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HEARTLAND REAL ESTATE BUSINESS®

The Midwest's Real Estate Source

COMMERCIAL LENDERS SHAKE OFF VOLATILITY

Despite economic jitters and political strife, mortgage bankers expect healthy deal volume in 2019 thanks to strong property fundamentals and an abundance of capital.

By Joe Gose

To say that 2019 is off to a rocky start would be an understatement. The S&P 500 Index opened the year down 17 percent from its high in September, and U.S. Treasury rates plunged to their lowest level in a year. Economists are forecasting a slowdown in the coming quarters, if not a full-blown recession, exacerbating uncertainty ignited by monetary policy, a possible trade war with China and the government shutdown.

To top it off, the reconstituted House of Representatives is promising to ratchet up the most divisive political climate in a generation by doubling down on investigations into the president.

see LENDERS page 24

In November, Maverick Commercial Mortgage arranged $17 million in regional bank construction financing for the development of Common Addams, a 223-bed co-living project in the Pilsen neighborhood on Chicago's West Side.

In Naperville, Illinois, Franklin Partners is redeveloping the former OfficeMax headquarters into multi-tenant space.

OFFICE OWNERS TAKE CLUES FROM HOSPITALITY, MULTIFAMILY

To attract tenants, landlords and developers are incorporating amenities that make employees feel at home.

By Kristin Hiller

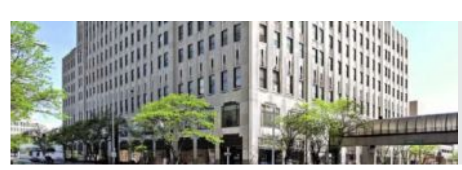
There's a melding of hospitality and multifamily taking place in today's office settings. Instead of just a security desk, the entrance to the building looks more reminiscent of a hotel lobby. Employees are working on laptops in the tenant lounge. The coffee shop turns into a bar at night.

"You're trying to always make yourself stand out because you've got one or two chances when somebody comes to your property to catch their eye," says Brian Tretinik, managing director with Chicago-based Bridge Investment Group, a privately held real estate investment management firm. "A lot is based on lounges and a community feel."

If a tenant's focus is on attracting and retaining employees, and employees want to feel at home, then the amenity model makes sense. Office owners are snatching up value-add properties, most notably in the suburbs, and implementing capital improvement plans.

For example, GlenStar Properties LLC recently completed a $30 million renovation of Schaumburg Corporate Center in Schaumburg, Illinois, and just launched a $28 million improvement plan for President's Plaza in Chicago's O'Hare submarket.

see OFFICE page 28



PUBLISHERS' NOTE

FUNDAMENTALS ARE IN CHECK FOR LENDERS

Jerry France
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Despite economic volatility, mortgage bankers expect a healthy deal volume for 2019. Strong property fundamentals and an abundance of capital are the reasons why. This month's lead story interviews several lenders and financial intermediaries across the nation for their take on what to expect in the year ahead.

Late in 2018, the Mortgage Bankers Association (MBA) projected that commercial and multifamily loan originations would reach $532 billion in 2018. We'll learn more from finance professionals at this month's MBA CREF/Multifamily Housing Convention & Expo in San Diego.

Sentiment for the multifamily sector remains strong among investors and brokers, but this month's second feature story takes a look at the office sector. The storyline revolves around owners who are renovating and redeveloping assets into amenity-rich environments. Think tenant lounges, rooftop decks and coffee shops. Sources agree that these types of projects pull inspiration from both multifamily and hospitality development.

This month's market highlights section (beginning on page 12) includes coverage of Chicago and Detroit. Areas such as Chicago's Fulton Market and Detroit's New Center are quickly growing among office tenants.

Specifically in Detroit, we're eager to watch the city's rise from the ashes. Projects such as the new Shinola Hotel, Hudson's tower and Ford Motor Co.'s transformation of Michigan Central Station are particularly of note.

In addition to several events on the West Coast, our InterFace Conference Group is busy preparing for the 11th annual **InterFace Student Housing** to be held April 8-10 in Austin, Texas. This is the student housing industry's most important event — more than 1,300 of the industry's top players are expected to attend and participate. Visit interfaceconferencegroup.com for all the details.

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$23,200,000 Office Los Angeles, CA	**$21,500,000** Multifamily Phoenix (MSA), AZ	**$21,200,000** Co-Living Portfolio San Francisco, CA	**$19,900,000** Retail Santa Ana, CA	**$19,700,000** Retail Jacksonville, FL
$18,000,000 Multifamily Chicago (MSA), IL	**$17,800,000** Multifamily Philadelphia, PA	**$16,400,000** Multifamily San Antonio, TX	**$15,000,000** Multifamily Las Vegas, NV	**$14,500,000** Multifamily Seattle, WA
$14,000,000 Industrial Halethorpe, MD	**$13,300,000** Industrial Portfolio Kansas City, MO	**$11,900,000** Office Fort Lauderdale, FL	**$11,800,000** Multifamily Austin, TX	**$11,700,000** Industrial Portfolio Charlotte, NC & Nashville, TN MSAs
$11,000,000 Office Charleston (MSA), SC	**$11,000,000** Mixed Use Miami, FL	**$11,000,000** Industrial Bordentown, NJ	**$10,500,000** Office Portfolio Dallas, TX	**$10,400,000** Office Atlanta, GA
$10,000,000 Office Newport Beach, CA	**$9,400,000** Self Storage Houston (MSA), TX	**$9,400,000** Multifamily Salt Lake City (MSA), UT	**$9,100,000** Creative Office Playa Vista, CA	**$8,900,000** Retail Detroit (MSA), MI
$8,400,000 Multifamily Brooklyn, NY	**$7,800,000** Office Chicago (Fulton Market), IL	**$7,500,000** Creative Office Portland, OR	**$7,300,000** Mixed Use San Diego, CA	**$7,300,000** Hotel Orlando, FL
$6,200,000 Multifamily Charlotte, NC	**$5,600,000** Office Richmond, VA	**$5,500,000** Note Financing Miami Beach, FL	**$5,300,000** Multifamily Louisville, KY	**$4,600,000** Retail Cincinnati (MSA), OH

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PROPERTY	CLASS	LOCATION (CITY, STATE)	SIZE	AMOUNT	LENDER	ARRANGED BY
Heartland Dental portfolio	Office	24 states	169 properties	$180.5 million	CMBS	CBRE | Capstone
The Draper at 5050 N. Broadway	Mixed-use	Chicago	400,000 square feet	$115 million	Urbanite Capital, Bank of the Ozarks	JLL Capital Markets
Avondale Properties, Alms Hill Apartments	Affordable housing	Cincinnati	409 units	$87 million	KeyBank Real Estate Capital	KeyBanc Capital Markets
46-property portfolio	Multifamily	Chicago	835 units	$37 million	CMBS	Meridian Capital Group
Sheffield Office Park	Office	Troy, Mich.	504,075 square feet	$28.5 million	CMBS	Bernard Financial Group
Valley Lo Tower II	Multifamily	Glenview, Ill.	112 units	$27.5 million	Allstate Investments	HFF
Technology Park Apartments	Affordable housing	Rochester, Minn.	164 units	$19.7 million	Freddie Mac	Merchants Capital

LENDLEASE, JOHN BUCK CO. TO DEVELOP 586-UNIT APARTMENT COMPLEX

CHICAGO — Lendlease and The John Buck Company are developing 845 West Madison, a 586-unit luxury apartment complex in Chicago's West Loop. The property will include two 17-story towers totaling approximately 720,000 square feet of residential space and 10,000 square feet of ground-floor retail space. Both towers will share a one-acre outdoor amenity deck, featuring green spaces, two pools and a lounge area with grills and fireplaces. Additional amenities will include a fitness center, yoga room, game room, resident lounge, coffee bar, demonstration kitchen, dog park, co-working space and parking garage. Danny Kaufman, Christopher Knight and Mary Dooley of HFF arranged $61.8 million in joint venture equity through Intercontinental Real Estate Corp. for the project.

CIM GROUP, GOLUB & CO. ACQUIRE 36-STORY OFFICE TOWER FOR $138 MILLION

CHICAGO — A joint venture between CIM Group and Golub & Co. has acquired 444 N. Michigan, a 36-story office tower along Chicago's Magnificent Mile. Germany-based GLL Real Estate Investors sold the asset for $138 million, according to *Crain's Chicago Business*. Built in 1976, the 517,000-square-foot building also includes ground-floor retail space. Technology, media, healthcare, law, real estate and professional services tenants occupy the office portion. CIM Group and Golub & Co. are in the midst of redeveloping the landmark Tribune Tower into luxury condos.

THOR EQUITIES SELLS RETAIL PROPERTY FOR $26 MILLION

CHICAGO — Thor Equities Group has sold its two-level retail property at 36 S. State St. in Chicago for $26 million. Jenel Management Corp. purchased the asset. Verizon, T-Mobile and Blick Art Materials fully occupy the 18,800-square-foot property. Thor Equities purchased the entire 19-story building for $10.3 million in 2004, before selling the upper floors to a developer for conversion to residential condominiums.

ESSEX BROKERS SALE OF APARTMENT BUILDING FOR $24.5 MILLION

CHICAGO — Essex Realty Group Inc. has brokered the sale of The Northland Apartments in Chicago's Old Town neighborhood for $24.5 million. The luxury apartment building, located at located at 1550 N. Wieland St., comprises 60 units and one restaurant, Two Lights Seafood & Oyster. Amenities include a dog run and rooftop deck with skyline views. Jim Darrow and Jordan Gottlieb of Essex represented the seller, local developer JAB Real Estate. Kate Verde of Essex represented the out-of-state buyer who was entering a reverse 1031 tax-deferred exchange.

AVISON YOUNG BROKERS SALE OF 123,944 SF OFFICE BUILDING

ARLINGTON HEIGHTS, ILL. — Avison Young has brokered the sale of a 123,944-square-foot office building in Arlington Heights for an undisclosed price. Northwest Community Healthcare (NCH) purchased the building, which is located at 3040 Salt Creek Lane. The company will relocate its non-clinical business operations and support services staff from a neighboring 50,000-square-foot property to fully occupy the new building. Mark Johnson of Avison Young represented NCH in the sale. The seller was not disclosed.

FARIS LEE INVESTMENTS BROKERS $16.7 MILLION SALE OF SHOPPING CENTER

SAINT CHARLES, ILL. — Faris Lee Investments has brokered the sale of Main Street Commons in suburban Chicago for $16.7 million. The 171,564-square-foot shopping center is situated on 20 acres. At the time of the sale, the property was 85 percent leased to tenants such as Ross Dress for Less, TJ Maxx, Five Below, Ulta and Cost Plus. Rick Chichester, Donald MacLellan and Shaun Riley of Faris Lee represented the seller, Sabal Financial Group LP. The buyer was not disclosed.

HIGH STREET REALTY, ANGELO GORDON PURCHASE 713,555 SF INDUSTRIAL PORTFOLIO

CHICAGO — A joint venture between High Street Realty Co. and Angelo Gordon has purchased a four-property, 713,555-square-foot industrial portfolio in metro Chicago for an undisclosed price. The multi-tenant properties are located in Bensenville, Franklin Park, Alsip and Bedford Park. Robin Stolberg, Kurt Sarbaugh and Sam Berry of HFF represented the seller, Hackman Capital Partners.

ALTUS PROPERTIES ACQUIRES 277,044 SF OFFICE BUILDING IN BLOOMINGTON

BLOOMINGTON, MINN. — Altus Properties has acquired the Minnesota Center office building in Bloomington for an undisclosed price. The property is 97 percent occupied. Amenities include an on-site deli and conference center along with newly renovated lobbies and common areas. Ryan Watts, Judd Welliver, Sonja Dusil and Tom Holtz of CBRE represented the seller, Minnesota Center JV LLC.

OPUS BEGINS CONSTRUCTION ON 204,000 SF INDUSTRIAL BUILDING IN MAPLE GROVE

MAPLE GROVE, MINN. — The Opus Group has broken ground on a 204,000-square-foot industrial building in Maple Grove. The project, known as Arbor Lakes Corporate Center, is a collaboration between Opus and Inland Development Partners. The 13-acre site will first undergo environmental remediation to fully remove existing landfill and environmental pollutants from the former disposal and waste transfer site. The building will feature a clear height of 28 feet, 32 docks and two drive-in doors. Construction is slated for completion in late 2019. Chris Hickok and Dan Larew of JLL will market the property for lease.

MONARCH INVESTMENT ACQUIRES 413-UNIT APARTMENT PROPERTY

ROCHESTER, MINN. — Monarch Investment & Management LLC has acquired The Gates of Rochester, a 413-unit apartment property in Rochester. The purchase price was not disclosed. Built in 1973 and situated on 22 acres, the property features 42 buildings. Keith Collins, Abe Appert, Ted Abramson and Ike Hoffman of CBRE represented the seller, Rochester Village Investors LLC.

