MORTGAGE OBSERVER WEEKLY

The Insider's Weekly Guide to the Commercial Mortgage Industry

Wells Fargo and BNY Mellon Lead Financing for Durst West Side Rental

The Durst Organization scored a $411.5 million construction loan from a group of lenders led by **Wells Fargo** and **Bank of New York Mellon Corp.** to finance the development of its tetrahedron-shaped rental tower at **625 West 57th Street**, sources familiar with the deal told *Mortgage Observer Weekly*.

MOW EXCLUSIVE

The loan, which closed last week, carries a term of four years with a one-year extension option and "smoking interest rates," one person familiar with the transaction said on the condition of anonymity.

Wells Fargo took $110 million of the loan, while BNY Mellon, the syndication agent, took $111.5 million. **PNC Bank, M&T Bank** and **TD Bank** also participated in the deal, taking $70 million, $60 million and $60 million, respectively, that person said.

Wells Fargo, BNY Mellon, PNC and M&T declined to comment. A TD spokesperson confirmed the bank's involvement in the loan.

"It was a complicated transaction and all parties cooperated to make something that was seemingly difficult relatively easy to get done," said **Jordan Barowitz**, director of external affairs for Durst.

The 709-unit apartment building, designed by Danish architect **Bjarke Ingels**, is set to top out at 450 feet on Friday, he said. The completed 80/20 project will total 800,000 square feet—reaching 43 stories at its peak—to become one of Manhattan's largest rental buildings. (Under the city's 80/20 Housing Program, 20 percent or more of a building's apartment units are reserved for low-income residents.)

Construction on the development, located on the Far West Side between 11th and 12th Avenues, began last year. The property, which some have called Durst's "pyramid tower," is due for completion in the first quarter of 2016. The finished building will contain ground-floor retail space and one entrance for all residents, as well as a 25-yard indoor swimming pool and a 25,000-square-foot indoor park, Mr. Barowitz said.

The LEAD

"We haven't set the rents yet, but we think at the top of the building we can touch $90 a square foot," he told *MOW*.

—*Damian Ghigliotty*

In This Issue

"We have seen a resurgence in residential condominium apartment projects that are overlaid with a personality"

—**Michael Barker**
From *Q&A* on page 12

Zeckendorfs Lock Down $450M For 520 Park Avenue

Remember that $130 million penthouse? The record-breaking listing made waves after developer **Arthur Zeckendorf** revealed the nine-figure asking price for the triplex penthouse at his **520 Park Avenue** to Bloomberg News in September.

MOW EXCLUSIVE

Now, Mr. Zeckendorf, who with his brother **William Lie Zeckendorf** forms the development team behind much of the city's fanciest housing, is one step closer to making some Russian oligarch's dreams of cash stashery come true. The Zeckendorfs closed on a $450 million construction loan to build the 31-

*See **Zeckendorfs...** continued on page 3*


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Zeckendorfs...continued from page 1

unit Park Avenue condominium tower earlier this month, a source close to the deal told *Mortgage Observer Weekly*. The mortgage has not yet hit city records.

The perhaps unlikely lender was a London-based philanthropic organization called the **Children's Investment Fund**, the source said.

That fund last made headlines for lending a whopping $660 million for **Silverstein Properties** to build its mixed-use tower **30 Park Place**. As Silverstein's CEO **Marty Burger** has said, he was in talks with a number of local banks and other financing players, who were each taking sections of a syndicated loan, when Children's Investment Fund stepped in and took the whole thing.

While no details on this loan were available, it does mean that the **Robert A.M. Stern**-designed limestone tower can rise. Aside from the spectacular triplex penthouse, which boasts a 1,200-square-foot terrace, the seven duplex penthouses 520 Park Avenue will hold are also all among the top 25 most expensive apartments on the market in the city at the moment, according to a report from Curbed.

The project, at 60th Street and Park Avenue, will also boast 23 full-floor units, according to reports, and should be complete by 2017.

A call to the Zeckendorfs' representatives was not immediately returned, and no one affiliated with the Children's Investment Fund was immediately reachable.

JLL's capital markets team handled the transaction, the source said.

