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Real Estate ALERT

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

JULY 8, 2009

Mezz Lenders Taking Over Cabi Portfolio

The senior lenders on a heavily overleveraged California office portfolio have agreed to let four investors convert their mezzanine debt into equity as part of a restructuring that will significantly dilute the $100 million investment of a **Calpers-Hines** joint venture.

The Calpers team originally held the $100 million junior slice of debt on the 4.6 million-square-foot portfolio. It converted that debt to equity and took over the 33 properties in December, after owner **Cabi Developers** was unable to make payments on its $1.3 billion debt package.

Now the Calpers joint venture is largely being squeezed out. Under the restructuring, **BlackRock Realty Advisors, Gramercy Capital, KBS Realty Advisors** and **Square Mile Capital** will convert the remaining roughly $500 million of mezzanine debt into equity.

Hines, the Houston-based developer and fund operator, is expected to retain the

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Open-End Funds Get Hammered Once Again

Losses widened for many open-end funds in the first quarter, catching some market players by surprise.

Fifteen prominent funds suffered double-digit declines in value. For 13 of the vehicles, the drop was even deeper than the dismal results posted in the fourth quarter. The declines ranged from 36.3% for **RREEF's** America 3 fund to 10% for **Invesco's** Core Real Estate Fund USA (see table on Page 7).

Losses were expected, given the continued erosion in occupancy levels, rents and property valuations. But the extent of the markdowns plainly caught some investors off guard. "We were hoping the fourth quarter would be the worst," said an executive at one pension system that has invested in several open-end funds. "Clearly, that isn't the case."

The first-quarter results are just now being distributed to fund investors. Property funds generally report their performance figures to limited partners with

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Credit Suisse Fund Squeezed by Hotel Loan

A **Credit Suisse** fund may have to scramble to line up an equity partner for six West Coast hotels hurt by the sharp drop in travel bookings.

A $130.1 million securitized mortgage on the 1,159-room portfolio was transferred to special servicing in May, according to a securitization report released late last month. Even though the loan was up to date on payments, special servicer **LNR Partners** cited a threat of default because of "cash flow problems."

The $1.1 billion Credit Suisse vehicle, DLJ Real Estate Capital Partners 3, appears to be working with LNR on possibly renegotiating the terms of the loan, which does not mature for three years. If that is unsuccessful, the Credit Suisse fund would come up with more capital itself, find an equity partner or possibly sell off some properties to stave off foreclosure. Credit Suisse and LNR declined to comment.

The DLJ fund acquired the mid-scale hotels in California and Oregon for $150.5

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THE GRAPEVINE

Audrey Greenberg, formerly of **ING Clarion Partners,** has joined **CB Richard Ellis Investors** as chief financial officer of its Strategic Partners U.S. fund series. Greenberg, who is based in Los Angeles, oversees investor relations and financial reporting. She will also be involved with fund financing activities. She held the same title at ING's Lion Properties Fund, an open-end core vehicle. Greenberg previously was an investment banker at **Morgan Stanley** and **Merrill Lynch.**

San Francisco Employees is looking to hire a deputy director to work with chief investment officer **David Kushner** on real estate and alternative investments. The executive would determine asset allocations and recommend investments, including whether to enter new sectors. The staffer will also monitor investment performance, work with investment managers and oversee searches for new managers. The minimum salary is $149,000. The $12 billion system has about $1.9 billion invested in real estate,

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Northland Mulls Separate Accounts

Northland Investment may become the latest fund sponsor to turn to separate accounts as an easier means to raise capital in hard times.

The Newton, Mass., shop is considering the creation of separate accounts that would co-invest with Northland Fund 3, a value-added vehicle it began marketing in 2007.

Northland has raised $100 million for the fund so far — about half of which has been invested. It has discussed raising up to $50 million more for the fund and another $100 million via separate accounts. That would position Northland to be active next year, when many players think high-yield money will be invested aggressively again after a lag of nearly three years.

