

LOAN ACQUISITIONS RISING

Count on commercial real estate investors to acquire more properties through the purchase of discounted loans from distressed sellers. The tight debt market prompts increased use of this strategy to put money into core properties. Buyers will increasingly invest in debt as a method to stay active in buying without paying too much for hard assets with the pricing gap between sellers and buyers and individual expectations showing no signs of closing anytime soon.

While the sellers might be distressed, the assets themselves are often solid core properties. **Savanna Partners** and **Carlton Strategic Ventures** will acquire discount paper, with an appetite for all types of assets. Look for investors like **Rushmore Properties** to enter the playing field with new funds created to acquire loans.

Savanna Partners will use the buying powers of Real Estate Fund I to hone in on notes backing quality assets in markets it knows best, particularly Boston, New York City and Washington, D.C. The fund, which formed in late 2006, consists of \$313M and has acquired 13 assets since its inception. The most recent is a \$157.7M C-note for a three-building portfolio in Rosslyn, Va. A spike in vacancies throughout the suburbs combined with new developments coming to the market in the face of a lack of overwhelming tenant demand brought about an overall market slowdown. With rents on a slight rise and tenants staying put instead of upgrading to newer space, it makes more sense for Savanna to invest in notes on stabilized properties, as opposed to acquiring buildings with lease-up risks.

Savanna will buy loans secured by office, industrial, retail and residential. Rather than targeting distressed assets with value-added risks, the investor seeks to buy paper to secure Class A properties that fit within its hard property investment objective. The buyer also seeks properties with less risk, so, it will then have no qualms about taking over as equity partner of the asset if the loans are non-performing. Look for Savanna to target an IRR of at least 20% for its investments through the rest of this year.

JV Targets Mezz Loans and B-notes

The Carlton Group forms a joint venture with an insurance company to establish Carlton Strategic Ventures, a partnership which will acquire discounted distressed debt. The JV formed through a contribution of \$400M and will target mezzanine loans and B-notes, as well as defaulted senior loans, at a reduced price. While the investor demonstrates an affinity for office and hospitality properties, it will also show interest in retail, apartments and industrial assets, provided the returns make sense. Carlton's sweet spot is for loans from \$25M to \$50M, although the investor will consider spending as much as \$150M on a portfolio. Look for the investor to acquire more than \$500M over the next year. *Continued on Next Page*

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Rushmore Properties will back off from acquiring retail, office and industrial assets to take advantage of illiquidity in the debt markets. Earlier this year, the investor made its first paper purchase with the acquisition of a \$5M mezzanine loan backed by Class A lofts in Houston.

The investor has taken such a liking to paper that it is in the initial stages of raising a fund to target mezzanine and whole loans, B-notes and CMBS-backed loans. The diversified fund, which is set to be ready toward the end of the year, will consist of \$50M to \$100M and target debt investments from \$2M to \$20M. While Rushmore focuses primarily on primary and secondary markets in the Sunbelt, it won't be opposed to acquiring outside of its targeted markets if the fundamentals of the deal make sense. The investor prefers investments that produce 15% returns.