—Guelda Voien

A rendering of 520 Park Avenue

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Chairman,
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MARY ANN TIGHE
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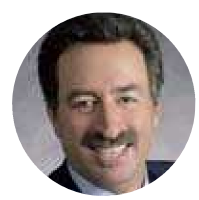

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Defeasance Back in Style as Borrowers Become Wary of Rising Rates

MOW EXCLUSIVE

Defeasance provisions, which allow sponsors to swap out a loan with treasury securities that replicate the cash flows of the loan, have again become a popular option for CMBS borrowers looking to lock in rates and avoid prepayment penalties, industry sources told *Mortgage Observer Weekly*.

While defeasance provisions were invoked regularly before the 2008 financial meltdown, the current wave marks a new post-crisis high.

Defeasance volume rose 123 percent to $13.2 billion from 2012 to 2013, following a 21 percent increase from 2011 to 2012, according to data obtained and provided by the Los Angeles-based industry firm **AST Defeasance**.

And activity continues to rise, with 2014 defeasance volume expected to surpass 2013 levels by almost $1 billion, according to recent projections by the finance and real estate research firm **Trepp**. However, that is still below 2007 levels, according to both sources.

"With commercial real estate owners wary of rising interest rates, many are taking advantage of today's refinancing and sale terms by defeasing their existing debts," said **Eitan Weinstock**, a senior analyst at AST, which provides defeasance services to borrowers. Those sponsors are increasingly turning to defeasance as a safe way to secure long-term financing, especially on loans with 2015 to 2017 maturities, he said.

A Shopko store in Houghton, Mich.

In April, **Moody's Investor Service** reported a noticeable rise in U.S. CMBS defeasances in 2013, with 56 percent of the loans defeased having remaining terms of just one to two years.

"There's a certain breakpoint near maturity where it makes sense and that's why you're seeing the increase in defeasance year-over-year," said **Russell Schildkraut**, a principal at the New York-based real estate advisory firm **Ackman-Ziff** who oversees underwriting and loan placement.

"We're advising all of our clients, 'Right now if you're 12 to 18 months out on maturity, you should consider looking into defeasance,'" he said.

Among the largest defeasances this year was the replacement of a $545 million CMBS loan from **Citigroup Global Markets Realty Corp.** and **Barclays Capital Real Estate** on a massive **Shopko** portfolio in June 2014—one of the largest defeasances since 2007. The 10-year loan was originated in May 2006 and replaced with a custom security through a U.S. government agency, public records show.

The loan's collateral consisted of 112 single-tenant net-leased retail properties across the country. The properties were cross-collateralized with the securitized debt serviced by **Midland Loan Services**, according to Trepp. Retail and multifamily properties accounted for the most commonly defeased loans in the first half of 2014, followed by office and self-storage properties, Mr. Weinstock noted.

"While some borrowers still view penalties as risky propositions, ironically, the safest play is actually to pay the penalties in order to lock-in long term interest-rate safety," he said. "Property owners across the board are learning this lesson as they try to avoid the pitfalls of 2005 to 2007."

—Damian Ghigliotty

A rendering of the Bronx Triangle Plaza Hub

Creative Financing for Bronx Triangle Plaza Hub Wins Award

After years of work wrangling would-be tenants and buyers and navigating the murky waters of city and state tax credits, **Triangle Equities** has emerged with a viable strategy for its **Triangle Plaza Hub**, a mixed-use development in the South Bronx. So viable is the arrangement the developer finally finagled, with the help of **Goldman Sachs Urban Investments** unit, that it even won an award for its use of tax credits.

MOW EXCLUSIVE

The $35 million, 88,000-square-foot multi-use "hub," at **149th Street** in the Melrose neighborhood was first proposed in 2010 and saw many roadblocks along the way, according to the developers and the Goldman execs who worked to finance the project.

"When we originally started underwriting the transaction, we tried to do so based on conventional financing, but quickly discovered that the rents we were seeing in the South Bronx," were not high enough for the project to pencil out, said **Josh Weingarten**, project manager for Triangle Plaza. "Construction costs, which are the same as in Manhattan, were creating a large gap in our capital stack."

The zoning required parking if the mixed-use project was to include retail, which it does, and that meant adding space either on the roof or below grade—both of which are expensive, said Mr. Weingarten. With mounting expenses, Triangle began thinking of alternative ways to finance the project.

After hooking up with **Margaret Anadu** and **Sherry Wang** from Goldman, a financing structure began to take hold, though it took more than two years, the Goldman execs told *Mortgage Observer Weekly* in a recent interview.

The group decided to tap the **New Markets Tax Credit** program, with Goldman providing $10.3 million in equity through the program, and the **New York State Healthy Food Healthy Communities** fund, which ended up providing a $5.8 million loan. A Goldman Urban Investments fund also lent $14.8 million in a senior mortgage not under the Federal New Markets program.