The firm, which declined to comment, is still working out details of the new strategy. But it has told prospective investors it expects the bleak market for equity raising to ease by yearend. That could yield a new batch of fund commitments or, more likely, an increase in appetite for separate accounts.

If successful, Northland would join an increasing number of fund operators that are pursuing separate accounts as an alternative method of soliciting capital. Others include **Angelo, Gordon & Co.** of New York, **Basalt Capital** of Chicago, **Birmingham Capital Advisors** of Pittsburgh, **Equity Capital Management** of Chicago, **Glenmont Capital Management** of New York, **Hillenbrand Partners** of Chicago and **Quadrant Real Estate Advisors** of Atlanta.

Separate accounts are investment vehicles set up for a single investor. The accounts can be an easier sell than funds because of their lower fee structure, ability to invest quickly and options for fine-tuning investment strategies.

Even with the new approach, Northland may ask limited partners to approve another extension of the marketing campaign for the fund. Investors previously signed off on a one-year extension, which expires at yearend.

The fund lined up its initial $100 million of equity, all from wealthy individuals, by the end of 2007. The shop had hoped to raise up to $250 million more from institutional investors, but dropped the idea after the stock and bond markets tanked last fall. In recent months, it has tried to raise another $50 million from individuals.

The fund seeks a 16-18% return by acquiring commercial and residential properties that are underperforming or suitable for redevelopment. It primarily targets the East Coast and Sunbelt. The fund is expected to concentrate more heavily on residential properties than its predecessors, a $50 million vehicle that closed in 2002 and a $100 million vehicle that closed in 2006.

Northland, which was founded in 1970, manages $1.7 billion in real estate investments. ❖

Property Sales Plunged by 81% in Second Quarter

Commercial-property sales remained at dismal levels in the second quarter, with market pros holding out little hope for a rebound in the second half.

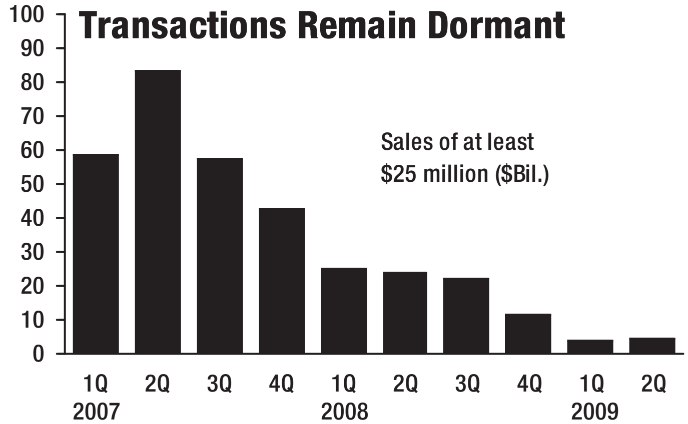
Some $4.7 billion of office, retail, industrial, hotel and multi-family properties changed hands from April through June, according to **Real Estate Alert's** Deal Database, which tracks sales of $25 million or more.

That was down 81% from $24.2 billion a year earlier and down 94% from the second quarter of 2007, when a record $83.5 billion of properties changed hands, marking the peak of the sales boom. The only silver lining was that sales rose slightly from $3.9 billion in the first quarter, though that could simply reflect the fact they couldn't fall any further (see list of large second-quarter transactions on Page 4).

Market players cited hints of improving conditions for sales. For example, the big gap in pricing expectations between buyers and sellers has narrowed somewhat, as owners have started to acknowledge the plunge in valuations. And distressed properties are slowly but steadily working their way through foreclosure and on to the market.

But those factors have not been nearly enough to break the logjam. Credit remains largely unavailable, and the weak economy is weighing heavily on real estate fundamentals. Against that backdrop, many bargain hunters expect prices to fall even further.

"Why would I buy a distressed property from [the owner] when I can wait six months and buy it from the lender for another 10-20% off?" asked the acquisitions director for a fund targeting debt-laden properties.