ACCESSO ACQUIRES PAIR OF OFFICE TOWERS FOR $115.5 MILLION

ST. LOUIS PARK, MINN. — Accesso Partners LLC has acquired The Towers at West End, a pair of Class A office towers in St. Louis Park, for $115.5 million. The nine-story towers span 497,234 square feet and are located just west of Minneapolis. The largest tenants include MoneyGram Payment System, Concur Technologies and Magenic Technologies. Current occupancy is 84 percent. Amenities include a fitness room, yoga studio, conference center, tenant lounge and café. Accesso plans to make some additional upgrades and improvements to the common areas, according to Brian Rosen, chief investment officer. Ryan Watts of CBRE brokered the sale on behalf of the seller, a fund managed by DRA Advisors LLC. Susan Hill of HFF arranged acquisition financing. Samantha Shimak of Accesso will serve as property manager, while Jon Dahl of JLL will provide leasing services.

FOUNDERS 3 BROKERS SALE OF 162,230 SF INDUSTRIAL BUILDING IN GERMANTOWN

GERMANTOWN, WIS. — Founders 3 Real Estate Services Inc. has brokered the sale of a 162,230-square-foot industrial building in Germantown for an undisclosed price. The building, located within Willow Creek Business Park, serves as the headquarters for DiscountRamps.com with 18,610 square feet designated as office space. The seller, Weas Development, completed construction of the building in September. Andy Hess and Bob Flood of Founders 3 brokered the transaction on behalf of the seller. An affiliate of STAG Industrial Inc. purchased the building.

GORJIAN ACQUISITIONS PURCHASES TWO RETAIL PROPERTIES IN MILWAUKEE

MILWAUKEE — Gorjian Acquisitions has purchased two retail properties in Milwaukee for an undisclosed price. A private seller sold both properties as a portfolio. Bradley Square, located on North 76th Street, spans 19,545 square feet. The building is 86 percent occupied by tenants that include a State Farm insurance office, podiatry office, mortgage office and a senior day care. The other property, Teutonia Square, is fully occupied and spans 8,303 square feet.

BERKADIA ARRANGES $22.7 MILLION SALE OF APARTMENT COMMUNITY

MILWAUKEE — Berkadia has arranged the sale of Avenir Apartments on Jefferson in Milwaukee for $22.7 million. The 104-unit apartment community includes 7,045 square feet of retail space. Located at 1437 N. Jefferson St., the property features studio, one- and two-bedroom floor plans. Ralph DePasquale, Alex Blagojevich and Parker Stewart of Berkadia represented the seller, an entity managed by Wangard Partners. Weidner Apartment Homes purchased the asset.

FLAHERTY & COLLINS SELECTED AS DEVELOPER FOR $170 MILLION TOWN CENTER PROJECT

WARREN, MICH. — Flaherty & Collins Properties has been selected by the city of Warren to serve as the master developer for Warren Town Center, a $170 million project. The proposed mixed-use development will include 500 market-rate apartment units, more than 20,000 square feet of retail and dining space, a boutique hotel and a 30,000-square-foot grocery store. The project will be a public-private partnership including the city of Warren, Flaherty & Collins and General Motors. Acquest Realty Advisors will serve as the hotel development partner. The goal of the project is to create a town center that offers a high-end housing option that currently is not available in Warren, according to Brian Prince, vice president of development for Flaherty & Collins. The site formerly housed city hall and is located across the street from General Motors' Global Tech Center, which is home to 25,000 employees. Flaherty & Collins expects to break ground on the project before the end of the year.

COOPER GROUP BROKERS $14.7 MILLION SALE OF SHOPPING CENTER

CHESTERFIELD, MICH. — The Cooper Commercial Investment Group has brokered the $14.7 million sale of Chesterfield Village, a 155,958-square-foot shopping center in Chesterfield, about 35 miles north of Detroit. Notable tenants include Applebee's, Panera Bread, Buffalo Wild Wings, Harbor Freight Tools, Famous Footwear, Dunham's, Sally Beauty Supply, Staples and Anytime Fitness. Dan Cooper of Cooper Group represented the seller, a private investment group. The buyer was not disclosed. The sales price represents a cap rate of 8.77 percent.

BEDROCK, SHINOLA OPEN WORLD'S FIRST SHINOLA HOTEL IN DETROIT

DETROIT — Bedrock and Shinola have opened the world's first Shinola Hotel in Detroit. The hotel, operated by Mac&Lo, features food and beverage offerings from NoHo Hospitality and design from Gachot Studios and Kraemer Design Group. The 129-room property is situated on the site of two restored buildings, the T.B. Rayl & Co. department store and a former Singer sewing machine store, as well as three new buildings. On-site retail tenants include Madewell, Le Labo, Drought and Good Neighbor. Shinola Hotel is a partnership between Detroit-based watch and leather goods manufacturer Shinola and Bedrock, the real estate arm of billionaire businessman Dan Gilbert.

MONEY360 PROVIDES $17 MILLION REFINANCING FOR OFFICE PROPERTY

DETROIT — Money360 has provided a $17 million bridge loan for the refinancing of 1200 Sixth St. in Detroit's Corktown neighborhood. The two-tower office property spans 600,000 square feet. The South Tower was constructed in 1966, while the North Tower was built in 1971. The nonrecourse loan features a two-year term. The borrower was 1200 Sixth Street LLC.

SUNTRUST ORIGINATES $16.3 MILLION LOAN FOR MULTIFAMILY PROPERTY

WARREN, MICH. — SunTrust Banks Inc. has originated a $16.3 million bridge loan for the acquisition of Hoover Square in Warren, a suburb of Detroit. The 342-unit multifamily property was built in 1965. The asset is 90 percent occupied. Evan Hom of SunTrust originated the two-year, floating-rate loan on behalf of the Michigan-based borrower.

KEYBANK PROVIDES $15.7 MILLION REFINANCING FOR MULTIFAMILY PROPERTY

ANN ARBOR, MICH. — KeyBank Real Estate Capital has provided a $15.7 million Fannie Mae loan for the refinancing of Manchester Flats Apartment Homes in Ann Arbor. The 173-unit multifamily property is comprised of nine buildings. The property was built in 1957 and renovated in 2013. Todd Linehan of KeyBank arranged the fixed-rate loan.

NGZ BROKERS SALE OF FORMER SILPADA HEADQUARTERS IN LENEXA

LENEXA, KAN. — Newmark Grubb Zimmer (NGZ) has brokered the sale of the former Silpada Jewelry headquarters building in Lenexa for an undisclosed price. The Class A facility includes 150,000 square feet of office space and 65,000 square feet of industrial warehouse space. Scott Bluhm, David Zimmer, Tracey Mann and Nick Pickard of NGZ marketed the property on behalf of Silpada, which ceased operations in 2016. Heart to Heart International purchased the building.

HANLEY INVESTMENT GROUP BROKERS $8.2 MILLION SALE OF RETAIL PROPERTY

KIRKWOOD, MO. — Hanley Investment Group Real Estate Advisors has brokered the sale of Kirkwood Square near St. Louis for $8.2 million. Built in 2017, the 15,944-square-foot retail center is situated on 1.3 acres on Manchester Road in Kirkwood. Mercyhealth Family Medicine, Mercy-GoHealth Urgent Care, AT&T, Treats Unleashed and Sport Clips fully occupy the property. Jeff Lefko and Bill Asher of Hanley, along with Kevin Shapiro of L3 Corp., represented the seller, Kirkwood Square LLC. Steve Maynard of Maynard Group represented the buyer, a Los Angeles-based private investor.

TREMONT MORTGAGE TRUST PROVIDES $29.5 MILLION ACQUISITION LOAN FOR OFFICE PORTFOLIO

ST. LOUIS — Tremont Mortgage Trust has provided a $29.5 million bridge loan for the acquisition of a three-building office portfolio in St. Louis. The portfolio includes West Park I, West Park II and Pine View Point. The buildings span a total of 299,000 square feet. The three-year, floating-rate loan includes a future funding allowance of $3.1 million for property improvements and leasing capital. The loan-to-value ratio is 71 percent. The borrower was not disclosed.

KEYSTONE CONSTRUCTION COMPLETES RENOVATION OF UNIGROUP HEADQUARTERS

FENTON, MO. — Keystone Construction has completed the renovation of UniGroup's headquarters in Fenton. UniGroup, the parent company of multiple transportation-related companies, is offering excess office space for lease. The campus totals approximately 450,000 square feet and is situated near the interchange of I-270 and I-44. The multi-million dollar renovation included upgrades to the HVAC system, roof, façade, windows, workout facility and cafeteria. Keystone Construction served as contractor and ACI Boland was the architect. NAI DESCO has been hired to market the 50,000-square-foot vacant space at One Premier Drive.

WORLD WIDE TECHNOLOGY PURCHASES 207,503 SF INDUSTRIAL BUILDING

MARYLAND HEIGHTS, MO. — World Wide Technology Inc. has purchased a 207,503-square-foot industrial building in Maryland Heights for an undisclosed price. The global IT services company has occupied space within the multi-tenant building since 2011. The building, located at 687 Fee Fee Road, is adjacent to the company's suburban St. Louis campus and less than one mile from its newly built headquarters. The building's other tenant, Cowley Distributing Inc., is a book and magazine distributor that occupies 50,295 square feet for its warehousing needs. Erik Foster, Mike Wilson, Tim Convy and Steve Stradal of Avison Young represented the seller, Fee Fee Investments.

TWO TENANTS SIGN LEASES AT FENTON LOGISTICS PARK

FENTON, MO. — Two new tenants have signed industrial leases totaling just under 100,000 square feet at Fenton Logistics Park in Missouri. Skin Specialty Solutions Inc. has leased the remaining 48,080 square feet in Fenton Logistics Park I. The first speculative building within the park totals 159,950 square feet. The online skincare company expects to move into its space in February and create 100 new jobs. Nexius Solutions Inc. has leased 51,772 square feet within Fenton Logistics Park III. The 169,543-square-foot building is now 77 percent leased. The technology company plans to occupy the space in February and create 50 new jobs. Jon Hinds and Katie Haywood of CBRE represented the landlord, US Capital Development, in both lease transactions. Hal Ball of Hiliker Corp. represented Skin Specialty Solutions, while Jeff Hawley and Brandon Duncan of Block Hawley represented Nexius Solutions. Fenton Logistics Park is a $250 million redevelopment of the former Chrysler plant in Fenton, Mo.

ACH BUYS 77,871 SF SHOPPING CENTER

MUNCIE, IND. — Albanese Cormier Holdings (ACH) has purchased Muncie Marketplace for an undisclosed price. Built in 2014, the 77,871-square-foot shopping center is located at 600 E. McGalliard Road in Muncie. Dick's Sporting Goods, Michaels, Five Below, McAlister's Deli, Men's Wearhouse, Kay Jewelers and GameStop fully occupy the property. Amy Sands and Clinton Mitchell of HFF represented the undisclosed seller.

JVM COMPLETES RENOVATIONS AT APARTMENT COMMUNITY IN INDIANAPOLIS

INDIANAPOLIS — JVM Realty Corp. (JVM) has completed the renovation of the common areas at Circa Apartments, a 265-unit luxury apartment community that it owns in downtown Indianapolis. The new features at Circa include an expanded pet park, a new pet washing station, automated package room, upgraded fitness center and co-working lounge. The renovation also included a redesigned clubhouse and new furniture for the pool and resident lounge. Holt Construction was the contractor for the project and Laura Braucher of Studio 5 Interiors Inc. was the designer.

CUSHMAN & WAKEFIELD ARRANGES SALE OF 151-UNIT APARTMENT PROPERTY

INDIANAPOLIS — Cushman & Wakefield has arranged the sale of The Coil Apartments in Indianapolis for an undisclosed price. The 151-unit apartment property, located at 6349 N. College Ave., includes a 33,500-square-foot retail space occupied by Fresh Thyme Farmers Market. Todd Stofflet, Jason Stevens and Susan Tjarksen of Cushman & Wakefield represented the sellers, Sheehan Cos. and Browning Investments. RDG Funds purchased the asset.

EIDI PROPERTIES ACQUIRES TWO SHOPPING CENTERS

ROSSFORD, OHIO — Eidi Properties has acquired Crossroads Centre and Rossford Pointe near Toledo for an undisclosed price. RPT Realty, a publicly traded real estate investment trust, was the seller, according to *The Blade*, Toledo's daily newspaper. Crossroads Centre is a 470,225-square-foot power center anchored by Target and Home Depot. Rossford Pointe spans 47,477 square feet. The properties reside on 62 acres and are located adjacent to the site of a future Amazon fulfillment center.