But there was also the thorny issue of finding—and convincing—appropriate tenants to sign on the dotted line.

"The developer spent a long time trying to find the perfect usage," said Ms. Wang. Because of the inclusion of a grocery store, the Healthy Food Healthy Communities Fund was able to contribute and the New Markets credits were an easy choice because they did not specify that the project needed to be for any specific use, she added. But finding tenants for the office space proved a tough sell, according to Mr. Weingarten. Triangle was in talks with **Metropolitan College** for more than a year before the team came up with a solution: the college would assume some of the debt on the project as soon as the building was complete, buying its space as a commercial condominium.

"It was very important for Metropolitan College to own their own space," Ms. Anadu said. The college wanted to own their space to protect against rent increases (it is currently located in Lower Manhattan). And really, this was the only way they were going to be able to afford the debt service on the buy—because the debt the non-profit college will be paying off is subsidized.

"[The transaction] could have cost another million if not structured that way," Ms. Anadu added.

The total cost of Metropolitan College's new home is approximately $8.5 million, said a source close to the project who did not want to be identified.

The college put in a down payment, some equity and will assume about 70 percent of the overall price of the space in subsidized loans, according to Mr. Weingarten.

"This creative financing would let them purchase their condominium at a price that was essentially below the cost of construction," he said.

With an anchor tenant in place, everything got much easier. While not entirely out of the woods—the project is 65 percent leased, according to Mr. Weingarten—other tenants have signed on in the last few months: a **Boston Market** restaurant and **Vistasite Eye Care**, as *Commercial Observer* has previously reported. Construction should be complete by the beginning of next year.

And last week the teams learned that the project had been named **Qualified Low Income Community Investment of the Year** by the **Novogradac Journal of Tax Credits**.

Now, Goldman and Triangle Equities are trying to take their show on the road. The two are teaming up again at a project called **Arverne East** in Brooklyn's Rockaways section and Mr. Weingarten said he hopes to enlist Goldman's help with a project in Staten Island called **Lighthouse Point**. That project is another answer by Triangle to an **Economic Development Corporation** Request for Proposal.

And the two firms have goals in line.

"We have performed well in the public private partnership world," Mr. Weingarten said, and such projects will continue to be a focus for Triangle.

"We are a double bottom line investor," Ms. Wang said of Goldman's Urban Investments group. "Some consider it a little cheesy, but we believe we can do well while doing good." —*Guelda Voien*

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The Stoler Report airs 8 times a week in New York City on CUNY TV. Each new broadcast debuts on Tuesday 2 AM, & 11 PM, Wednesday, 8:30 AM, 2:30 PM & 10:30 PM, Friday, 5:30 AM, Saturday 12 Midnight & Sunday 10:30 AM.

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These programs are hosted by Michael Stoler, President of New York Real Estate TV, LLC, Managing Director of Madison Realty Capital, real estate commentator for 1010 WINS AM.

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All past broadcasts can be viewed on "The Stoler Report App" for Iphone/ipad at Apple App Store Android Devices at Google Play

Williamsburg Rental Project, 10 Years in the Making, Gets Takeout Loan

Witold Brend of **Brend Development Corporation**, the owner of a 53-unit Williamsburg luxury rental development, has secured a $26.5 million permanent take-out loan against the newly minted building, *Mortgage Observer Weekly* has exclusively learned. Located just off McCarren Park, **64 Bayard Street** hit the market last December.

The 53 units, which include six penthouses, are fully occupied, said a source close to the deal.

The seven-year, non-recourse loan was provided by **Investors Bank** and has a 3.5 percent interest rate, the source said.

Eastern Union Funding brokered the loan, a representative for Eastern Union confirmed. The firm had also brokered the $21 million construction loan for the project, which Brend Development first began mulling ten years ago, according to published reports. **Nate Hyman** and **David Metzger** arranged the loan.

Though a take-out was built into the original construction loan, the low interest rate environment prompted the owner to seek a new loan with the same lender, and substitute it for the earlier-negotiated mortgage, according to the Eastern Union brokers.

"The market is stronger now and the performance of this building is an illustration of that," Mr. Hyman said. "We essentially rebuilt the financing accordingly."

An Investors Bank representative did not immediately respond to a request for comment; no number for Brend Development was listed.