"Nothing is happening in sales right now," said one veteran East Coast executive with a national sales brokerage. He added that the few properties that do hit the market often become the subject of endless haggling. "We're just in this intense period of discussion [and] negotiation about everything," he said.

Brokers and investors are pessimistic about the likelihood of any significant uptick in sales activity for the rest of the year. Pension systems — among the biggest property investors during

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DCD Targeting Distressed Loans

London-based **DCD Group** plans to team up with partners to spend about $250 million on nonperforming U.S. apartment loans over the next 12 months.

DCD has formed an affiliate, **AION Partners,** to oversee the investments. DCD often invests via partnerships with Middle Eastern investors. Among U.S. players, it has teamed up with **Carlyle Group** of Washington, **ING Clarion Partners** of New York and **NorthStar Realty Finance** of New York.

In its first deal, AION acquired eight nonperforming multi-family loans with a total face amount of $180 million from a nonbank lender, said principal **Siraj Dadabhoy.** The loans were acquired in stages over the past several weeks. Dadabhoy declined to disclose the purchase price or identify the seller.

While AION hasn't set a firm investment goal, Dadabhoy expects it will deploy another $250 million over the next year. In addition to troubled multi-family loans, it will consider distressed office mortgages. DCD's U.S. arm, DCD America, has traditionally focused on office and multi-family properties in the U.S., where it has acquired $400 million of properties since 2001. The company has also originated mortgages.

DCD is betting that its relationships with lenders and its ability to pay in cash and close deals quickly will give it a leg up in the ongoing hunt for distressed bargains, said Dadabhoy. He and another DCD veteran, **Michael Betancourt,** are overseeing the group.

New York-based AION intends to complete purchases in one-off deals with various investment partners. It does not plan to set up a commingled fund because of the difficulty of raising pools of capital these days.

The mortgages already acquired are backed by 10 properties in Florida, Georgia, North Carolina, Arizona and New York. AION has begun foreclosure proceedings on three and will move on the remaining seven in coming weeks. It plans to stabilize and hold the properties for at least three years in the expectation that prices will rise. AION hopes to put agency mortgages on the properties down the road.

The properties include complexes at 32 Leone Lane in Chester, N.Y., 839 Scarleybark Road in Charlotte, 5501 Glenridge Drive in Atlanta, 6010 Sherwood Glen Way in West Palm Beach, Fla., 17600 NW 5th Avenue in North Miami, Fla., 1101 East Arbrook Boulevard in Arlington, Texas, 8603 North 22nd Avenue in Phoenix and 7901 North Cortaro Road in Tucson, Ariz. ❖

Microsoft Buys Illinois Data Center

Microsoft has bought a suburban Chicago data center that it occupies for a little over $180 million.

The 700,000-square-foot Northlake Data Center, in Northlake, Ill., was developed last year for Microsoft's use by a partnership between **Koman Group** and **Ascent,** both of St. Louis.

The partnership put the property on the market in February. Attracted by Microsoft's long-term lease, a dozen or so investors bid. But none met Koman's asking price, rumored to be between $210 million and $220 million, or an initial annual yield of about 7%.

Microsoft held a right of first refusal, entitling it to match the high offer. The software giant and the Koman partnership negotiated the price tag of about $180 million, or roughly $257/sf. The transaction closed last week. **DTZ Rockwood** represented the seller.

The state-of-the-art property sits on a 14-acre lot at 601 Northwest Avenue, 15 miles northwest of downtown Chicago. It was designed to house up to 400,000 computer servers for Microsoft's on-line network and software applications. It allows for the quick installation or removal of scores of servers in shipping containers that can be driven directly into the building. ❖

Property ... From Page 3

the boom — are scaling back their real estate allocations. And lending remains tight for most asset classes.