PGIM REAL ESTATE FINANCE OPENS CLEVELAND OFFICE

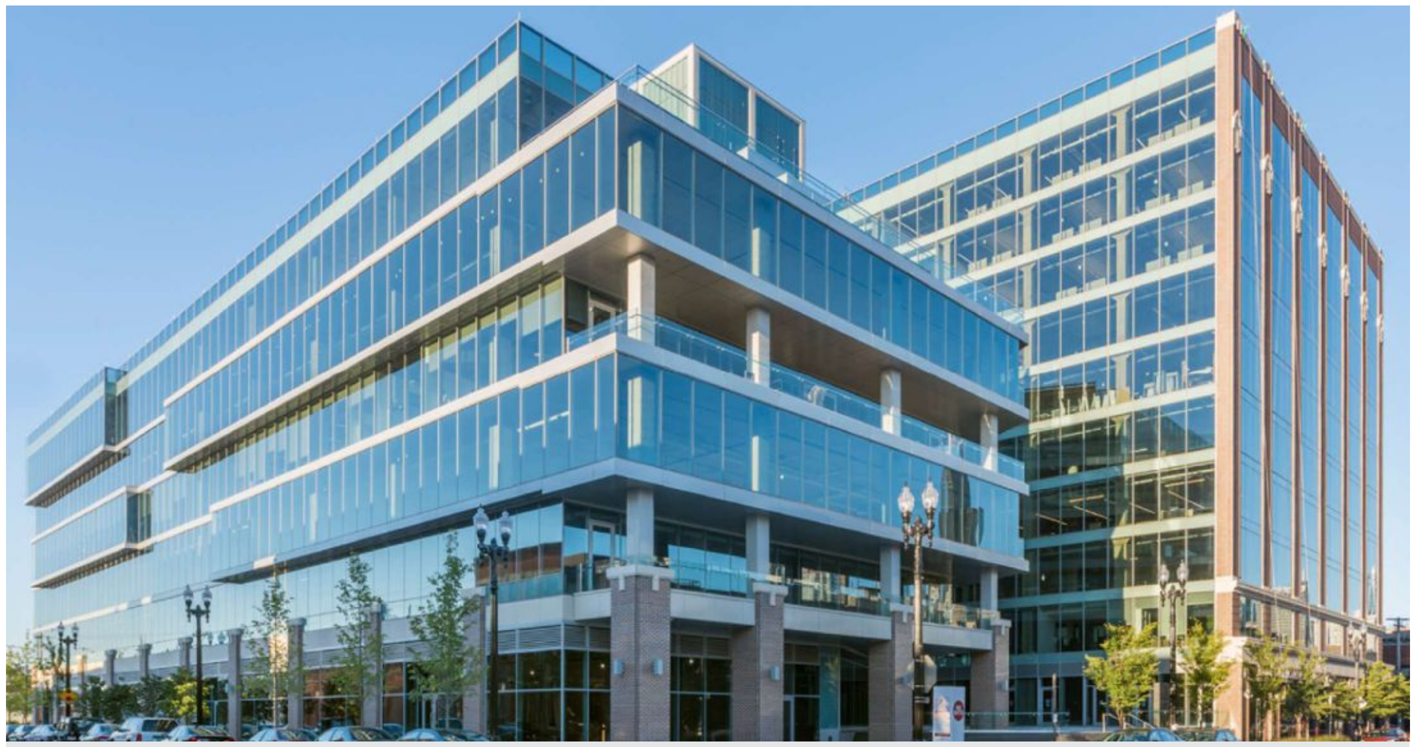
CLEVELAND — PGIM Real Estate Finance has opened a new Cleveland office and hired an originations team led by Bruce Gerhart and David Strachan. PGIM Real Estate Finance is the commercial mortgage finance business of PGIM, the $1 trillion global investment management business of Prudential Financial Inc. (NYSE: PRU). The new team will be responsible for sourcing and originating loans for affordable housing, Federal Housing Administration (FHA) multifamily, healthcare and seniors housing with a focus on Ohio, Michigan and the Midwest region. The team will report to Hal Collett, head of FHA and affordable lending for PGIM Real Estate Finance. Gerhart, Strachan and their production team of Thomas Bruce and Troy Buckley formerly worked together at Love Funding Corp.

CONSTRUCTION UNDERWAY FOR EASTON TOWN CENTER'S $500 MILLION EXPANSION

COLUMBUS, OHIO — Easton Town Center is undergoing a significant expansion that will feature local and national retailers, breweries, restaurants, entertainment venues, hotels and public event space. The expansion will exceed $500 million of development over the next four years. The Georgetown Company is co-developing the project alongside Steiner + Associates and L Brands. Construction is already underway on infrastructure, parking, Merchants Row, The Yard and Urban Hearth. A Restoration Hardware gallery will anchor the expansion and is expected to open this year.

CHICAGO OFFICE: FULTON MARKET ISN'T IN THE WEST LOOP

David Burden
Principal,
Colliers International



Google opened its regional headquarters at 1000 W. Fulton St. in late 2015, boosting development in Fulton Market.

Long before the emergence of Fulton Market, local real estate professionals referred to the West Loop as the office submarket between Wells Street and immediately west of the Chicago River. But today some also refer to the Fulton Market area, an area one mile west and across a natural boundary of the Kennedy Expressway, as the West Loop. So which is it?

The West Loop is the leading — and by far the largest — office submarket in Chicago with over 50 million square feet of office space inventory. Its proximity to public transportation and wide setbacks along Wacker Drive and the Chicago River offer better view corridors and more access to natural light — key competitive advantages in an area that permits more buildable density than the periphery of the central business district (CBD).

On the other hand, Fulton Market has its own distinct "edgy" identity that some area office tenants consider the antithesis of the Loop (recall that the original reference to the Loop meant the area surrounded by the Elevated CTA tracks, the "El," that loops around the CBD).

The West Loop proper has witnessed significant change in the last 10 to 15 years. The surface parking lots along Wacker Drive have largely disappeared, making way for a plethora of new office towers while several "micromarkets" have emerged within the submarket.

Examples include the Wacker Drive Corridor, which has overtaken LaSalle Street as the city's premier financial and professional services address, and the Riverside Plaza micromarket, which continues to expand with new skyscraper construction to the north (by the river's bend) and south (by Congress with the redevelopment of the Old Post Office).

In the beginning

Almost 20 years ago, when trendy, pioneering restaurateurs needed a point of reference to attract customers from the nearby Loop proper, many referred to the Randolph and Halsted area as the "Far West Loop." Shortly after, restaurants like Vivo and Marche in the Far West Loop opened, and residential developments like 1000 W. Washington that attracted young, urban professionals seeking lofts close enough to walk to the Loop began to pop up. Fulton Market was born.

But it wasn't until Google opened its regional headquarters at 1000 W. Fulton St. in late 2015, giving a boost to surrounding retail, residential and even hotels in the area, that the new office market officially became Fulton Market.

Today, Fulton Market's limited supply of office space is in great demand, and its rental rates show it. Net office rents of new construction in Fulton Market are on par with new construction on the Wacker Drive Corridor or the Riverside micromarkets, and in some cases are 25 to 50 percent higher than net rents of second-generation space in the West Loop proper. Often, high-tech companies that are less price-sensitive to rents are the ones driving demand. They want to ensure employees are in a cool area, one that will maintain corporate culture and attract talent.

What's driving design

For now, Fulton Market remains a boutique market, especially when you consider that Willis Tower has more office square footage than all of the office inventory in Fulton Market today. But while Fulton Market prefers to maintain its boutique image, it has a growing inventory that will double from its current 3 million square feet in the next few years.

It's important to note that the fight for talent is what's driving design for new skyscrapers or redevelopment of second-generation space. West Loop landlords are in an amenities race in order to maintain a competitive edge. No matter which submarket you prefer, all corporate tenants benefit.

Fulton Market and the West Loop are two distinctly different areas. Purists cringe when they're lumped together in a common reference. Fulton Market strives to be what the Wacker Drive Corridor is not, a hipster area with chic restaurants, trendy coffee shops, stylish retail boutiques and companies whose employees despise wearing suits and ties.

Fulton Market is to Chicago what SoHo is to New York, or SOMA to San Francisco, an area that wants to maintain its edge. It is on the edge of the West Loop, but it is not the West Loop.

CHICAGO INDUSTRIAL PREDICTIONS: ABSORPTION MAY SLOW IN SECOND HALF OF 2019

Geoffrey Kasselman
SIOR, LEED AP
Executive Managing Director,
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As we begin 2019, there are several opposing market forces at work that are sure to influence each of us, and our respective firms and clients. These market dynamics will ultimately dictate who has a great year and why — or why not.

This year, it seems the signals are more mixed than in the past several years, so making predictions about the local industrial real estate market is somewhat daunting. Nonetheless, here is what to look for in 2019.

A tale of two halves

Listen carefully: skip vacations, stay in town, hunker down and make as many deals as you can in 2019. Based on current supply and demand dynamics with several significant users already in play (build-to-suits, new leases, renewals, etc.), plus a recent wave of speculative deliveries, look for the first and second quarters to be fairly robust in terms of gross absorption. This should extend the growing record of 35 straight quarters of positive net absorption, dating back to the second quarter of 2009, with at least two to three more such quarters.

But, like in sports, what happens in the first half can be overshadowed by a shift in momentum or other significant change in the second half, the net sum of which remains to be seen for 2019. In the third and fourth quarters, expect to see a confluence of adverse real estate factors, economic issues and geo-political domestic and global concerns make real headway in slowing the local industrial market.

Several large newly vacated spaces will occur, and a spate of new speculative buildings will deliver in the third and fourth quarters. This will occur just as consumer confidence erodes, corporate profits stumble (thanks to tariffs, interest rate uncertainty, upward pressure on wages and materials, and so on), and domestic politics kicks into high gear (investigations and the 2020 presidential election, etc.). Meanwhile, trade challenges with China are likely to reduce net exports and gross domestic product, and in late March, Brexit becomes official and is poised to have global ramifications before the end of the year.

What do users do? Hit the snooze button, taking a wait-and-see approach while slowing the demand side of the equation. Consequently, the fourth quarter of 2019 may be the first quarter of negative net absorption in over 10 years, ending the record run at 38 quarters.

Continued activity

Watch for continued top-shelf activity across the board for industrial portfolio transactions in 2019, especially in the first half of the year. With fresh allocations, few asset class alternatives that will outperform industrial, an influx of foreign capital in pursuit of better yields than where the capital originated, and keen awareness of where we are in the cycle especially amongst the 'use it or lose it' custodians, local capital markets activity could initially be on a record pace.

However, as the year goes on, the cyclical "flight to quality" will be noticeable, and such activity will likely be reduced for reasons already stated. It won't be a record year for local industrial capital markets, but it may come close.

Growing labor shortages

Often overlooked by many real estate stakeholders, labor is an essential element of most occupiers' operations. The Chicago metro statistical area unemployment rate is hovering at or near an all-time low of 3.6 percent. The ramifications for real estate are huge, with significant to severe shortages in several classifications such as truck drivers, construction, manufacturing, delivery, entry-level/unskilled and temp labor. Job training takes time and money, or alternatively, employers can elect to pay more. However, both approaches are inflationary.

In certain submarkets, such as the I-55 and I-80 corridors, a glut of large-inventory buildings requires hefty, creditworthy users to sign long-term, multi-million dollar leases. But these types of users know a labor 'desert' when they see one, and they all do their homework to a credible extent. Therefore, labor shortages will certainly be in the headlines in 2019.

E-commerce, last mile

Grouped together as they directly overlap, e-commerce and last-mile logistics will continue to evolve in 2019 and be a primary driver of market activity during the year. While the promise of last-mile nirvana has been somewhat evasive to date, there should be another incremental step forward in 2019 as deals near the central business district take shape despite the elevated price points.

Likewise, as online shopping proliferates, and sellers improve at same-day or next-day delivery, corresponding real estate activity is sure to pave this path. Watch for creative repositioning and adaptive reuse of large-block city retail, and for third-party logistics and return logistics companies to be in the news throughout the year.

Other trends to watch

1) As capital, labor and construction costs rise, overall project costs rise. Project lag times suggest that developers will continue to have some notable successes in 2019, but for those being teed up today, they will need tax increment financing or other offsets, or they may not pencil.

2) Opportunity Zones will grab their share of headlines in 2019, as sheltering investment gains have always been a harbinger of market activity.

3) 'PropTech' (property technology) will drive enhanced efficiencies, more effective marketing and relatively faster transactions, with better overall transparency.

4) There will be heightened mergers and acquisitions (M&A) activity in 2019 impacting local firms, as shrewd operators position for scaled growth, recession proofing and overall return on investment for their investors or shareholders.

5) All of us will be using artificial intelligence (AI) applications in our respective businesses to some extent before the end of the year.

Yes, there are 'X' factors to be reckoned with. Change is the only certainty, like it or not. Here's to embracing 2019 with a zest unknown to mankind (thank you Jim Harbaugh). May it be another great year for everyone!

UPCOMING MARKET HIGHLIGHTS:

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APRIL
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MULTIFAMILY DEMAND KEEPS UP WITH NEW CONSTRUCTION IN DETROIT

Christopher Futo
First Vice President Investments, Marcus & Millichap

Gordon Navarre
First Vice President Investments, Marcus & Millichap

Last year, Marcus & Millichap brokered the sale of Jeffersonian Houze, a 30-story apartment tower by the Detroit River.