—Guelda Voien

64 Bayard Street

Island View Apartments

U.S. Bank Provides $30M Construction Loan for Ventura Venture

CBRE secured a $30.6 million construction loan for a planned multifamily development in Ventura, Calif., *Mortgage Observer Weekly* has learned.

Ventura Heritage Corp., a southern California developer, received the three-year loan with two 12-month extensions from **U.S. Bank**, according to CBRE. It will build **Island View Apartments**, a 154-unit, Class A apartment development with the funds.

Sharon Kline and **Marina Massari** of CBRE's Newport Beach office worked on the deal.

The development, located at Victoria Avenue and 8th Street in Ventura, will begin with 30 days, the CBRE representative said.

The complex will feature rooftop decks with barbeque areas and views of the Pacific Ocean as well as a gym, coffee bar, lounge, conference room, yoga studio, dog park, pool and spa.

—Guelda Voien

Canyon Capital Lends on Ann Arbor Development

A Los Angeles-based hedge fund's real estate arm, **Canyon Capital Realty Advisors**, provided a $53 million senior construction loan for a mixed-use development near the **University of Michigan** in Ann Arbor, according to a release from the firm.

The mostly residential project, which is being developed by an affiliate of the **Harbor Companies**, based in nearby Bloomfield Hills, will include 249 residential units and 23,500 square feet of ground floor retail. The development, to be called **Packard Square**, is located on a 6.5-acre site on Packard Street less than 2 miles from the university.

As part of the development, Harbor is also creating a new playground for use by all of the city's residents, according to the release. The project will contribute another $50,000 to be used for Ann Arbor's parks.

"We are pleased to provide the financing for Packard Square, which will provide highly amenitized housing to a supply constrained housing market that has proven to maintain high occupancy even in recessionary environments," said **Marti Page**, director of Canyon Realty, in a prepared statement.

Construction on Packard Square is scheduled to begin in the fourth quarter of the year and come to a close in 2016. **Randy Thomas**, president and chief executive officer of Detroit-based **Insite Commercial**, is overseeing retail leasing for the project.

"Nearby residents have enjoyed a diverse group of stores on this site for decades and we are committed to bringing a strong mix of retailers back to this important location," Mr. Thomas said in the release.

—Damian Ghigliotty

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Commercial Loan Originations Continued to Climb in the Third Quarter

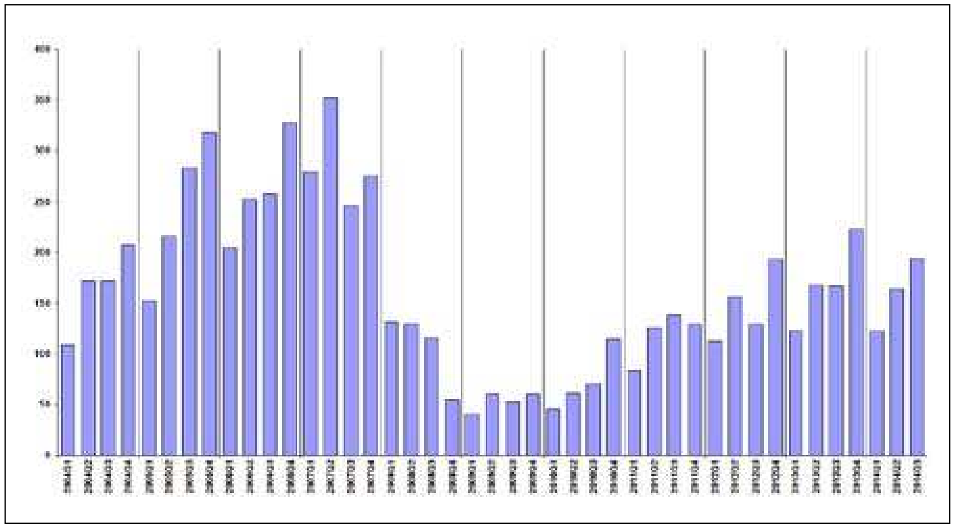
Commercial real estate loan originations in the third quarter were up 16 percent from the same period last year and up 18 percent from the second quarter of 2014, the **Mortgage Bankers Association** reported this week.

That included a 41 percent year-over-year increase in the dollar volume of multifamily loans, as well as a 22 percent increase for industrial loans, an 11 percent increase for office loans, an 11 percent increase for retail loans, and a four percent increase for hotel loans.