Compared to the first quarter, sales climbed in the multifamily and industrial sectors. But volume was down in the office, hotel and retail categories. As usual, office sales led the way, with $2.2 billion of transactions, followed by multi-family ($986.1 million), industrial ($658.2 million), retail ($582.3 million) and hotel ($293 million) deals. ❖

Large Single-Property Transactions in the Second Quarter

Office Buildings

Price Per SF	Price ($Mil.)	SF (000)	Property	Buyer	Seller
$394	$304.9	774	10 Universal City Plaza, Burbank, Calif.	Normandy, Five Mile Capital	Broadway Partners
317	660.6	2,082	John Hancock Tower, Boston	Normandy, Five Mile Capital	Broadway Partners
301	160.0	531	3161 Michelson Drive, Irvine, Calif.	Emmes & Co.	Maguire Properties
270	73.0	270	1&3 Premier Place, Irvine, Calif.	Transpacific Development	Ford Motor Co.
257	180.0	700	Northlake Data Center, Northlake, Ill.	Microsoft	Koman Group, Ascent
202	135.0	667	17th Street Plaza, Denver	HRPT Properties	J.P. Morgan
121	61.0	505	Providence Towers, Dallas	KBS Realty Advisors	CB Richard Ellis Investors
56	72.4	1,300	Danbury Corporate Center, Danbury, Conn.	Matrix Realty	Grubb & Ellis Realty Advisors

Multi-Family

Price Per Apt.	Price ($Mil.)	Units	Property	Buyer	Seller
$205,441	$109.5	533	Warwick House, Arlington, Va.	UBS Realty Investors, Paradigm	Northwestern Mutual Life
154,959	75.0	484	Alize at Aliso Viejo, Aliso Viejo, Calif.	Sequoia Equities	Northwestern Mutual Life
143,581	85.0	592	AMLI at Chevy Chase, Buffalo Grove, Ill.	Penobscot Corp.	AMLI Residential
140,562	70.0	498	Avila Rancho Santa Margarita, Trabuco, Calif.	Stoneridge Capital Partners	Northwestern Mutual Life
119,485	65.0	544	Cambridge Court, White Marsh, Md.	CB Richard Ellis Investors	Northwestern Mutual Life

Retail

Price ($Mil.)	Total SF (000)	Property	Buyer	Seller
$170.0	235	Highland Park Village, Highland Park, Texas	Charter Holdings	Henry S. Miller Interests
79.0	539	Crossroads Marketplace, Chino Hills, Calif.	SKT Investments	Lakha Investments
65.0	233	270 Center, Gaithersburg, Md.	Dividend Capital	ING Clarion Partners

Hotel

Price Per Room	Price ($Mil.)	Rooms	Property	Buyer	Seller
$425,150	$142.0	334	Best Western President Hotel, New York	Investcorp	Hampshire Hotels
133,102	115.0	864	Yellowstone Club, Bozeman, Mont.	Crossharbor, Discovery Land	Credit Suisse

Stockbridge to Resume Fund Pitch

Betting that institutional investors will soon start allocating capital again, **Stockbridge Capital Partners** plans to resume marketing a fund it pulled earlier this year.

The San Mateo, Calif., shop shelved its Stockbridge Value Fund in March, just a few weeks after **Pennsylvania Public School Employees** nixed plans to plow in $150 million of equity as the lead investor. With no other capital lined up, Stockbridge decided its only option was to mothball the planned $600 million to $800 million fund, which would target overleveraged properties.

Stockbridge has told prospective investors it likely will renew its marketing campaign in October. The sponsor apparently will not cut the equity target, even though no replacement looms for Pennsylvania Public Schools, which has sharply reduced its planned commitments to real estate funds. Stockbridge plans to kick in up to $15 million of its own money.

The vehicle will seek a 13-15% return by acquiring or recapitalizing properties throughout the U.S. that are saddled with heavy debt loads. Stockbridge, which declined to comment on the fund, will use up to 50% leverage.

The management fee is 1.5% for commitments of up to $50 million. There is a discount for larger pledges. After investors receive a 10% preferred return, Stockbridge would get 20% of any additional profits.