Vacancy in the Detroit metro area remains at the lowest level in five years, even though additional apartments are being added to inventory. Demand for apartments is coming from job opportunities that are luring new residents to the region. During the past 12 months, Detroit employers added nearly 13,800 workers to payrolls. Although this is down from 24,900 one year earlier, the unemployment rate hovering in the low-4 percent range makes it more difficult for organizations to find qualified workers, contributing to the slower gains.

Growth in connected car technology, creating higher-paying jobs, is especially attracting companies to the metro area. Escalating household incomes have contributed to the formation of more than 12,500 households since September of last year, generating an additional need for housing. Meanwhile, the median price of a home jumped 3.5 percent year over year in the third quarter of 2018. Higher prices, coupled with rising interest rates, make it less affordable for some residents to purchase a home, keeping apartment demand heightened and rents advancing.

New construction

Roughly 740 apartment units were delivered year over year in September, down from one year earlier when the metro area received 1,900 new units. Construction is expected to pick up in the quarters ahead, as builders have another 3,500 units underway with completions scheduled into 2020. Approximately 1,200 of these units are in the Downtown/Midtown/Rivertown section of Detroit.

New apartments are being well received. In buildings completed since 2010, vacancy dropped 110 basis points year over year to 1.8 percent in the third quarter of 2018, the tightest rate among vintages.

While ground-up construction of new apartments is underway in the suburbs and District Detroit near downtown, the conversion of older buildings into apartments continues. One of the latest plans for redevelopment is the Albert Kahn Building on Second Avenue in Detroit. The project will bring 211 rental units and roughly 70,000 square feet of commercial space to the city.

Assessing the vital signs

Metrowide, the vacancy rate remained unchanged from one year ago at 3.1 percent in September. The rate hovered below 4 percent in all but three Detroit submarkets. Dearborn/Dearborn Heights was the only submarket in the metro area with vacancy above 5 percent, having declined 10 basis points since this time last year to 7.4 percent.

Throughout the metro area, the tight supply of available apartments is pushing rents higher. Following a 3.9 percent surge last year, the average effective rent climbed 3.1 percent in the past 12-month period to $965 per month in the third quarter of 2018. By class, the largest increase was in Class B units. Here, rent jumped 4.8 percent to $937 per month on average, building on a 3.2 percent climb one year earlier. Class A rents top $1,300 per month.

Year over year in September, transaction velocity declined 28 percent due in part to fewer marketed assets and Class C buildings comprising over 65 percent of the trades. Competition for limited listings drove the average price up 5 percent to $65,600 per unit in September, while cap rates compressed 40 basis points into the low-7 percent span.

Looking forward, higher cap rates than many other metro areas of similar size will continue to draw investors to Detroit, including some institutional buyers searching for large, new or recently refurbished assets.

Ann Arbor and Midtown Detroit remain the prime targets of many buyers. During the past four quarters, apartments here traded at an average of $197,000 and $67,000 per unit, respectively. Investors seeking lower price points may find opportunities moving farther outward into Genesee or Livingston counties.

FOR DETROIT'S OFFICE MARKET, MOTOWN IS GROWTH TOWN

Shelia Fogarty
Senior Vice President,
Farbman Group

Lesley Gutman
Senior Vice President,
Farbman Group

Jeanne Gross
Vice President,
Farbman Group

With 2018 in the rearview mirror, it's clear that the Detroit commercial office space market looks dramatically different today than it did just a few years ago. By far the biggest story is the continuing (and perhaps even accelerating) level of leasing activity across the metro area.

In the context of Detroit's ongoing civic renaissance and sustained level of economic growth both regionally and nationally, the strength of the office market isn't necessarily a shock, but it's still fascinating to watch things unfold.

Downtown expansion

With both demand and rental rates on the rise, and a central business district (CBD) that is close to full capacity (currently there is less than 5 percent vacancy in Detroit's CBD), we are starting to see office tenants moving up into Midtown, New Center and other neighborhoods.

The growth in these areas has been not just noteworthy, but significant, with buildings like New Center One on West Grand Boulevard in excess of 90 percent occupancy. The Fisher Building in New Center boasts more than 100,000 square feet of new leasing activity in the last year.

Suburban momentum

More than a few office tenants now find themselves priced out of the CBD, a situation that is exacerbated not just by rate increases, but by growing parking challenges and additional costs. Consequently, it isn't just other downtown areas that are seeing a surge of activity.

Office tenants that don't have a specific requirement to be in the city proper are starting to push their way back out into nearby suburban markets like Southfield and on up to Troy. Occupancy increases and positive absorption have really started to impact areas like Bingham Farms, which is particularly hot right now and where we have seen a flurry of activity in recent months.

Amenity priorities

This commercial office expansion has helped highlight a couple of notable trends that have been percolating for some time now. One of those is the growing propensity of tenants prioritizing (and landlords providing) spaces with comparable amenities to those that downtown offices enjoy.

Suburban tenants are especially interested in access to a broader and more appealing range of retail and dining options. Familiar national names or cool local or regional brands are most desirable.

Suburban locations also offer the space to provide outdoor areas like parks and trails, and landlords are becoming more creative in their efforts to introduce in-house or on-site options like coffee shops, cafés and fitness facilities.

Some owners and developers are investing in more shared co-working and conference spaces, upgrading infrastructure and offering things like free Wi-Fi throughout the building common areas. Activation and animation is also on the rise, with special events and building or parking lot activities such as corn hole, Jenga, luncheons and other fun tenant "extras."

Strategic calculation

Landlords aren't the only ones experimenting with different layouts and formats. More office tenants are strategically evaluating their space and square footage needs, and looking at ways to provide more work/life flexibility. From "hoteling" to sometimes not even assigning desks, operational models that offer greater flexibility are getting more attention. Hoteling refers to the short-term letting of surplus office space to a temporary worker.

While tenants are being more thoughtful about how much square footage they take on (and are looking at that expense line on their books much more closely), how they allocate that space is evolving. In many cases, square footage savings might be reconfigured to provide additional amenities for employees.

International visibility

It's been encouraging to recognize that Detroit is definitely a location that's on the radar for a growing number of international companies. More overseas brands and businesses are coming to Detroit, using the market as a jumping off point for larger Midwest or U.S. expansion plans.

The city is turning heads as a place that is increasingly seen as a market on the rise and a strong place to do business, while remaining much more cost-effective relative to places like Chicago or New York.

Getting ahead of the curve

As rental rates continue to rise, some office tenants are trying to get out in front of the trend by seeing if they can renew a year or two in advance and lock in their rate before things escalate further. In general, tenants have also been more willing to sign longer-term leases lately. With rents on the rise and the shortage of construction workers making build-outs more expensive, office tenants are taking the long view and being more willing to take the time they need to be able to build out their spaces the way they want.

The next big thing?

While the general lack of downtown office inventory and subsequent expansion of the overall Detroit office market is the big story, the coming influx of new development product will be the storyline to monitor going forward. That's something that hasn't happened in many years in Detroit, and it's a strong sign of the market's strength and maturity at this stage in the city's reemergence.

The big question is at what point in the economic cycle will that new product come on board? We are still a couple of years away from some of the most notable projects hitting the market, and how that new block of space gets absorbed will likely dictate what comes next.

By that point, will we have pushed up rental rates enough to justify additional new construction? Will the national economy remain strong? The answers to those questions will have important implications for the future of Detroit's commercial office market well beyond 2019 and into the next decade.

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NATIONAL INVESTORS BEGIN TO TAKE INTEREST IN DETROIT MARKET

Steven Siegel
Senior Analyst,
Q10 | Lutz Financial Services,
Lutz Real Estate Investments

In 2018, the Detroit real estate market had a banner year for transactions, new developments and big headlines. Chief among these was Ford Motor Co.'s acquisition of the vacant Michigan Central Station, a major media event that attracted attention from all over the world.

Other notable news stories predominantly revolved around Quicken Loans founder Dan Gilbert and his Bedrock Real Estate Services. In 2018 alone, Bedrock delivered the 129-key Shinola Hotel, began construction on the 847,000-square-foot Monroe Blocks and laid the foundation for the 912-foot tall Hudson's tower. The combined costs of these projects exceed $2 billion.

From a brokerage standpoint, it also was a successful year. Q10 | Lutz Financial Services, a Birmingham-based commercial mortgage banking firm, had its best year on record. Similarly, Farmington Hills-based Friedman Real Estate's investment sales division had transaction volume of a half-billion dollars, according to the firm's manager of opportunities, Jared Friedman. Some highlights and market insights into the Great Lakes State's commercial real estate market are below.

Multifamily redevelopment

Downtown Detroit has received most of the notable press this cycle, in particular for the flock of millennials and young professionals who upended trends and brought their skinny jeans and electric scooter habits to the urban core. Most of the activity in Detroit's downtown (the "7.2 square miles") has been centered around rehabbing historic properties.

One prominent transaction that occurred was the acquisition of the Albert Kahn Building in New Center, just north of Midtown. Adam Lutz of Lutz Real Estate Investments and Matthew Sosin of Northern Equities Group purchased the property from Detroit-based investment firm The Platform in May 2018. The partners are renovating the former office building into 211 apartments and 70,000 square feet of retail space. Construction will begin this quarter. The 320,000-square-foot, historical building has a prominent list of former tenants, including Saks Fifth Avenue and Albert Kahn Associates.

"The location is ideal for commuters who live in the city to easily reach suburban office locations of metro Detroit, such as Southfield, Troy and Birmingham, which are within 15 minutes from the building," says Lutz.

The property was vacant upon acquisition and the joint venture used a nonrecourse, acquisition loan from a California-based lender to execute the transaction. Like many historic renovations, the Albert Kahn's redevelopment relies on a complex financing mix of first lien mortgage, tax abatements and historic tax credits.

As many acquisitions in this cycle have involved heavy historic rehabs, many traditional Detroit buyers like local families and private equity groups have found it tough to compete with well-funded, high net-worth individuals like Dan Gilbert, Peter Cummings and the Ilitch family. "When you're looking at the multifamily market [in the city], the buyers who have stepped up are non-traditional groups like syndicators or high net-worth groups," says Friedman. "The historically large owners of real estate are sitting on the sidelines. The market is being dominated by newly formed real estate entities that didn't exist 10 to 15 years ago."

For those not sitting on the sidelines, garden-style apartment transactions in the middle- to upper-income suburbs are typically garnering cap rates between 5.5 and 6 percent. Two recent sales included the Park Place Apartments in Northville (5.7 percent cap rate) and the Chimney Hill Apartments in West Bloomfield (5.4 percent cap rate). Downtown, many local commercial real estate professionals were hoping to learn more from the sale of the Scott at Brush Park in Midtown, but as of press time, the property was being refinanced for $50 million.

Agency financing, whether through Freddie Mac or Fannie Mae, has dominated the capital markets the past few years. Spreads as of the first week of January are typically between 190 to 220 basis points over the 10-year Treasury yield, depending on leverage.

Hotel boom

One asset class that experienced a resurgence in activity this past year was hospitality. On Wednesday, Jan. 2, the Shinola Hotel opened to the public in downtown Detroit. The Shinola is one of Bedrock's marquee projects and was finished in an impressive amount of time, considering the scope of the project soup to nuts took about 20 months.

The hotel has 129 guest rooms, 16,000 square feet of retail space, the San Morello restaurant (get the puttanesca) and various lounges, event/meeting spaces and a social "living room." Rates vary between $195 and

Formerly an office building, the Albert Kahn Building will be transformed into 211 apartment units and 70,000 square feet of retail space.

$375 per night for a typical room.

The project garnered much attention, as it paired two restored historic buildings with three new ones. In addition, the alley behind the project was totally recreated and will become an activation space with an attached beer hall reminiscent of The Standard in New York.

Detroit has been booming with boutique hotels; the Shinola was the second hotel to come online in 2018 after the Siren opened in May. Another boutique property, the Detroit Foundation Hotel, opened across from Cobo Center in 2017. Looking into 2019, the extended-stay Element by Westin will open in the former Metropolitan Building. The Metropolitan's opening is especially impressive, considering the only extended-stay guest that this author witnessed at the formerly vacant property was a tree growing from the roof.

According to data from a recent STR report, boutique hotels have been steadily growing in terms of occupancy, average daily rate (ADR) and revenue per available room (RevPAR). Occupancy for the competitive set of some of Detroit's boutique hotels was 75 percent through September 2018. While boutique properties are a good win for the city, there is a well-acknowledged shortage of hotel rooms in Detroit right now, considering the demand.

Detroit visitors, tourists and conference organizers are still in need of a marquee property than can serve larger numbers for more typical travel or business customers. This demand has been reflected in Detroit metro statistical area (MSA) hospitality transactions.