"Commercial real estate borrowing and lending continued at a strong clip in the third quarter," **Jamie Woodwell**, MBA's vice president of commercial real estate research, said in a written statement.

"Low rates coupled with growth in property incomes, property values and sales transactions have pushed year-to-date commercial and multifamily mortgage originations five percent above last year's pace," he added.

Healthcare property loans bucked the trend, with a 43 percent year-over-year decrease, according to the industry group's research.



The dollar volume of GSE loans increased by 118 percent from the third quarter of 2013, while CMBS loans saw a 47 percent increase, and life company loans saw a one percent increase in the same period.

Bank loans saw a 16 percent year-over-year decrease in dollar volume, according to the MBA report.

The Mortgage Bankers Originations Index is based on a quarterly average of 100 and does not include dollar amounts.

—Damian Ghigliotty

Workforce

A **Blackstone Mortgage Trust** alum teamed up with **Mack Real Estate Group** and unveiled a new lending platform, **Mack Real Estate Credit Strategies**, marking a major expansion of Mack's real estate debt business, according to an announcement from the firm.

The new platform will focus on transitional and distressed assets throughout North America and in Europe offering mostly mezzanine, preferred equity and first mortgage loans, at least initially. **Richard Mack**, CEO, and **Peter Sotoloff**, chief investment officer, who recently left Blackstone, will lead **MRECS**.

"There are three reasons for launching this business now," Mr. Mack said in a statement. "First, we believe that the returns currently available for loans secured by transitional assets in the United States, and for almost all European assets located outside of the very few top tier cities, will be superior to most other real estate investments, on a risk-adjusted basis. Second, **Peter Sotoloff**, whom we consider the best real estate debt professional in the market, has agreed to join us. Third, we are now able to invest with partners who supported us in our past businesses. We believe that they see the merits of continuing our previous, very successful real estate lending program, which was nearly unique in continuing to provide very positive returns even through the last downturn."

Previously, Mr. Sotoloff served as managing director and head of originations of **Blackstone Real Estate Debt Strategies** and he is among the founders of the BREDS unit. Mr. Sotoloff also oversaw nonperforming loan acquisitions for the **Morgan Stanley Real Estate Funds**, and has worked with the **Goldman Sachs Whitehall** funds.

"I am excited to be co-founding MRECS with **Bill** and **Richard Mack**. We plan to build a preeminent real estate debt investment platform, relying on our extensive combined experience of creating value for investors in the real estate debt space, while providing creative capitalization solutions for borrowers," Mr. Sotoloff said in a statement.

Hunt Mortgage Group, formerly **Centerline Capital Group**, opened a new office in Cleveland, Ohio, that will handle commercial financings, the group announced this week.

The office will be located at **9826 East Washington Street**, Suite 12 in Chagrin Falls, Ohio.

Daniel Eibler has been hired as a director to lead the effort and to expand Hunt's product offerings in the Midwest, a statement from Hunt said.

Mr. Eibler will deal with Fannie Mae DUS, Freddie Mac, FHA, bridge and CMBS loans for many commercial property types.

He will report to **William Hyman**, senior managing director and head of the mortgage banking group at Hunt.

Former **Intervest National Bank** Vice President and Relationship Manager **Noah Littell** has joined **Oritani Finance Company** as a vice president and commercial lending officer. In his new role, he will report up to Managing Director **David Garcia**. Mr. Littell will be responsible for developing and expanding commercial lending relationships within the Oritani's five-state lending footprint.

MOW EXCLUSIVE

The Takeaway

"New York city CMBS delinquency is below one percent if you take out Stuy Town and The Riverton, two very large multifamily loans underwritten with pro-forma financials," said Joe McBride, an analyst with Trepp. "With those two in the equation, New York City delinquency stands at 5.48 percent, below the national 6.09 percent level. Of the 20 loans 60+ days delinquent, 12 are in the outer boroughs, showing Manhattan's relative strength. As these loans get resolved and additions to the distressed list slow, the picture for NYC CRE is improving all the time."