Overseeing the fund is executive managing director **Steven Steppe,** who joined Stockbridge in 2007. He previously was managing partner and chairman of **RREEF.**

Stockbridge raised $1.15 billion last year for a fund in another series. The vehicle, Stockbridge Real Estate Fund 3, seeks about a 16% return by targeting office, retail, hotel and other property types. It uses up to 65% leverage. Stockbridge initially sought to raise up to $3 billion, but reduced its target in the wake of last fall's market dislocation. ❖

Squeezed ... From Page 1

million in July 2007, near the peak of the market. At the time, the properties were 76% occupied on average. Room rates averaged $99.78, resulting in revenue of $75.87/unit.

Like other hotels, the properties' performance has sagged since the end of 2007, as business and personal travel have declined. The occupancy rate for the six hotels fell to 67% last year. Net cash flow dropped to $8 million in 2008, from $10.2 million the year before, leaving it shy of the $8.8 million needed for annual debt service. More-recent numbers were unavailable, but occupancy and room rates have likely fallen further in the last six months.

The DLJ fund is facing the prospect of slightly larger monthly payments next July, when the five-year loan is scheduled to begin amortizing according to a 30-year schedule. The 6.6% mortgage, which was originated in 2007 by **Eurohypo,** requires no principal payments until then. It was securitized via a $2.8 billion pooled offering led by **Merrill Lynch** (ML-CFC Commercial Mortgage Trust, 2007-9).

Three of the hotels may have suffered from increased competition in their local markets. When DLJ acquired the portfolio, hotel construction was scheduled in the vicinity of the Residence Inn in Oxnard, Calif. (252 rooms), the Hilton Garden Inn in Lake Oswego, Ore., (180 rooms) and the Courtyard Oxnard Ventura in Oxnard, Calif. (166 rooms).

The three other properties in the portfolio are in California: a Hawthorn Suites (272 rooms) and a Residence Inn (126 rooms) in Sacramento, and a 163-room Courtyard in Riverside. ❖

Cabi ... From Page 1

management rights to the properties. But the Calpers-Hines team will lose most of its equity stake in the portfolio. It's believed Calpers put up the bulk of the original $100 million mezzanine-debt investment.

The restructuring was precipitated by a looming deadline for the debt package, which would have come due in full next month if certain performance tests weren't met. Specifically, the portfolio couldn't exceed a prescribed loan-to-value ratio — but it was already over the level because of a sharp drop in the properties' revenues.

The holders of the roughly $700 million senior loan — **New York Life** and German lenders **DekaBank, Munchener Hypothekenbank** and **West Immo** — were reluctant to leave it in place. But they finally agreed to do so under the condition that the remaining mezzanine debt be converted into equity. While the senior loan may well exceed the market value of the portfolio now, the lenders decided that it made more sense to wait than to foreclose now, according to people familiar with the restructuring.

A partnership led by Cabi, the U.S. arm of Mexico's largest developer, acquired the portfolio for $1.5 billion from **GE Real Estate's Arden Realty** in August 2007 — at the top of the market. **Wachovia,** which arranged the debt package, placed the $100 million junior tranche with Calpers and Hines, the $75 million second-loss tranche with Square Mile and the next-junior piece, which also has a $75 million balance, with KBS.

Since Cabi acquired the portfolio, the net operating income has dropped by at least $10 million, to about $50 million, because of the softer leasing market. At an 8% capitalization rate, that income would indicate the properties are now worth about $625 million.

Cabi, of Aventura, Fla., and its partners tried to negotiate a workout last year after missing a $150 million principal payment. But New York Life gave the plan a thumbs-down, prompting Cabi to surrender the portfolio to Calpers and Hines.

