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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Pension Pledges Hit Post-Crash High

Real estate commitments by U.S. public pension systems soared to a post-crash high last year.

Pensions tracked by **FPL Associates** plowed $49.6 billion into commingled funds and separate accounts, up 41% from $35.2 billion in 2017. That was the highest annual total since FPL began following the sector in 2011, eclipsing the previous record of $47.2 billion in 2015.

"Real estate fundamentals continue to hold strong, and real estate still looks good relative to returns in other asset classes," said FPL senior director **Erin Green.** "The industry as a whole is enjoying ever-increasing acceptance as one of the blue-chip investment asset classes."

The sharp uptick from 2017 was driven largely by giant pensions. **California State Teachers, Calpers, New York State Common** and **Texas Teachers** each pledged more than $1 billion. There were 566 total commitments, up 43% from 2017 and 18% from the prior peak of 480 in 2015.

Pensions spread those pledges around more widely, to 157 investment managers, up 11% year-over-year. So even though the top 20 investment managers continued to dominate the action, their aggregate market share fell to 50%, from 57% in 2017 and 59% in 2016.

Green described the increase in commitments and their broader dispersion as "a really positive indicator" for the

Continued on Next Page

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Real Estate ALERT

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JANUARY 23, 2019

THE GRAPEVINE

Jonathan Cohen joined **RFR Holding** last week as head of acquisitions, a new position. The New York investment shop, led by **Aby Rosen** and **Michael Fuchs,** also plans to beef up its acquisitions team with a few associate-level hires. Cohen jumped from **Madison Capital** of New York, where he was a director. He joined that firm eight years ago after working at **Cabot Investment** and **Praedium Group,** both of New York.

Derreck Barker started at **Nuveen Real Estate** this month as a director of acquisitions. He's based in Newport Beach, Calif.,

See GRAPEVINE on Back Page

Office Sales Rise 3%; Eastdil Retains Crown

Office sales inched up 3% last year as the market stabilized after two years of declining volume.

Eastdil Secured remained the most-active broker in the sector, widening its lead over second-place **CBRE. Cushman & Wakefield** surged to a close third, largely on the strength of its sales in New York, where it took the top spot for the first time this cycle (see article on Page 14).

Some $96.8 billion of large office properties changed hands during 2018, up from $93.9 billion the year before, according to **Real Estate Alert's** Deal Database, which tracks sales of at least $25 million. The tally was just above the $95.1 billion average for the previous five years, but well short of the cyclical peak of $112.1 billion in 2015.

Industry pros expect the pace of sales to hold steady this year, or perhaps increase slightly, as the sector seems to have found its balance. Last year's trading reflected "a

See OFFICE on Page 10

Levi Strauss Campus in Downtown SF for Sale

Investors are getting a crack at San Francisco's Levi Plaza, setting the stage for one of the largest office trades in the city's history.

The roughly 850,000-square-foot campus, at 1155 Battery Street near the waterfront, is worth an estimated $700 million, or $825/sf, according to market pros.

Eastdil Secured is marketing the property for a consortium that includes the family offices of two San Francisco real estate magnates and philanthropists, **Gerson Bakar,** who died in 2017, and **Jim Joseph,** who died in 2004.

That duo led the partnership that developed the suburban-style office campus in 1981 as the new headquarters of **Levi Strauss & Co.,** whose roots in the city date to 1853. Ten years ago, the clothing company considered vacating the complex, but reduced its footprint instead. It's unclear whether Levi Strauss plans to exit when its current lease expires in 2023. If the company does leave, a big block of downtown

See LEVI on Page 17

Werner Team Buying Stake in 237 Park Avenue

A syndicate led by **David Werner** has agreed to purchase a roughly 40% stake in the office building at 237 Park Avenue in Midtown Manhattan.

The deal values the 1.25 million-square-foot property at roughly $1.25 billion, or $1,000/sf.

Cushman & Wakefield is brokering the recapitalization for a partnership between **RXR Realty** of Uniondale, N.Y., and **Walton Street Capital** of Chicago. That duo is retaining the remaining 60% ownership of the building.

Werner is a prolific investor who teams up on purchases with institutions and wealthy individuals alike. For example, last year he joined forces with **Alexandria Real Estate Equities** of Pasadena, Calif., and **DWS Group** of New York to buy the adjacent office buildings at 219 and 235 East 42nd Street in Manhattan, totaling 1.1 million sf, for $357 million, or $325/sf, from pharmaceutical giant **Pfizer.** His partners in the 237 Park Avenue deal couldn't be learned. The transaction is expected to

See WERNER on Page 18

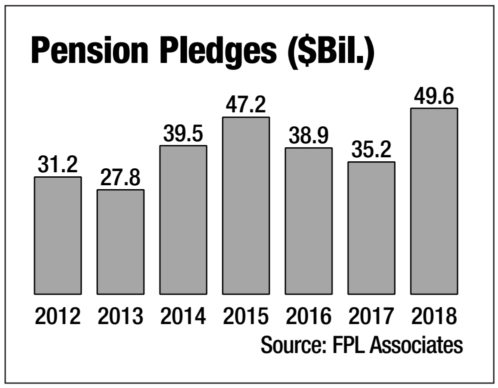
www.REAlert.com
Real Estate ALERT
THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Pension Pledges Hit Post-Crash High

Continued From Previous Page ...

investment-management business. At the same time, she noted that pensions are becoming more cautious and turning increasingly to less-risky investments. "That's recognition that this is a long cycle, and at some point things will inevitably take a turn," Green said.

Commitments rose in the two investment categories at the lower end of the risk scale: core plays (30% of pledges by dollar volume, up from 25% in 2017 and 18% in 2016) and core-plus strategies (13%, up from 11% in 2017). Conversely, commitments fell for opportunistic bets (32%, down from 35%) and value-added plays (24%, down from 29%).



In another sign of cautiousness, vehicles focused on a single property type captured a larger share of pledges — 38% by dollar volume, up from 27%. Green noted some pensions view operators focused on one asset class as being "down in the weeds" and better able to wring out profits. Calpers and some other giant pensions have increased their emphasis on such shops, she added.

Among single-asset vehicles, industrial strategies led the way, supplanting multi-family. Industrial-focused vehicles captured one-quarter of pledges by dollar amount, up from 23% in 2017. Multi-family slipped to 23% from 29%. Office (20%) and retail (11%) were flat. The remaining 22% of pledges to single-asset vehicles went to niche strategies, up from 17%. That category includes senior housing, student housing, healthcare, self-storage and data centers.

The distribution of pledges by vehicle type was flat across the board, divided among closed-end funds (47%), separate accounts (37%) and open-end vehicles (16%).

The average commitment size was $224 million for separate accounts (up from $218 million), $62 million for closed-end funds (down from $64 million) and $77 million for open-end funds (down from $80 million).

The 235 pension systems tracked by Chicago-based FPL have $347 billion of real estate assets and $4.3 trillion of total assets under management. They are believed to represent the vast majority of assets held by public pension systems. FPL will release a report summarizing its findings this week. ❖