Per CoStar Group, Glenmont Capital of New York purchased the Holiday Inn Express in downtown Detroit for $23 million ($96,700 per key) in April 2018; the cap rate was 9 percent. Similarly, in the suburbs, recent trades included the Sheraton Novi ($30 million or $128,000 per key and a 9.2 percent cap rate) and the Marriott Courtyard Detroit Southfield (9.1 percent cap rate).

On the refinancing side, lenders I've spoken with are happy to spot a 9 percent cap rate on Detroit MSA deals. Cap rates tend to be higher for hospitality properties, as they are considered more of an operating business and are often hit hard during corrections.

While transactions involving out-of-state groups dominate downtown, local hotel broker Kevin Jappaya of KJ Commercial says, "it's still mostly local owners continuing to develop in the suburbs. The majority of these new developments have been limited-service and extended-stay brands of Hilton, Marriott and IHG. Throughout Michigan, the hospitality sector has seen a steady growth of occupancy and ADR. This has spearheaded new developments in markets that have been underserved with quality new products. [Unlike multifamily], new construction is getting expensive, but it hasn't been a deterrent yet."

Looking ahead

Detroit CBD continues to power the expansion in this post-Great Recession real estate cycle. From Ford's redevelopment of Michigan Central Station to Dan Gilbert's endless real estate power plays, Detroit has garnered much press and critical acclaim the past decade. In turn, marquee new tenants have been signing leases in the CBD including Microsoft, Shake Shack, Stock X and Lear Corp.

The greater MSA has also seen cap rate compression and tightening vacancies, partially as a result of investors broadening their hunt for yield. While Detroit doesn't have the out-of-state institutional interest that characterizes similar second-tier markets like Charlotte, Austin and Dallas, continued momentum will certainly bring in national interest as Detroit's prominence grows on a domestic and international stage.

2019 Lender Insights

France Media reached out to leading direct lenders and financial intermediaries from across the region to gain their perspective on the challenges and opportunities in the year ahead, factors most affecting the lending environment, plus the property sectors to watch in 2019. What follows is a compilation of observations from these industry veterans.

NorthMarq

Where do you see the biggest opportunity for your company in 2019?

We anticipate continued strong borrower demand for new equity and debt capital across all property types, as well as a continuing healthy appetite from our capital sources to invest in commercial real estate. We have a few company initiatives that we see as excellent opportunities to grow our business in 2019 and beyond. In 2018, we began rolling out a multifamily investment sales platform in select markets, and we will expand that footprint in 2019.

Another area of focus for NorthMarq nationally is the origination of equity and structured finance vehicles. As construction lending has become more conservative from a leverage perspective, borrowers are increasingly interested in products that round out the capital stack, making the resulting equity requirement more manageable.

> **"Future interest rates and the availability of capital are difficult to predict. If the rate and terms work for your business plan, we advise you to take advantage of the opportunity."**
>
> *— Dan Trebil, Managing Director, Minneapolis Office*

What property sector of commercial real estate will experience the most activity in 2019, and why?

In 2019, we should see the continuation of a high volume of multifamily and industrial financing activity. Multifamily lending has thrived over the past several years, and there will be increased opportunity in the affordable and seniors housing sectors. Likewise, industrial will continue to be a preferred and sought-after property type as a result of the considerable tailwinds from e-commerce.

Self-storage may also be poised for robust financing activity. National construction activity for self-storage properties increased dramatically beginning in 2016. As these properties stabilize and develop a consistent history, they qualify for permanent financing. So the timing is right, but the volume will remain far less than multifamily, office, industrial and retail.

What advice are you giving your borrowers to help them maximize their lending strategy in 2019?

Our clients have enjoyed an extended run of favorable terms and plentiful capital. However, future interest rates and the availability of capital are difficult to predict. If the rate and terms work for your business plan, we advise you to take advantage of the opportunity.

Additionally, our multifamily clients should be aware of potential changes for the agencies, particularly Fannie Mae and Freddie Mac, with a new Federal Housing Finance Agency (FHFA) director expected. Borrowers and lenders alike should be cognizant of the possibility of a potentially significant overhaul of these platforms.

In general, there are simply too many lending strategies and products to track unless you're fully immersed in the space on a daily basis. Having a national platform allows us to leverage the knowledge of our originators in real time across the entire United States.

Bellwether Enterprise

CAPITAL ON A MISSION

What is the biggest challenge you anticipate in 2019 as a direct lender or intermediary in commercial real estate?

Much like 2018, we continue to be optimistic about the commercial real estate finance market in 2019. In 2018, we were challenged with a variety of market disruptors including rising interest rates, market volatility, geopolitical risks, and signs of an overall slowing global economy. In 2019, we expect these disruptors to continue.

Furthermore, the debt space remains very crowded as capital flows continue to rise and opportunities have declined due to fewer refinance opportunities. The good news is capital is far from complacent and underwriting remains very disciplined, which should enable the markets to continue to function well.

"Leveraging deep-rooted relationships with our capital providers is important to delivering competitive financing solutions in an efficient manner."

— Todd A. Harrop, Executive Vice President, National Director of Capital Markets

Where do you see the biggest opportunity for your company in 2019?

In general, I believe there is an increased opportunity for mortgage bankers/intermediaries in 2019. This is due to the fact that there is an abundance of capital, and capital providers' programs are changing in order to better deploy their capital and manage risks. Having a full-service platform enables us to be product agnostic and identify optimal financing solutions for our borrower clients. Leveraging deep-rooted relationships with our capital providers is important to delivering competitive financing solutions in an efficient manner.

What property sector of commercial real estate will experience the most activity in 2019, and why?

With continued strong job growth, some wage growth, and low unemployment, we expect multifamily to continue to the lead the way, albeit at a tempered pace. We expect activity among the government-sponsored enterprises (GSEs) to remain strong with production similar to 2018 levels. Many non-GSE lenders have been overweight multifamily post-recovery, and some are looking to diversify further into other property types. For example, strong fundamentals in the industrial sector have led to increased lender demand. Having said that, it's been hard for lenders to grow their industrial exposure because loan sizes are smaller relative to other property types and much of the Class A product is owned by publicly traded REITs that seldom use secured debt.

What advice are you giving your borrowers to help them maximize their lending strategy in 2019?

Our advice is to continue to be proactive in managing capital needs. As mentioned above, it's more important than ever to stay in tune with capital availability. Lenders have been very active in recent years and their portfolio concentrations have shifted. While overall performance continues to be strong, many of their needs have changed. Exposure to a broad array of capital and local market expertise is critical to ensuring an optimal execution.

ADVERTORIAL

Maverick Commercial Mortgage

What is the biggest challenge you anticipate in 2019 as a direct lender or financial intermediary in commercial real estate?

The biggest challenge that we face is telling the story that the economy is still growing in many markets. If you read the news, there is recession talk, but it is very difficult to hire good workers for many trades, which means the unemployment figures are very low. This shows strength in the economy. Many credit experts at the banks think a slowdown is coming, but the debt funds are filling the gap for the lending market.

However, there will be some slowdown in certain sectors. For example, developers in the student housing sector have delivered a number of new projects in recent years, but universities and colleges have not increased total student populations to fill them. Growth in online education will also slow campus housing needs.

"As soon as you have a loan that you can live with, close the loan... Don't wait until it's too late to close any loan that is on the table."

— Ben Kadish, Founder and President

Where do you see the biggest opportunity for your company in 2019?

Our biggest opportunity is in the manufactured housing community (MHC) lending market, as we are adding lenders to our market segment. As the affordable housing crisis continues, and MHCs become increasingly viewed as a solution, we anticipate the investment in this market will continue to grow as well.

What property sector of commercial real estate will experience the most activity in 2019, and why?

As companies continue to bring more jobs, and thus new residents, to Chicago and across the Midwest, multifamily developers will meet them with a flurry of activity in 2019.

What advice are you giving your borrowers to help them maximize their lending strategy in 2019?

If you can secure long-term, fixed-rate loans around 5 percent, lock in the rates. If you can secure nonrecourse loans and pull out cash equity and keep the properties, do it now. Regardless of the last loan detail, as soon as you have a loan that you can live with, close the loan. Ten years ago, the world stopped. Don't wait until it's too late to close any loan that is on the table. We start the closing process from the first phone call or e-mail.

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MONEY360™

> I would caution [borrowers] to make sure they understand who they are dealing with for financing, given the number of new entrants that have come into the market.
>
> *— Gary Bechtel, President*

What is the biggest challenge you anticipate in 2019 as a direct lender or financial intermediary in commercial real estate?

While we believe that 2019 will be another good year in the commercial real estate business, we like others remain wary given where we are in the current cycle. This is especially true in some secondary and tertiary markets that have already begun to experience a slowdown in growth. Core markets continue to perform well, and there are some excellent lending opportunities in secondary markets. That's where Money360 has done the bulk of its lending. I believe that bridge lenders need to be diligent when looking at opportunities in these smaller markets because we are typically lending on transitional assets, and any significant slowdown could impact the borrower's ability to execute its business plan.

Where do you see the biggest opportunity for your company in 2019?

Money360 has been fortunate to experience substantial growth over the past three years. We see this growth trend continuing in 2019, even though we operate in an increasingly crowded and competitive environment. We believe that we will see continued growth in our core bridge loan product and anticipate coming out with additional product lines (permanent and bridge loan products) as market opportunities present themselves.

What property sector of commercial real estate will experience the most activity in 2019, and why?

I believe that multifamily and industrial will continue to be the darlings of the investment and finance communities as their underlying fundamentals continue to be very strong in most markets. Office will be sought after as well. Meanwhile, retail and hospitality will have their challenges, as has been well documented, especially malls and non-flagged hotels in smaller markets.

What advice are you giving your borrowers to help them maximize their lending strategy in 2019?

Borrowers have many options for financing in today's market, but I would caution them to make sure they understand who they are dealing with for financing, given the number of new entrants that have come into the market. That's especially true in the bridge lending space, which has tripled in the past two years. Ask about their source of capital, how much discretion they have, and talk to borrowers that have closed loans with them.

BERKADIA®

> Our innovation teams are focused on developing cutting-edge tools and technology that eliminate roadblocks and close transactions swiftly.
>
> *— Ernie Katai, Executive Vice President, Head of Production*

What is the biggest challenge you anticipate in 2019 as a direct lender or financial intermediary in commercial real estate?

We're certainly keeping an eye on the discussions surrounding reform of the GSEs (government-sponsored enterprises), as we anticipate this to be one of the industry's greatest challenges this year.

At Berkadia, we're well-insulated in any economic climate due to our unique private ownership structure. This allows our advisors to take the long view and remain dedicated to finding creative financing solutions for our clients, even as we wait to see the impact of our current administration on the regulatory landscape.

Where do you see the biggest opportunity for your company in 2019?

Berkadia looks forward to continuing to leverage data and technology to increase our efficiency and streamline our processes to better serve our clients. Our innovation teams, which consist of some of the best and brightest in the industry, are focused on developing cutting-edge tools and technology that eliminate roadblocks and close transactions swiftly. As technology continues to be a focus for the industry, we're eager to see the continued impact of the actionable insights and powerful data these tools allow us to provide our customers.

What is your company's lending strategy for 2019? Any new lines of business or opportunities you are pursuing?

We're committed to developing new tools, programs and teams to customize the lending experience to our clients' needs. We recently established a team to support our customers' Opportunity Zone acquisitions and financings. We're also proud to offer Fannie Mae's Small Loans Program, which features a streamlined loan process for fixed- and variable-rate mortgage loans up to $3 million nationwide, and up to $5 million in eligible markets.

What property sector of commercial real estate will experience the most activity in 2019, and why?

In August 2018, we asked Berkadia's mortgage bankers and investment sales brokers what sector they expected would see the most activity in the second half of 2018, and 72 percent chose multifamily. Confidence in the multifamily sector remains clear for the year ahead. According to our 2019 Outlook Powerhouse Poll, 77 percent of Berkadia professionals surveyed in December 2018 expect deal size within the multifamily industry to either increase or stay the same in 2019 compared with last year.

REGIONS

What is the biggest challenge you anticipate in 2019 as a direct lender or financial intermediary in commercial real estate?

The biggest challenge is continuing to grow while maintaining underwriting discipline in the face of a more clouded economic environment and a growing field of competitive lenders. Slowing growth in the global economy has in turn led to more uncertainty about the rate of growth in the U.S. economy, leading to greater uncertainty about the direction of the Federal Open Market Committee (FOMC).

At the same time, non-regulated debt funds continue to provide additional competition to traditional first mortgage lenders (banks, life companies, CMBS lenders, agency lenders), pushing leverage in many instances with favorable terms. Given we are deep into an economic recovery, it makes for a challenging environment in which to grow, but we are prepared to meet the challenge.

> **"We have invested resources in order to add agency capabilities, CMBS capabilities, as well as balance sheet term lending products for stabilized assets or properties in transition."**
>
> *— Troy Marek, Managing Director*

Where do you see the biggest opportunity for your company in 2019?

