector, with a 55 basis point reduction to 1.45%, and the retail category, which trended up six basis points to 4.4%. Office (-1.5%) and industrial (-0.9%) had the most significant year-over-year improvements, while lodging and multifamily were the only two sectors that logged an increase in the delinquency rate during this time period.

The single-borrower $135.7 million Starwood National Mall Portfolio (MSC 2015-XLF2), backed by three shopping centers in Texas, Michigan and Virginia spanning 3.1 million square feet, was the largest newly delinquent loan as it reached its two-year extended maturity date in November 2019. The latest special servicer comments indicate the loan is currently being approved for a 60-day forbearance period. It currently ranks as the largest CMBS loan that's delinquent.

For the year, roughly $8.5 billion in CMBS loans became newly delinquent over the course of 2019, with retail comprising $3.5 billion of this total (40.5%) and office accounting for $2.1 billion (24.4%). Lodging represented another $1.2 billion, or 13.7%."

Source: Trepp

Top 5 Newly Delinquent CMBS Loans - December 2019

Loan Name	Balance	Property Type	City, State	Delinquency Status	Deal Name
Starwood National Mall Portfolio	$135,722,451	Retail	Various	Non-Performing Beyond Maturity	MSC 2015-XLF2
Wellpoint Office Tower	$112,143,767	Office	Woodland Hills, Calif.	Non-Performing Beyond Maturity	GECMC 2007-C1
The Mall at Stonecrest	$90,287,336	Retail	Lithonia, Ga.	Non-Performing Beyond Maturity	BACM 2005-1
Greenbrier Mall	$64,501,076	Retail	Chesapeake, Va.	Non-Performing Beyond Maturity	LBUBS 2006-C6
Kyrene Village	$11,716,153	Retail	Chandler, Ariz.	30 Days	COMM 2015-DC1

Top 5 Delinquent CMBS Loans

Loan Name	Balance	Property Type	City, State	Delinquency Status	Deal Name
Starwood Mall Portfolio	$680,800,000	Retail	Various	Non-Performing Beyond Maturity	SRPT 2014-STAR
Westfield Centro Portfolio	$240,000,000	Retail	Various	REO	JPMCC 2006-LDP7
Fair Lakes Office Portfolio	$180,293,777	Office	Various	REO	CD 2006-CD3, GSMS 2006-GG8
Design Center of the Americas	$172,914,526	Retail	Dania Beach, Fla.	REO	GMACC 2006-C1, GECMC 2005-C4
Portals I	$155,000,000	Office	Washington, D.C.	REO	GCCFC 2006-GG7

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Q+A

Tommy Lee

Head of Capital Markets at Trammell Crow Company

Commercial Observer: You moved from the development side to the capital markets side of TCC in 2017. What was the impetus behind the move?

Tommy Lee: As an organization, we have roughly $14.5 billion worth of development going on right now in the country. We're a merchant developer, so the minute we're done with a deal and stabilize it, we sell it. We're constantly recycling each year, and this year alone we'll capitalize another $3 billion worth of deals. In terms of scale, we are developing, hands down, the most square footage in the country and across several product types. If you think about $14.5 billion worth of development, somewhere over 74 million square feet, and each of those deals being capitalized individually, we need somebody to be looking at a national picture of how we're doing that capitalization and who we're doing it with, and how we can do it better. So, it really came down to efficiency and effectiveness.

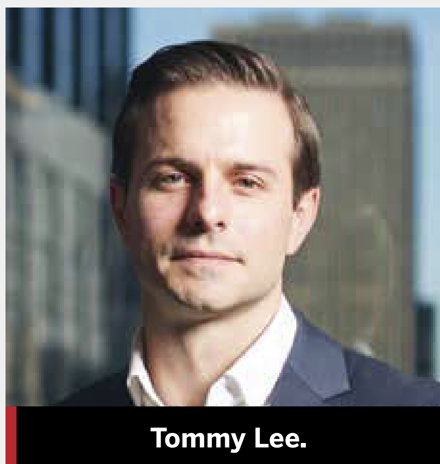
What's your take on the debt markets right now in terms of construction financing?

In terms of the debt market overall, it's reached one of the historic highs across multiple products. People raised a tremendous amount of money in the last couple of years and they need to put it out, so there's plenty of debt. In the world of development, it's very product-specific, and very location-specific. Everyone loves industrial — which is great for us because we have a lot of industrial product — and you're still seeing aggressive lending: 60 to 65 percent loan-to-cost (LTC), non-recourse and good rates anywhere from the low twos to the threes.

Shift over to multifamily, and I think lenders are being very specific about where there's softness, what type of product you're building. You can get non-recourse, but I think the LTC, compared to industrial, is a little bit lower. That said, pricing is still fair. So again, it's very focused on sponsorship and what you're building. With office, it's not easy to get a speculative office building financed right now via a senior bank without expecting some level of recourse, some level of pre-leasing and just a general lower LTC.

What's your capital stack approach?

My personal preference is the simpler the better. Debt can mean a lot of things. There's a wide spectrum of what debt is, and the constant majority of our debt is banks providing senior debt, and that's because it's nice to know that there's a single person on the other side of the table. When you start chopping up the capital stack, you start to get a lot of people focused on where their position is and their experience in those positions. That's a lot of calls to make in a challenging environment.



Tommy Lee.

COURTESY YVONNE ALBINOWSKI

Do you find yourself working with the same capital partners today?

In a perfect world, we'd only do repeat business. And the idea behind that is development changes on a geographic basis, but there are always time constraints that are involved. So, if we can focus on the real estate as opposed to the partnerships, that's better. I look at our partners in major buckets; one-off partners that we've done one deal with that we want to do more with; repeat partners that we do a lot of deals with, and the docs have minor modifications on each one; and then programmatic partners where you can take a document from one deal, cross out the project, and then apply the same terms to the next project. So, in terms of effectiveness and efficiency, I want everybody to be a programmatic partner because at the end of the day, we want to do as much repeat business as possible with trusted capital partners.

That helps with speed of execution, I'd imagine.

It makes a dramatic impact. And as much as it helps us on the front end, it also helps us on the back end. Especially being a merchant developer, where we're constantly having to replenish the pipeline. Inevitably you're going to run into a down cycle. And who do you want to be in business with in that down cycle as you have to figure things out? That's how we try to approach each and every capitalization.

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Members: Free
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RSVP to www.ymba.net

Please email Shane Sandridge at shane.sandridge@bofa.com with questions or concerns.

Our name change is complete; we are now Pacific Western Bank (previously, CapitalSource). We are the same team you've grown to trust, delivering bridge and construction loans with an integrated approach to help you achieve success.

Our national reach and local focus remain, and we continue to structure loans to meet your objective whether it is to lease up your project, complete a major renovation or build from the ground-up.

Rediscover us. We'll listen and be responsive, transparent and flexible.

Let's unlock your next opportunity together.

PACWEST.COM/CO19

Pacific Western Bank is an equal opportunity lender. This is not a commitment to lend.
All offers of credit are subject to credit approval.