Operating the mostly Class-B portfolio has been a challenge for Hines, which is more accustomed to managing Class-A properties. The portfolio includes three large buildings in Los Angeles County's South Bay submarket: the 443,000-sf Gateway Towers in Torrance, the 224,000-sf Pacific Gateway in Torrance and the 203,000-sf South Bay Centre in Gardena. Also included are the 393,000-sf complex at 900-1255 Corporate Center Drive in the Los Angeles County community of Monterey Park, the 392,000-sf Skyview Center in Los Angeles, and the 303,000-sf Fountain Valley City Centre and the 107,000-sf Fountain Valley Plaza in the Orange County community of Fountain Valley. ❖

Florida Office Park in Cash Squeeze

A tenant-in-common vehicle managed by **Cypress Creek Capital** is confronted with the need to raise equity for a heavily overleveraged office park in St. Petersburg, Fla.

The vehicle has defaulted on its $7 million mezzanine loan and is at risk of defaulting on an $83 million senior mortgage. The debt is backed by the 676,000-square-foot Baypoint Commerce Center, whose rising vacancy level has depressed cash flows.

The securitized senior mortgage was transferred to special servicing in May, although payments on the loan were up-to-date. Special servicer **LNR Partners** cited a risk of default due to delinquent mezzanine-loan payments and the "borrower's inability to potentially keep the senior loan current."

To stave off foreclosure, the vehicle will have to either renegotiate its mortgage terms or come up with enough capital to satisfy the mezzanine loan and continue servicing the senior loan. Cypress Creek declined to comment.

The vehicle financed almost all of its $93.3 million purchase price about two years ago. **Credit Suisse** arranged the $90 million debt package, but a source close to the lender said it no longer owns the mezzanine loan. It's unclear if the unidentified owner is making a play for the property, which is about eight miles north of downtown St. Petersburg

While gauging the 15-building office park's value is difficult given the lack of comparable sales recently, plunging revenues at the complex have likely pushed the value below the debt level. The occupancy rate averaged 74% in the first quarter, down from about 90% when the senior loan was securitized. Based on first-quarter data, the annualized net income this year is projected at $4.2 million, below the $4.6 million needed to service the senior debt.

Cypress, of Hollywood, Fla., has taken steps to increase cash flow at the complex, which was formerly called Koger Center Office Park. Those measures include an aggressive leasing campaign and a cutback in capital spending. Average rents have increased to $19.45/sf, from $18.72/sf in September 2007.

The 5.5% senior loan requires no principal payments until maturity in April 2017. Credit Suisse securitized it via a $2.4 billion pooled offering (Credit Suisse Commercial Mortgage Trust, 2007-C3). ❖

MIT Scraps Cambridge Hotel Deal

MIT Investment Management has backed away from talks to pay roughly $70 million for the Hyatt Regency in Cambridge, Mass.

The buzz is that it would reconsider if the owner, **Host Hotels & Resorts,** lowers the price for the 469-room hotel. MIT Investment, which oversees Massachusetts Institute of Technology's endowment investments and other assets, was likely deterred by the hotel sector's worsening performance.

The Hyatt, one a handful of hotels that Host has been shopping via **Hodges Ward Elliott,** is on Memorial Drive facing the Charles River, next to the university's campus. It draws a considerable amount of business from the university.

An MIT Investment joint venture sold another Cambridge hotel about two years ago, near the height of the market. **HEI Hotels & Resorts** of Norwalk, Conn., acquired the leasehold interest in the 210-room Hotel at MIT for $63 million, or $301,000/room. In a sign of how far prices have fallen, MIT would have paid about $149,000/room for the Hyatt under the discussions. It's unclear how far along MIT was in the process before dropping out.

Host, a REIT based in Bethesda, Md., has been marketing some of its properties in an effort to raise cash. In February, it sold the 500-room Hyatt Regency Boston for $113 million, or $226,000/room, to **Hyatt Corp.** of Chicago. The company, formerly known as Host Marriott, was formed in 1993 when Marriott Corp. split into two companies. Host owns 116 hotels with 63,000 rooms. ❖

India Fund Closes Below Target

A joint venture that develops industrial properties in India has held a final close for its debut fund after raising little additional money over the past year.