Our biggest opportunity is to continue to build our brand as a full-service commercial real estate lender. Historically, the market has viewed Regions Bank as "only" a construction lender in the commercial real estate industry. However, we have invested resources in order to add agency capabilities, CMBS capabilities, as well as balance sheet term lending products for stabilized assets or properties in transition. In 2018, a little more than one-third of our originations were construction loans. We remain an active construction lender, but we are active in both balance sheet and off-balance sheet term lending as well.

What is your company's lending strategy for 2019? Any new lines of business or opportunities you are pursuing?

Our strategy is to continue to diversify our originations through a healthy mix of balance sheet and off-balance sheet financing offerings as well as a healthy mix of term loans versus construction loans. An area that will have a greater amount of focus for Regions in 2019 is the seniors housing sector, both balance sheet and off-balance sheet transactions, given the demographic profile of the U.S. population.

Regions has been an active lender on skilled nursing facilities — both on balance sheet and through our HUD Lean lending program — for some time. Now the bank has become a more active lender in the independent living and assisted living segments of seniors housing both as a balance sheet lender and through our Fannie Mae capability.

What property sector of commercial real estate will experience the most activity in 2019, and why?

We expect multifamily to remain the most active sector, followed by office. Multifamily has a record number of new units to be delivered in 2019, and stabilization of those assets will result in transaction activity, either through sales or refinancing. Continued job growth has led to orderly absorption of the new development to date. Somewhat surprisingly, there was an increase in rent growth in the fourth quarter of 2018. So, we expect multifamily to again be the most active sector in 2019.

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READY CAPITAL®

What is the biggest challenge you anticipate in 2019 as a direct lender in commercial real estate?

When lending in a particular market, it is important to ensure that certain lending parameters are met with respect to key metrics such as basis, tenant absorption and rent hurdles for that particular commercial property type. It's also important to understand the sponsor's exit strategy in that particular market (that would synchronize with a lender's assurance of exiting a loan with debt metrics such as debt yield). The strength of our value-add lending program lies in providing a sponsor with a loan structure that matches up well with a solid business plan.

> **"The strength of our value-add lending program lies in providing a sponsor with a loan structure that matches up well with a solid business plan."**
>
> *— David A. Cohen, Managing Director, National Bridge Lending Team*

Where do you see the biggest opportunity for your company in 2019?

As a national value-add bridge lender, it is our ability to bring multiple lending products for all property types to the table in order to provide value-add bridge loans that offer a floating rate, fixed rate or hybrid-rate alternatives to match a sponsor's optimal requested loan structure. (A hybrid rate is a part fixed-rate and floating-rate loan in one loan structure.) This, combined with the ability to offer creative loan structures to accommodate a sponsor's business plan, is a key differentiator for us versus our competition. Furthermore, our standard approach to conducting the diligence process upfront will not only protect our clients, but also remove unexpected surprises and provide them with a credit-approved term sheet.

What property sector of commercial real estate will experience the most activity in 2019, and why?

The industrial sector is growing rapidly given the growth of e-commerce. We think there is healthy demand for warehouse/distribution facilities on main corridors near major urban areas. The office sector will continue to be redefined by creative office environments and the rapid growth of co-working office companies. The growth of the multifamily sector in deep demographic and undersupplied markets will lead to an increase in quality upgrades of Class B and C properties as well as the creation of affordable housing alternatives, such as co-living and micro-unit properties, which will redefine multifamily opportunities in the near term.

What advice are you giving your borrowers to help them maximize their lending strategy in 2019?

Sponsors should continue to be involved with a commercial property type in their realm of expertise with a well-defined exit strategy. Deep familiarity with the property type and all the aspects of that market are crucial (basis, regulations, achievable rents, leasing absorption/velocity). A thoughtful value-add bridge loan should be requested to match the business plan.

ADVERTORIAL

AFTER 2018'S DROPOFF IN CMBS ISSUANCE, WHAT'S IN STORE FOR 2019?

The volume of maturing loans, the number of single-borrower deals and interest rates will all play a factor.

By Orest Mandzy and Catherine Liu

Domestic, private-label CMBS issuance last year totaled $76.1 billion, down roughly 12 percent from total issuance in 2017. That could be viewed as a disappointment, but it shouldn't have been a surprise.

Orest Mandzy
Commercial Real Estate Direct

Consider that CMBS issuance in 2008 totaled only $12.1 billion, and overall commercial mortgage lending volume that year had declined by 62 percent from the previous year. This is crucial because 10-year loans issued in 2008 would have come due in 2018 and provided much of the lending opportunities last year. Given those numbers, it's a surprise that CMBS issuance wasn't lower.

While private-label issuance was down, the collateralized loan obligation (CLO) market took off. A total of $14.2 billion of deals priced last year, nearly doubling the prior year's volume. When added to private-label CMBS issuance, total commercial real estate loan securitization volume was $90.3 billion, down only 4 percent from the previous year. Some predict CLO issuance, which is fueled by alternative lenders, could reach $20 billion in 2019.

The expectation, at least during much of last year's second half, was that long-term interest rates would pressure the real estate sector. But a funny thing happened on the way to the forum. Interest rates actually declined as volatility became king. That hasn't quite benefited the commercial mortgage sector, where CMBS spreads have climbed. Property investors and balance sheet lenders are also exercising greater caution.

The silver lining is that credit remains healthy, with overall CMBS delinquencies in the low-3 percent range. If only deals issued since the global financial crisis in 2008 are counted, delinquencies are a mere 62 basis points.

Catherine Liu
Trepp LLC

Conduit deals

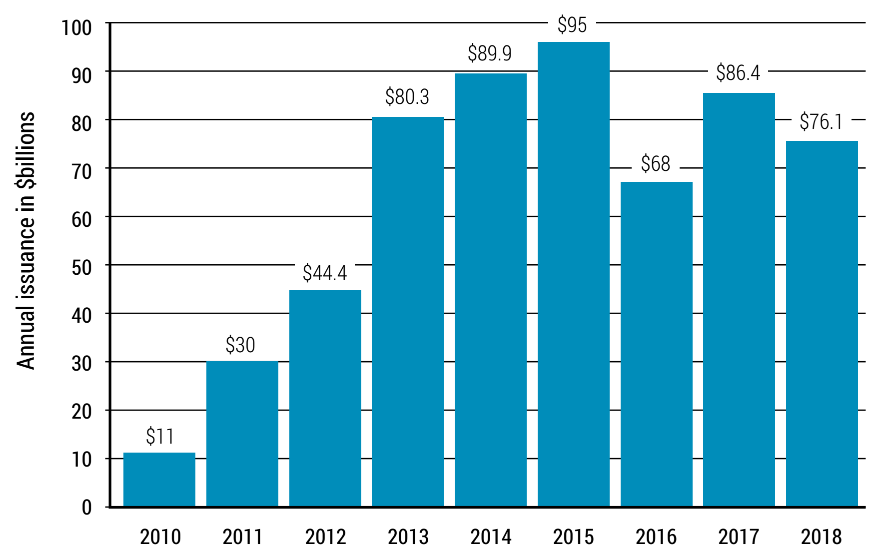
The final CMBS issuance tally dipped in 2018 partly because relatively few loans matured last year and needed to be refinanced. Issuance in 2018 was dominated by single-borrower transactions. A total of 75 such deals with a balance of $35.7 billion, or 46.9 percent of the total CMBS pie, priced. That was down only slightly from the $36.4 billion of single-borrower deals a year earlier.

The thinking is that the healthy pace of single-borrower deals will continue in 2019, but issuance is expected to remain flat or be up a tad. The outcome ultimately hinges on a number of factors, including bond investor appetite, competition for large loans from balance-sheet lenders such as insurance companies, and the volume of large property sales.

In particular, conduit issuance could drop by 25 percent in 2019 to roughly $30 billion. That stands to reason as the volume of fixed-rate CMBS loans that matured in 2018 is nominal at just $10 billion.

Meanwhile, as the housing finance agencies Fannie Mae and Freddie Mac have become the most efficient providers of mortgage capital for apartment property owners, CMBS conduit lenders are no longer as active as they had been in funding loans against such properties, which accounted for one-third of the nearly $400 billion of commercial property transactions that were completed last year through September.

Tracking Yearly Swings in CMBS Issuance



Source: *Trepp LLC*

Commercial mortgage-backed securities (CMBS) are groups of loans that are packaged together and sold on a secondary market. These packaged loans are often segregated into separate groups (called "tranches"), depending on their credit rating. CMBS loans provide liquidity to the marketplace and can be an attractive option for borrowers. Over the past decade, the annual amount of domestic, private-label CMBS issuance has fluctuated greatly as this chart shows.

New wave of maturities

Thanks to the rising popularity of single-asset transactions, a sizable chunk of shorter-term, floating-rate deals with built-in extension options were completed in recent years. That has added bulk to the maturing load. Based on a November 2018 snapshot, nearly $100 billion of CMBS debt will be up for refinancing between now and 2020, with $40.9 billion and $44 billion scheduled to pay off in 2019 and 2020, respectively.

That's the opportunity, but here's the risk: Loans against hotels — the property type that is most sensitive to cyclical and demand variability — account for 31 percent of the maturing volume. Loans against retail properties make up 22 percent of the total, while office loans account for another 19 percent. A total of 34 percent of the loans that are coming due are in conduit deals, while 59 percent are from single-borrower transactions.

Trepp reviewed close to $34.7 billion of conduit loans that are scheduled to mature from now through 2020, removing all delinquent and fully defeased assets from the universe. We're only counting conduit debt because single-asset loans usually feature low leverage and high debt-service coverage ratios (DSCR), so there is less concern that those notes will not meet refinancing thresholds. This leaves us with a sample set of $20.3 billion.

In general, property values decrease and debt-service requirements increase when interest rates increase and all other market variables remain unchanged. If rates stay where they are, about 74 percent of the loans (by balance) maturing through 2020 would pass their respective DSCR thresholds. About 60 percent would meet or exceed their debt yield requirements, while almost 64 percent would clear their loan-to-value (LTV) hurdles.

But if rates increase by 50 to 100 basis points, the volume of maturing CMBS loans that would meet each of the three tests would decline by 4 to 15 percent from the aforementioned pass rates for each category. A 100-basis-point increase would result in 13 percent of loans being eliminated from the "refinanceable" bucket in terms of DSCR, moving the total pass rate to slightly more than 60 percent.

Given the solid credit quality and "refinanceability" of these loans, a solid amount of them should be resolved at maturity. The new loans coming in for the refinanced properties should feed the issuance machine for 2019, but any movement in interest rates could give borrowers pause if their new loan terms are not up to their liking.

Late last year, Mag Mile Capital originated a $9.9 million CMBS loan for the acquisition of a 128-room Staybridge Suites hotel in Oconomowoc, Wisconsin. The 10-year, fixed-rate loan featured a 5.75 percent interest rate.

Orest Mandzy is the managing editor of Commercial Real Estate Direct in Doylestown, Pennsylvania, and Catherine Liu is a research analyst with Trepp LLC based in New York City.

LENDERS from page 1

In such a shaky climate, it would be hard to blame commercial real estate investors and debt providers if they chose to go on a year-long vacation. Yet sentiment among most real estate mortgage bankers remains upbeat.

The abundance of debt and competition between lenders is reminiscent of 2006, but stronger fiscal discipline in this extended cycle has kept underwriting standards and construction in check. Consequently, property fundamentals by and large remain healthy. And despite inching up over the last 12 months, interest rates are still at historical lows.

Therefore, the thinking goes, commercial real estate investors are in a much better position to weather the next storm than they were in 2008. That half-glass-full outlook, however, comes with a caveat in advice to borrowers. That is: don't hesitate.

Jeff Erxleben
NorthMarq Capital

"There has been a significant amount of volatility," says Jeff Erxleben, executive vice president and regional managing director in the Dallas office of NorthMarq Capital. "So if you're putting a deal together and the financing gets you to where you need to be, then push forward and get it done."

Headquartered in Minneapolis, NorthMarq Capital typically arranges $13 billion in annual financing volume. At press time, Erxleben said he expected the firm would post better-than-average volume in 2018. He anticipates 2019 to be equally as good.

Ben Kadish
Maverick Commercial Mortgage

Like Erxleben, other mortgage bankers interviewed expect 2019 financing volume to match the total dollar amount closed in 2018, if not surpass it, given their deal pipelines. Benjamin Kadish, president of Chicago-based Maverick Commercial Mortgage, for example, says that his firm closed $310 million in financings in 2018 and is on track to surpass that midway through 2019.

"Our clients are as bullish as can be. There really hasn't been a slowdown in activity," adds Kadish, whose firm focuses on multifamily and manufactured housing deals ranging from $2 million to $50 million.

Among other deals, in December Maverick tapped a regional bank for a $17 million construction loan to fund Common Addams, a 223-bed co-living development in Chicago's West Side neighborhood of Pilsen (think modern luxury college dorm for young urban professionals).

