www.REAlert.com

Real Estate ALERT

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Equity Pledges by Pensions Soar 46%

Public pensions pledged $12.4 billion of equity to commercial real estate vehicles in the second quarter, remaining on pace for a post-crash annual record.

The tally, up 46% from a year earlier, was the second-highest quarterly total since **FPL Consulting** began tracking commitments in 2011, ranking behind only the $14.1 billion volume in last year's third quarter.

Coupled with the first-quarter total of $12 billion, pledges are now on track to approach $50 billion for the year, which would far exceed the $39.5 billion of commitments last year, the current high-water mark since the 2007-2008 financial crisis.

The surge in first-half pledges to closed-end funds, open-end vehicles, separate accounts and institutional joint ventures was fueled largely by the final closes of a handful of megafunds by sponsors such as **Blackstone, CIM Group, Lone Star Funds** and **Starwood Capital.** Also, Blackstone was actively raising equity for its new core-plus platform.

Indeed, the top five shops receiving first-half pledges accounted for 40% of the committed dollars, up from 21% for the five largest in full-year 2014. The top 20 firms collected 68% of the total dollars pledged in the first half, up from 52%.

"The overall market is still incredibly active, and there's still significant demand for real estate," said FPL principal **Timothy Kessler.** "Even if you didn't count Blackstone, we'd still have been up in the second quarter."

Institutional investors view commercial real estate as offering attractive returns on a relative basis. And the highest-yield plays — opportunistic and valued-added — continue to draw the lion's share of pledges: 79%, by dollar amount, in the first half, up from 62% in full-year 2014. Conversely, investments in core vehicles fell to 21%, from 38%.

"You can't get the kind of returns you want in the core assets because there's so much demand for them and they're so expensive," Kessler said. "That's why for the last two years now, you've seen more activity further up the risk spectrum."

Some 59% of commitments went to closed-end vehicles in the first half, up from 47% for full-year 2014. The rest was pledged to open-end funds, joint ventures and separate accounts.

Vehicles targeting a single asset class attracted 22% of commitments in the first half, down from 41% in full-year 2014. Among such vehicles, 40% of pledges went to multi-family funds, up from 25%. Niche funds — which invest in nontraditional assets including medical offices, senior-living facilities and student housing — garnered 34% of commitments, up from 12%.

www.REAlert.com

Real Estate ALERT

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

AUGUST 5, 2015

10 TOP RETAIL BROKERS
13 TOP HOTEL BROKERS
2 Park Hyatt NY Gets Unsolicited Bids
2 Luxury Chicago Rentals Up for Grabs
2 Newark Office Condo on Block Again
3 Class-B Boston Office Portfolio Listed
4 Equity Pledges by Pensions Soar 46%
4 New Apartments Listed in Brooklyn
6 Rentals in NY's East Village for Sale
6 USAA Markets 2 Chicago-Area Hotels
9 Mixed-Use Space Pitched in LA
9 Thor Lists Retail Condo on Fifth Ave.
11 Retail-Property Sales Up 25%
14 Shuttered DC Hotel Back in Play
15 MARKET SPOTLIGHT

THE GRAPEVINE

Acquisitions veteran **John Rivard** has left **Rockefeller Group.** His plans are unknown. Rivard was hired in late 2013 to lead investments for the $500 million Rockefeller Group U.S. Premier Office Fund, which held its final close that year. Rockefeller, of New York, is a wholly owned subsidiary of **Mitsubishi Estate,** a leading Japanese developer. Rivard previously was founder and president of asset-management shop **Soundport Capital.** Before that, he was chief operating officer of New York fund shop **Broadway Partners.** He had prior stints at **O'Connor Capital** and **California State Teachers.**

After 11 years at **CBRE,** retail pro **Gleb Lvovich** left to become a managing

See GRAPEVINE on Back Page

Hotel Sales Double in 1st Half; Eastdil on Top

The question isn't whether hotel sales will break the all-time record this year, but by how much.

Some $17.5 billion of large hotel trades closed by June 30, virtually double the volume in last year's first half, according to **Real Estate Alert's** Deal Database, which tracks deals of at least $25 million. Transactions are poised to blow past the $21.7 billion record set in 2006 — and could easily surpass $30 billion.

Eastdil Secured continued its reign as the most-active brokerage, with $7.2 billion of trades, or 46.6% of the brokered total (see Rankings on Page 13).

The surge was boosted by the largest-ever trade of a single U.S. hotel — February's $1.95 billion sale of the Waldorf Astoria in Manhattan to **Anbang Insurance** of China.

"The first half of the year was very strong, largely driven by a few large trophy transactions," said **Larry Wolfe,** senior managing director at Eastdil. "The second half of the year is shaping up with sizable gains as well, but more conservatively in

See HOTEL on Page 13

Silverstein Eyes Partner for Last WTC Tower

Developer **Larry Silverstein** is seeking a partner to pitch in roughly $500 million of equity toward the construction of a skyscraper at Two World Trade Center in Lower Manhattan.

The capital would buy a 50% stake in the 2.8 million-square-foot property, which will be the final piece in the redevelopment of the World Trade Center site. Debt is expected to finance about three-quarters of the roughly $4 billion projected cost. That means some $1 billion of total equity is needed, and Silverstein wants to line up a partner that would supply half. He has hired **HFF** to quietly approach a handful of large investors.

Anchor tenants haven't been lined up yet, and it's unclear when above-ground construction would begin. But last month, it was announced that two **Rupert Murdoch** companies, **21st Century Fox** and **News Corp.,** had separately signed nonbinding letters of intent to occupy about 1.3 million sf, or some 46% of the space, on the

See TOWER on Page 14

USAA to Buy Big Stakes in 5 Westfield Malls

A **USAA Real Estate** partnership has agreed to buy large stakes in five **Westfield** malls in a transaction that values the properties at a combined $1.1 billion.

The partnership will purchase 79% interests in four of the malls: Westfield Connecticut Post in Milford, Conn., Westfield Hawthorn in Vernon Hills, Ill., Westfield Vancouver in Vancouver, Wash., and Westfield MainPlace in Santa Ana, Calif. It will also acquire a 49% stake in Westfield Fox Valley in Aurora, Ill.

Evercore Partners is advising Sydney-based Westfield, which will retain the remaining interests in the 6.2 million-square-foot portfolio.

The Class-B properties are 97% occupied. They are in strong trade areas and have respectable sales that produce $85.7 million of net operating income. That would put the USAA partnership's initial annual yield at 7.8%.

USAA Real Estate, a unit of San Antonio insurer USAA, is teaming up on the purchase with two partners: **Montgo ery Street Partners,** a unit of San Francisco-based

See MALLS on Page 6

The largest drop in pledges was for retail funds, which drew just 2% of commitments, down from 28%. Pledges also fell to office funds (to 8% from 16%) and industrial funds (to 16% from 20%).

Vehicles targeting investments in North America received 56% of the first-half pledges, down from 72% for full-year 2014, but in line with the 56% level in 2013. Globally focused vehicles nabbed 37% of pledges, up from 14% in full-year 2014. Asian- and European-focused vehicles received 6% of pledges, down from 14%.

The average commitment size was $94 million, flat with full-year 2014. As usual, commitments to separate accounts were much larger, averaging $164 million, down from $274 million.

The 170 U.S. pension systems tracked by FPL have $245 billion of real estate investments and $3.2 trillion of total assets. That is believed to represent the vast majority of real estate assets held by public pension systems. The Chicago research firm will release a report summarizing its findings this week. ❖