Realterm Global of Annapolis, Md., and **Future Capital Holdings** of Mumbai appeared to be well on the way to their $385 million equity goal last July, when they had $240 million of commitments for the first close. But like many other fund operators, the team was tripped up by the gridlock in the capital markets and secured only another $10 million. About 90% of the vehicle's equity came from U.S. institutional players, including **University of Michigan Board of Regents.** The marketing campaign took two-and-a-half years.

The vehicle, IndoSpace Logistics Parks, seeks a 20% return by developing warehouse and logistics space in India's eight largest markets. The lead tenant in many of the properties would be Future Capital's parent, Future Group, a conglomerate that operates retail, entertainment, consumer-finance and insurance businesses. The fund sponsors haven't yet invested any equity. With leverage, the fund would have $500 million of buying power. Upon completion, the properties could be sold or used to seed a public company.

The fund is headed by chief executive **Brian Oravec,** formerly with **Citigroup,** and executive vice president **Michael Solimene,** who previously headed the J.P. Morgan India Property Fund while at **J.P. Morgan.**

Realterm, which was founded in 1992 by **John Cammett** and **Ken Code,** manages $2 billion of real estate and infrastructure investments. Future Capital manages more than $1 billion of assets in India. ❖

Correction

Brickman Associates is based in New York. A July 1 article, "JER Tables Fund as Departures Grow," incorrectly cited its location as Washington. ❖

Funds ... From Page 1

a three-month lag.

The figures often represent declines in the valuations of holdings, rather than realized losses. However, the depth of first-quarter losses increases the pressure on fund operators to sell properties, because many vehicles face a growing list of redemption requests from limited partners. The other potential source of cash — refinancing — is generally not available because of the credit crunch.

Several funds, including ones operated by **Prudential Real Estate Investors,** RREEF and **BlackRock Realty Advisors,** have already become more aggressive about shopping properties — even though in some cases that would mean selling at a loss and further crimping returns.

Despite the sharp declines, only three of the 15 funds have posted negative returns since inception. That reflects the fact that most of the vehicles were formed before 2000 and racked up big gains during the bull market. Seven were formed between 1979 and 1982. By contrast, the three funds that have losses since inception — RREEF America 3, **BlackRock's** Diamond Property Fund and **ING Clarion Partners'** Clarion Lion Properties Fund — were formed this decade.

RREEF America 3, which had $1.3 billion of assets at yearend, continues to be the weakest performer. Its 36.3% loss in the first quarter followed a 30.7% decline in the previous quarter, investors said. The core-plus fund has now posted a negative 4.9% annual return since its inception in 2003. It targets a roughly 10% return.

The vehicle has been hurt by exposure to large development projects in New York, Silicon Valley and Austin, Texas. It also has $479 million of loans that come due this year, with no extension options. The fund told investors late last year that it only had $265 million of cash on hand to retire those loans.

The $832 million Diamond Property Fund, which is structured as a private REIT, has logged a negative 2.7% annual return since it began in 2005. The core-plus fund buys a diversified mix of properties in the U.S., with a focus on office and apartment buildings. It can use up to 65% leverage, but told investors it has tried to keep loan-to-value ratios at less than 50%. While the fund targets traditional value-added opportunities, it can also provide equity for development. Last year, however, it canceled several planned development ventures to focus on purchases from distressed sellers.

The $3.4 billion Clarion Lion Properties Fund has had a negative 2.8% annual return since its launch in 2000. The core vehicle's returns have been hurt by its need to raise equity for redemptions. In January, it sold three underperforming office buildings for $198 million — 45% less than it paid in 2005 and 2006.