SunTrust CRE originated a $16.3 million bridge loan for the acquisition of Hoover Square Apartments in Warren, Michigan. The two-year loan featured a floating rate.

Discipline-driven market

It's hard to deny the health of commercial real estate. Since Asian investors drove record commercial property investment sales of $570 billion in 2015, sales volume has normalized at lower but still robust levels. Buyers and sellers completed $483 billion in transactions through the first 11 months of 2018, according to New York City-based Real Capital Analytics, which tracks property and portfolio sales of $2.5 million or more in the office, industrial, retail, hotel, multifamily and seniors housing sectors in addition to development sites.

Deal volume, driven by large portfolio sales like Brookfield Property Partners' $15 billion acquisition of mall landlord GGP, was on pace in 2018 to exceed investment sales of $489 billion the previous year.

Late in 2018, the Mortgage Bankers Association (MBA) projected that commercial and multifamily loan originations would reach $532 billion in 2018, slightly ahead of 2017's record volume. What's more, in the third quarter last year, the delinquency rate was a meager 0.48 percent for banks and less than 0.1 percent for life insurance companies as well as the government sponsored-enterprises (GSEs) of Fannie Mae and Freddie Mac, according to MBA, which is headquartered in Washington, D.C.

Meanwhile, private-label CMBS issuance in 2018 topped out at $76.1 billion, down about 12 percent from 2017, according to Trepp LLC.

Hunt Real Estate Capital arranged a $9 million Fannie Mae loan to fund Engel Realty Co.'s acquisition of the 200-unit Stadium Place Apartments on 10.4 acres in Jonesboro, Arkansas. As part of Fannie Mae's Green Rewards loan program, which encourages efficiency upgrades, the 12-year note included a loan-to-value ratio of 75 percent and four years of interest-only payments.

Prudence prevails

By all accounts, lenders in 2018 stuck to the conservative underwriting principles that have epitomized the post-Great Recession business cycle. Overall, lenders emphasize a sponsor's financial wherewithal, the property's location and the submarket's fundamentals. They have also avoided relying on pro forma rent increases to make a loan work, opting instead to underwrite existing lease rates and to stress test the loan, mortgage bankers say.

Lenders continue to demand more equity in deals, too. Life insurance companies and banks have typically maintained loan-to-value (LTV) ratios of 60 to 70 percent, for example, while conduits, debt funds, bridge lenders and GSEs will provide higher leverage, depending on the deal.

Mezzanine debt and preferred equity remain available, says David Stepanchak, senior vice president for Los Angeles-based George Smith Partners, which finished 2018 more than 50 percent above the previous year's volume of $2.2 billion.

But because senior debt lenders are maintaining conservative LTV ratios, the higher cost of such gap financing can quickly dent cash flow and prevents borrowers from using very much of it, he adds.

According to Cushman & Wakefield's latest monthly *Capital Markets Update*, which tracks financing of recently closed deals, the interest rate a borrower pays on mezzanine debt ranges from 7 percent to 16 percent, depending on its position in the capital stack.

"We've had highly responsible loan underwriting in this cycle versus the last one," says Charles Foschini, senior managing director and co-head of Florida originations for Berkadia in Miami. "Most loans continue to be on the conservative side, and most owners of real estate are better capitalized."

Kathy Farrell
SunTrust Bank

Still, the growing number of debt funds, foreign banks and other debt providers is adding fuel to an already competitive lending environment, states Kathy Farrell, head of commercial real estate for Atlanta-based SunTrust Bank.

"The best deals are still getting multiple quotes from a variety of different sources," she adds. "Ultimately, the increased competition has driven down loan pricing and is starting to influence how loans are structured."

Wild card: interest rates

Chad Thomas Hagwood
Hunt Real Estate Capital

Despite increased volatility in the equity and U.S. Treasury markets at the end of 2018, the competition between lenders has largely favored borrowers, suggests Chad Thomas Hagwood, senior managing director and Southeast regional manager for Hunt Real Estate Capital, a nonrecourse lender and mortgage banker.

"Owners are still struggling to find properties that are within their wheelhouse at the right price, but that's a story we've been hearing for a long time," adds Hagwood, who is based in the firm's Birmingham, Alabama office. "When it comes to the financing side, however, I just don't know how borrowers couldn't be pleased."

David Stepanchak
George Smith Partners

Observers blame much of a buyer's inability to find deals on the narrow or even scant spread between interest rates and capitalization rates. In some cases, 1031 exchange buyers that need to quickly deploy proceeds in another property in order to defer capital gains taxes must decide whether they will accept a cap rate of 4 percent or below, Stepanchak points out. "There is risk in owning real estate, and investors need to be paid for that risk," he declares. "Properties are not U.S. Treasuries."

How long these conditions persist is anybody's guess. It's safe to assume that commercial real estate buyers were resigned to a 10-year Treasury yield of more than 3 percent when it touched a seven-year high of 3.26 percent in October. But the yield tumbled below 3 percent in December and was hovering around 2.7 percent in mid-January.

The Federal Reserve's money tightening policy is only heightening uncertainty. In December, the Fed raised the benchmark federal funds rate by a quarter of a percentage point to 2.5 percent, its fourth rate hike in 2018 and its ninth since December 2015.

Although the Fed reduced its 2019 guidance to two rate increases from three, the hikes have contributed to a flat yield curve that's inching closer to inversion, a dynamic that's widely considered to be a predictor of economic recession. In early January, less than 20 basis points separated the 10-year and two-year U.S. Treasury yields. A year earlier the spread was 50 basis points.

Many economists believe that, by raising rates, the Fed is trying to give itself the ability to cut rates to respond to the next recession as necessary. But some mortgage bankers suggest that continued rate hikes will just breed more economic worries.

"I'm hopeful that we're close to the end of Fed tightening for a while. Inflation seems to be under control and the economy is clipping along, even though some say it may be slipping," says Samuel Butler, executive vice president of Fort Worth, Texas-based Dougherty Mortgage. "One or two more rounds of Fed tightening next year is going to affect short-term rates, but I don't see them affecting long-term rates for the foreseeable future."

Indeed, interest rates are still below the historical mean, even as underlying benchmark rates rose for most of

2018, says Foschini. The recent volatility in the Treasury market has given owners another chance to lock in long-term, fixed-rate debt, mortgage bankers say.

Charles Foschini
Berkadia

That's especially true for investors looking to recapitalize floating-rate loans as the yield on the 30-day London Interbank Offering Rate (LIBOR) climbed 100 basis points to 2.5 percent over the last year. Then again, "no one has a crystal ball," says Patrick Brady, vice president for Cornerstone Realty Capital in Lexington, Massachusetts.

"We could wake up in March and the 10-year Treasury yield could be down to 2.25 percent," he suggests. "So, mortgage bankers should be constantly assessing the financial position of their clients and what they're looking to accomplish in the near and long term."

Common Addams is expected to open in 2020 with rental rates starting at around $975 per month. Maverick Commercial Mortgage arranged construction financing for the development, which is located in Chicago.

Debt fund proliferation

Fortunately for mortgage bankers and their clients, the explosion of private debt funds is providing a bridge financing solution to help achieve those goals. Unrestrained by stringent bank regulations, the funds offer borrowers nonrecourse financing and more flexibility, mortgage bankers say.

"Borrowers are still paying a little bit of an interest rate premium for nonrecourse debt, but every other loan term they're getting is more beneficial, from higher LTVs to interest-only loans or 30-year amortizations," explains Kadish. "Banks look for reasons to say 'no,' but debt funds are blowing and going."

At the end of the third quarter, debt funds held $57 billion in available capital globally, the highest amount ever for the funds, according to Preqin, an international alternative asset data and analysis firm. As of October, 106 debt funds were in the market seeking $40 billion, up from 32 funds targeting $19 billion in 2016.

Investors in debt funds are attracted to the higher return potential amid the rise of LIBOR's yield over the last couple of years, Erxleben points out, sparking interest from a wide range of players.

Chicago-based real estate investment manager LaSalle Investment Management, for instance, has agreed to buy a majority stake in the $1.2 billion debt fund business of Latitude Management Real Estate Investors in a deal that was expected to close in the first quarter. Latitude, based in Beverly Hills, California, originates bridge loans for value-add and transitional properties.

Life insurance companies, too, are testing the bridge fund waters. Last year, for example, a real estate investment management affiliate of New York Life Insurance Co. raised $300 million for its first-ever value-add fund. Investors included New York Life and Clal Insurance, an Israeli insurance company.

"From a borrower's perspective, you have a lot of sources out there to get a competitive bid from in the bridge lending community," says Erxleben. "And you continue to see pricing tighten up and better terms for the right deal."

Willing construction lender

Debt funds are becoming a go-to source for ground-up construction and redevelopment financing, too. Banks have become more cautious about doling out construction debt, particularly in the multifamily sector amid concerns about their overexposure to some markets or short-term fundamental softness, mortgage bankers say.

Developers leery of taking on recourse and that want more leverage than banks are willing to give are finding construction financing provided by debt funds increasingly attractive, says Stepanchak. In some cases, debt funds will provide a highly leveraged loan of senior and subordinated debt at a single-digit interest rate, he adds.

In fact, one debt fund recently closed a deal in which it provided 90 percent of interest-only financing for the construction of a speculative industrial property, according to Cushman & Wakefield's capital markets report. The three-year loan featured an initial floating interest rate of 9.2 percent and 1.5 percent in fees.

Developers tapping debt fund construction financing still must provide a completion guarantee. Unlike banks, debt funds are willing to take control of properties.

"Say you're converting an office building to a hotel, and the hotel market craters while you're in construction. You're still going to have to finish the project come hell or high water and then turn over the keys," explains Stepanchak.

Debt funds don't appeal to all borrowers. The lenders haven't found solid footing in New England, Brady claims. More than 100 bank lenders are pricing deals aggressively, he says, and most are providing permanent financing, too.

Patrick Brady
Cornerstone Realty Capital

"Nonrecourse financing and getting higher up in the capital stack can be the drivers to use a debt fund," he acknowledges, "but most of our clients are not averse to guaranteeing repayment of their loans in return for a better rate." ■

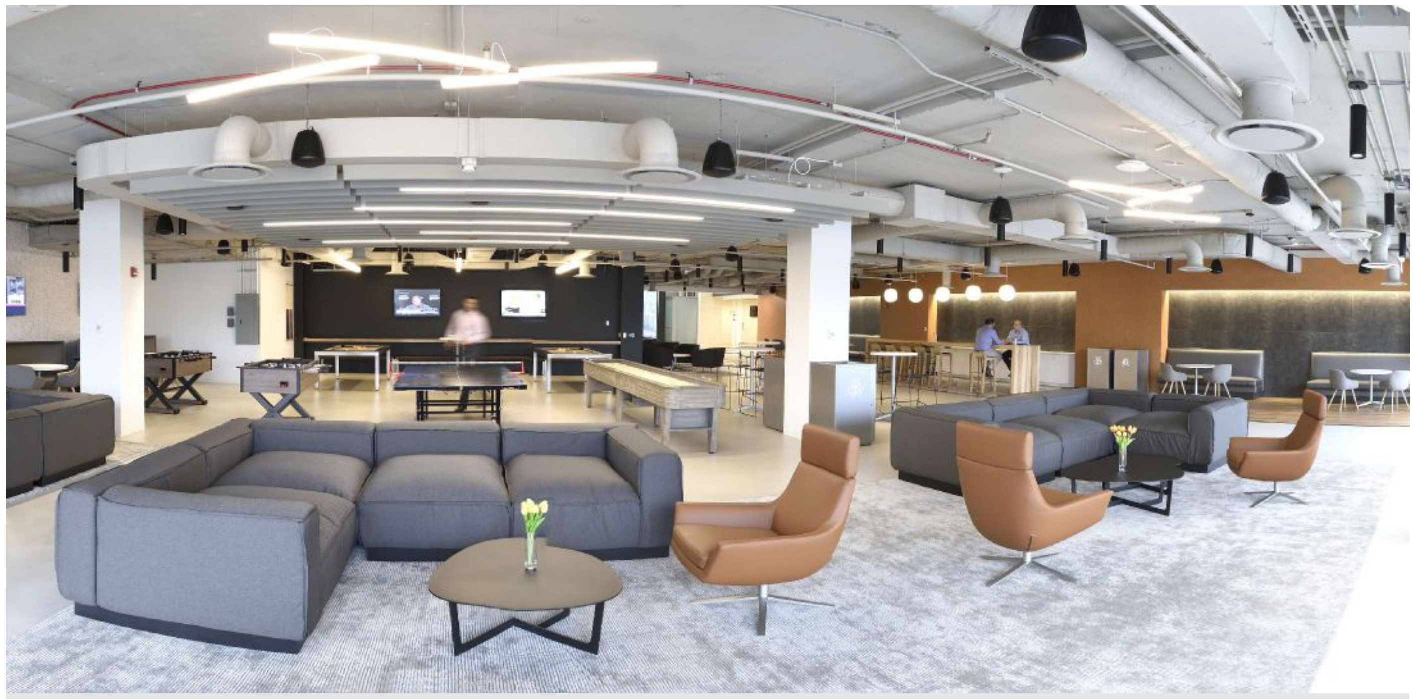
OFFICE from page 1

"The strategy we've had for about the last two years is to focus on large assets in the suburbs that are well-located and upgrade them to provide the amenities that tenants are really looking for," says Michael Klein, co-founder and managing principal of GlenStar. "We're finding assets that we think can be positioned in a way that provide more of an urban feel."