Source: Trepp

Balance ($)	Property	City	Prop. Type	Delinquency Status	FCL Start Date	REO Date	Origination Date	Maturity Date
3,000,000,000	Peter Cooper Village & Stuyvesant Town Pool	New York	MF	REO	20140603	20140603	20061117	20161208
225,000,000	Riverton Apartments	New York	MF	REO	20090202	20100311	20061221	20120101
33,787,378	The Shoreham Hotel	New York	LO	Foreclosure			20061101	20161111
31,000,000	1865 Burnett Street	Brooklyn	MF	REO	20090227	20120629	20070215	20120301
30,000,000	300-318 East Fordham Road - A note	Bronx	RT	90+ Days			20070301	20170311
25,699,964	1604 Broadway	New York	RT	REO			20070329	20120401
24,249,142	Cross Island Plaza	Rosedale	OF	90+ Days			20060810	20160811
16,638,195	Clarion LaGuardia Airport Hotel	East Elmhurst	LO	REO		20121221	20070124	20100201
11,089,882	326 Warren Street	Brooklyn	MF	60 Days			20040608	20340701
9,764,631	4234 Bronx Boulevard	Bronx	OF	90+ Days			20070515	20170601
6,712,505	75 Spring Street	New York	OF	Non-Performing Beyond Maturity			20040123	20140201
5,507,843	770 & 780 Garden Street	Bronx	MF	REO	20091203	*20121106*	20070901	20170901
5,488,250	1500 Astor Avenue	Bronx	OF	Foreclosure			20040714	20140811
4,012,737	Prince and Bleecker Portfolio	New York	MU	Foreclosure			20110218	20210306
3,720,000	2070-2074 Arthur Avenue	Bronx	MF	Foreclosure			20050727	20150801
2,792,151	642, 646, 650, 652 Coney Island Avenue	Brooklyn	MU	Foreclosure	20140523		20061129	20131201
2,621,852	509 212th Street	New York	MF	REO		20120702	20071101	20171101
2,608,261	47-16 Austell Place	Long Island City	IN	90+ Days			20050127	20150201
1,917,201	1735 Lafayette Avenue	Bronx	MF	Foreclosure	20090422		20061121	20131201
1,894,685	3126 Coney Island Avenue	Brooklyn	MF	Foreclosure	20130130		20050913	20121001

TOTAL: 3,444,504,675

Q+A

Michael Barker

Partner, Fried, Frank, Harris, Shriver & Jacobson LLP

***Mortgage Observer Weekly:* How did you come to focus on real estate finance in your practice?**

Michael Barker: I actually started my career doing general corporate work in London, but never really felt a great connection to what I was doing. While there, we represented a U.K. client who was selling its interests in the Plaza Athenee Hotel and from then on I was really hooked on real estate. The practice of law just came alive as a result of that deal for me—I could actually see, touch and experience what I was working on and I loved it. After that, I transitioned to New York and almost immediately started to do real estate finance work. I have always been passionate about architecture and construction. In fact, I was initially torn between pursuing a career as an architect and pursuing a career in law. My family was quite relieved that I chose the "safer" path—but my specialization in financing for real estate projects allows me to have the best of both worlds!

Michael Barker

What is the most interesting deal you've worked on lately and why?

The development of 432 Park Avenue has to be a highlight because it is such an exciting building. The old Drake Hotel site on which it is located was in development limbo for quite a while and to see that tower now rise up above 57th Street and Park Avenue is quite remarkable. The same can be said for the proposed residential tower at 520 Park, which will be another iconic building with stunning views of the city. Finally, the pre-development financing for the Nordstrom store project on 57th Street was fascinating. Our primary collateral was the block of air and development rights that exist above what will be the first Nordstrom store in New York City. However, to access and use those rights to construct a hotel/residential tower required a full understanding of the Nordstrom development project itself.

What are your clients' biggest concerns at the moment?

In many cases, you have multiple lenders from all finance sources bidding on a proposal if it is particularly attractive. All this competition is obviously great for borrowers, but can make it extremely difficult for lenders to maintain an appropriate return on their funds. In addition, competition puts pressure on underwriting, credit analysis and typical loan protections—whether it is "bad boy" recourse carve-out provisions, cash management arrangements, reserve requirements, financial tests for extension and so forth. I think lenders are generally doing a much better job of trying to maintain those standards in the face of such stiff competition, but it is a difficult path to walk effectively.

Any trends in the market you've noted recently?

We have seen a resurgence in residential condominium apartment projects that are overlaid with a personality, either through a branding or license arrangement with a well-known club or operator or are part of a mixed-use residential and hotel project with a well known hotel operator. These types of projects are becoming very popular in the luxury sector and investment bracket and are always interesting deals to work on from my point of view. Of course, one trend in New York at the moment seems to be that taller is better; each new project seems to be reaching higher in order to maximize development rights and buyers are enthusiastic. MOW