The fund invests in office, industrial and residential properties, focusing on major markets. It targets about an 8% return and uses up to 30% overall leverage, with no more than 60% leverage on any one asset. ❖

Losses Widen at Most Open-End Funds

Operator (Fund)	1Q-09 Return (%)	4Q-08 Return (%)	Return Since Inception (%)	Year of Inception	Assets 12/31/08 ($Bil.)
BlackRock Realty Advisors (Granite Property Fund)	-18.3	-17.0	6.9	1981	$2.6
BlackRock Realty Advisors (Diamond Property Fund)	-23.9	-25.1	-2.7	2005	0.8
ING Clarion Partners (Clarion Lion Properties Fund)	-23.4	-15.8	-2.8	2000	3.4
Invesco (Core Real Estate Fund USA)	-10.0	-8.4	8.4	2004	2.5
J.P. Morgan (Strategic Property Fund)	-13.7	-8.9	8.8	1998	13.7
J.P. Morgan (Special Situation Fund)	-27.1	-10.7	5.5	1998	2.5
Kennedy Associates (Multi-Employer Property Trust)	-15.9	-10.1	6.7	1982	6.0
Morgan Stanley (Prime Property Fund)	-14.2	-6.5	7.9	1978	5.9
Principal Real Estate (U.S. Property Account)	-12.2	-11.0	6.4	1982	4.9
Prudential Real Estate Investors (PRISA)	-15.7	-14.7	7.9	1978	10.3
Prudential Real Estate Investors (PRISA 2)	-25.2	-17.8	8.8	1980	5.3
Prudential Real Estate Investors (PRISA 3)	-17.0	-22.4	18.8	2003	0.9
RREEF (America 2)	-16.7	-12.8	6.1	1998	6.3
RREEF (America 3)	-36.3	-30.7	-4.9	2003	1.3
UBS Realty Advisors (Trumbull Property Fund)	-10.6	-8.8	8.2	1978	8.8

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plus roughly $300 million of unfunded commitments.

At least five bids have exceeded $140 million for Waterfront Corporate Center 1, a 521,000-square-foot office building in Hoboken, N.J. That would put the initial annual yield north of 8%. The seller, a joint venture between **Prudential Real Estate Investors'** PRISA fund and **SJP Properties** of Parsippany, N.J., listed the property with **Cushman & Wakefield** about three months ago. There was talk Pru might offer seller financing, but it now appears the bidders are proceeding with all-cash bids. A winner could be selected this week.

Fisher Brothers Realty has a right of first refusal to buy the nearly 50% stake that partner **UBS** owns in the office building at 299 Park Avenue in Midtown Manhattan. That might dissuade some investors from bidding for the UBS stake, which is being shopped via **CB Richard Ellis.** The stake is valued at about $600/sf, or about a 7% initial annual yield.

TIAA-CREF wants to add a director of asset management in Newport Beach, Calif. The position oversees a portfolio primarily made up of office and industrial properties. The director would also assist with acquisitions, dispositions and the development and repositioning of properties. At least seven years of experience is required, including work on value-added properties.

Orange County Employees has tabled a discussion on changed duties for its general consultant, **Callan Associates.** The $6.3 billion pension system in May discussed having Callan concentrate on active direction of investment managers, rather than focusing on new manager searches. At that time, there was talk of potentially implementing the change by September. But two weeks ago, the pension decided to hold off. Orange County Employees was likely considering the move because the downturn has hampered its capacity for new commitments, making the search for new managers a lower priority.

Metropolitan Real Estate Investors wants to add an acquisitions manager and an analyst to help scout out trophy office buildings in urban markets. Metropolitan owns properties in Manhattan, Dallas and Tulsa, Okla. It is also under contract to pay $225 million for the leasehold interest in the 993,000-sf office building at One California Plaza in Los Angeles. The New York firm is led by **Haim Milo Revah.**

Pension Consulting Alliance is wrapping up an asset-allocation review for **Los Angeles City Employees.** Among the decisions pending is whether to create a "real return" asset class — which could include investments in commodities and timber — and what effect that would have on the target allocations for other sectors, such as real estate. The $8.2 billion pension system currently has a 7% target allocation for real estate. PCA is expected to make its recommendations this month.

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