At President's Plaza, the firm is redoing the lobbies and adding a large tenant lounge with a coffee bar that will turn into an actual bar in the evenings. Midtown Athletic Club will manage the fitness center, which will offer personal training and classes.

In February, all GlenStar properties will offer a new concept called GlenStar Connect. The program is designed to activate the amenities in group activities such as running clubs or cross country ski groups. The end goal is to connect employees and make their office setting a place they want to be, says Klein.

Naturally, rents will increase at the properties where GlenStar spends extra capital. "If we're providing what are the best facilities within any given submarket, we should be achieving the highest rents within that submarket because we're providing something that no one else does or has," he points out.



GlenStar Properties recently completed a $30 million renovation of Schaumburg Corporate Center in Schaumburg, Illinois.

As of the fourth quarter of 2018, Class A rents in the O'Hare submarket average $33.19 per square foot, according to Colliers International. Class A rents average $25.94 per square foot in the Northwest submarket, which is home to cities like Schaumburg. According to Klein, rents at both President's Plaza and Schaumburg Corporate Center are currently above those figures.

Klein equates selecting an office property to buying a car. There are the bare basics and then there are the luxury models. "At the end of the day, employers want to make sure their employees are happy. They should be willing to pay more to be in a better product," he says. "Given the low unemployment rate today, recruitment and retention of employees has become the primary focus."

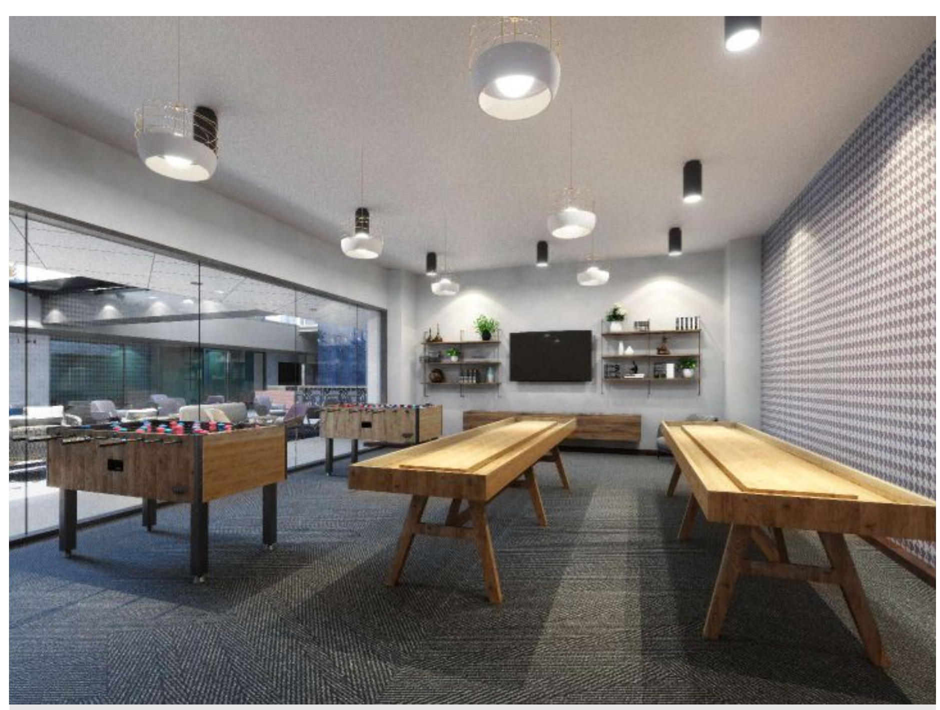
On-site access

This summer, Bridge Investment Group plans to begin renovation work totaling approximately $5 million at O'Hare International Center, a pair of nine-story office buildings adjacent to O'Hare International Airport in Rosemont. Bridge plans to renovate both lobbies and add a new tenant lounge and conference center. Originally built between 1984 and 1987, the property spans 517,640 square feet.

"We saw a rent gap between a lot of the properties in the area. We thought we could make this one more competitive and desirable after the changes," says Tretinik.

As of press time, the property was 83 percent occupied by a mix of large public companies, regional food businesses and technology tenants.

Office owners have placed a heavy emphasis on outdoor amenity spaces as part of today's office renovations, observes Tretinik. For buildings larger than 150,000 square feet, he believes



Pictured is a rendering of the game room at The Shuman in Naperville, Illinois. Franklin Partners is working with Wright Heerema Architects on the project.

that fitness centers are almost a "must have."

Particularly in a suburban setting, where walkability may be hindered, having access to a handful of amenities on site at the office property is important for creating an environment that's more conducive to networking, according to Tretinik.

Speed to market

Phil Cattanach, senior director with Minneapolis-based Opus Development Co. LLC, says that his firm is fortunate to work in several different property sectors so that it can apply different ideas and concepts from one asset class to the next. For example, the clubroom, rooftop deck and bike lounge that Opus usually implements at multifamily buildings are easily replicated at office projects.

Opus recently acquired Target Corp.'s former west corporate campus in Minneapolis with plans to convert the single-tenant office building into multi-tenant space. A new rooftop amenities deck will include a clubhouse, entertainment space, pool table and conference room. The 310,000-square-foot building was originally built for Prudential in 1954. Target occupied it from 1994 until late 2016, before consolidating its employees at its north campus in Brooklyn Park.

Cattanach says that location and speed to market were two underlying factors in the acquisition decision for Opus. The I-394 corridor, where the property is situated, is one of the most competitive office submarkets in the Twin Cities area, according to Cattanach.

"Opus has generally always done ground-up construction, but there's that extra cost," he says. "Users have to assess if it's worth the extra time and delay for that new office space."

Unlike ground-up construction, which can take a couple years to build, a project like the Target campus renovation can be completed in a handful of months, says Cattanach. Repositioning a building from single-tenant to multi-tenant does have its challenges, however. Since the property will contain separate businesses, entrance points and security are the main considerations. "You have to be creative because a single-tenant building was never meant to be multi-tenant," explains Cattanach.

Ultimately, Opus concluded that the optimal use for the real estate was multi-tenant space, given that demand from smaller-size users is more pressing. Opus has signed anchor tenant Tactile Medical to a 110,000-square-foot lease. A second undisclosed tenant has leased about 70,000 square feet.

An amenity-rich world

A similar story is taking place in Naperville, Illinois, where Franklin Partners LLC is redeveloping the former OfficeMax headquarters as multi-tenant space. The 350,000-square-foot building had been vacant since 2014 when OfficeMax, now a subsidiary of Office Depot, moved its headquarters to Boca Raton, Florida. Franklin Partners acquired the property in a joint venture with Bixby Bridge Capital in April 2018.

Since the building is completely vacant, Franklin Partners and its architect, Wright Heerema Architects, have a blank canvas from which to start, says Ray Warner, partner with Oak Brook, Illinois-based Franklin Partners. "We see a compelling opportunity to develop a once single-occupied building into an amenity-rich environment for many tenants," he says.

A $28 million improvement plan for President's Plaza in Chicago's O'Hare submarket calls for renovated lobbies and the addition of a large tenant lounge with a coffee bar. Midtown Athletic Club will manage the fitness center.

Known as The Shuman, the redeveloped five-story building will feature a 30,000-square-foot amenity area, including a dining hall, in-house barista, game room, golf simulator and bike room.

The well-rounded amenity package is the driving force for the repositioning of the asset, says Julie Maue, director of marketing for Franklin Partners. Beyond that, Maue says that the ability to create a work environment in the suburbs that has a downtown feel and on-site convenience is attractive to tenants.

"Our goal is to create an experience at The Shuman," she says. "From the moment you walk inside, the high ceilings and light-filled atrium will make you feel like you are walking into a high-end hotel, not a suburban office building."

Tenants will be able to start their day at Manan, a barista-staffed café serving fresh-brewed coffees, teas, juices and smoothies. For lunch, they can dine at Fiona's Fare, a farm-to-table style restaurant. Then there's the two-level fitness center and the game area to round out a day's work.

"We have found success by redeveloping tired, underutilized office buildings and incorporating a tenant-focused management style," says Warner, who believes that an office renovation project like The Shuman can rival that of a newly constructed development. The differentiators, in his view, are more attractive pricing and quicker delivery. ■

OPPORTUNITY CALLING IN BUCKEYE STATE

Tax breaks have prompted many investors to capitalize on the Opportunity Zone investment trend in Ohio.

By Richard Sarkis

Richard Sarkis
Reonomy

With over $6 trillion in unrealized capital gains in the United States, the potential return on commercial real estate investment is massive. To take advantage of this large sum of unrealized capital, U.S. Congress created the Opportunity Zone program as part of the Tax Cuts and Jobs Act of 2017.

Opportunity Zones were designed to stimulate long-term investment and economic growth in low-income, distressed American communities with poverty rates of 20 percent or higher.

Opportunity Zone investors are given attractive tax breaks as long as they make significant upgrades to properties they reinvest in or redevelop. High demand for these appealing tax breaks has prompted many to capitalize on the Opportunity Zone investment trend, stiffening the competition to source these potentially high-yielding deals.

In a hyper-competitive investing climate, dependence on listed properties will no longer serve as a sufficient means of identifying target acquisitions since on-market information represents a tiny sliver of the entire commercial real estate world. Off-market data, on the other hand, represents the whole universe of commercial assets — not just listed, marketed properties. Off-market deal making is a crucial part of an investor or developer's Opportunity Zone deal sourcing strategy. And nowhere is this more apparent than in Ohio.

Navigating Ohio's markets

According to Reonomy data, the highest number of designated Opportunity Zones in Ohio are located within Cuyahoga, Franklin and Hamilton counties. Altogether, these counties are home to over 70,000 commercial assets and land parcels that are ready for Opportunity Zone reinvestment and redevelopment.

Of the 320 census tracts classified as Opportunity Zones, 64 of them are in Cuyahoga County, which encompasses more than 31,000 commercial properties — a third of which are multifamily assets. Throughout 2018, multifamily properties in Cuyahoga Opportunity Zones experienced a healthy deal volume. Over 6,500 multifamily sales took place averaging around $147,000 per deal.

Similarly, in Franklin County, multifamily properties account for approximately one-third of Opportunity Zone properties. Within Franklin County's 44 Opportunity Zones are more than 4,200 multifamily properties. Sales volume within this asset class has been healthy within the past year as well. In 2018, approximately 1,500 multifamily sales were conducted within Opportunity Zones totaling over $466 million.

Developers eyeing vacant land Opportunity Zone projects should look to Hamilton County, where there are more than 6,500 vacant land tracts. Representing approximately 40 percent of all Opportunity Zone assets in Hamilton County, vacant land development presents an attractive opportunity. In 2018 alone, there were 1,981 sales transactions averaging around 430,000 per deal.

The availability of Opportunity Zone investment possibilities in Ohio is inarguable. Those who have been seizing these incentivized opportunities in the past year have likely been using various technology tools to optimize their prospecting methods to secure the highest-yielding investments.

Leveraging off-market data

Though demand may be high for Opportunity Zone investment in Columbus, Cincinnati and Cleveland, supply is finite, making competition for deal making stiffer than ever. In this competitive investment climate, commercial real estate professionals must incorporate strategies and tools to drive insights and maximize returns. While listings platforms may be an adequate place to begin researching target acquisitions, they only provide on-market opportunities — a myopic view at best of a local market.

So why obstruct your view and limit your possible investment options when you could instead leverage data from the entire universe of commercial real estate information? Plain and simply, off-markets are those that are not publicly listed for sale. Only a small amount of properties are listed for sale at a given time, making the pool of off-market properties substantially larger.

Fortunately, commercial real estate data aggregation platforms such as Reonomy allow you to see the entire universe of commercial real estate at once. Filtered search options allow users to identify target acquisitions within Opportunity Zones and even obtain property owner contact details to remove the need for third parties during the negotiation process.

When technology is correctly used, the investment process is made more efficient from due diligence all the way through closing. The value of off-market data is especially evident in the deal-making process where nuance and granularity are key to developing a tailored, resonant pitch for a property owner.

As investors in Ohio seek to deploy their unrealized capital gains into Opportunity Zone investments, leveraging the right tech tools and off-market data sources will become increasingly important, not only to satisfy demand but also drive actionable insights and stay ahead of the competition.

Richard Sarkis is CEO and co-founder of Reonomy, a commercial real estate data and analytics platform.