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MORE MANHATTAN TENANTS MIGRATING TO BROOKLYN

BY KAITLYN MITCHELL

New York's office sector saw a rapid migration of tenants from classic office space in traditional Manhattan markets to new quarters in Brooklyn during the second quarter of 2016, according to executives at a Cushman & Wakefield's breakfast briefing. The exact number of migrations to the borough's growing office market are unavailable, as the firm has started to track Brooklyn only recently.

"If you are a tenant in Manhattan with a lease expiring in the next 36 months, you're crazy if you're not moving to Brooklyn," said Joseph Cirone, a senior director who oversees the firm's Brooklyn market. "The double-digit job growth [in Brooklyn] has outpaced the rest of New York for the past several years, and an additional 13.5 million square feet of space is coming online in the next several years." For tenants looking for a bargain, the average starting rent is \$41 per square foot, he added.

The panel also featured Mark Weiss, executive vice chairman of the midtown Manhattan market, Gene Spiegelman, vice chairman and head of retail services, Bob Knakal, chairman of New York investment services, and Ron Lo Russo, an executive v.p.

who focuses on the New York Tri-State region.

Weiss, speaking about the Manhattan market, highlighted a misleading trend concerning the prices on office leases. "The high point in rents was during 2008 at the end of year, and only now, six years later are we back up to those rents," said Weiss. "We're in the middle of a correction now, and the statistics will trail reality between 6-12 months."

Tenants considering the move to Brooklyn can still take advantage of the city's Relocation and Employment Assistance Program, which offers business income tax credits for relocating jobs from below 96th Street in Manhattan to designated locations above 96th Street in Manhattan or in one of the other four boroughs. The average savings is about \$15 per square foot.

REAP, however, is set to expire in June 2017 and Spiegelman made the case that companies with a significant Brooklyn-based workforce should follow their staff to the borough now. Cirone also suggested that companies may take measures such as renting out small office spaces in Brooklyn in addition to their existing Manhattan office to avoid losing talent.

Despite the influx of office tenants, Brooklyn is a particularly under-retailed market.

DEUTSCHE BANK, JPMORGAN LAUNCH CONDUIT INTO IMPROVING MARKET

BY SHERRY HSIEH

Deutsche Bank and JPMorgan have launched a \$893.7m conduit deal into an improving commercial mortgage-backed securities market. DB-JPM 2016-C3, collateralized by 32 loans on 54 properties, is expected to benefit from better market conditions, investor preference for bank collateral, and a strong pool of properties that counts Westfield San Francisco Centre and a Simon Property Group-owned mall as two of its top three loans.

The deal follows JPMorgan's \$939.2m JPMCC 2016-JP2, which saw turnaround pricing of swaps plus 122 for the benchmark AAA-rated, 30% subordination super senior bonds – 16 basis points tighter than similar bonds from the previous conduit, Societe Generale's \$736m SGCMS 2016-C5. Similar bonds from Citigroup's \$721.2m CGCMT 2016-P4 and Wells Fargo's \$1.02bn WFCM 2016-C35 were printed at swaps plus 118 and 115, respectively.



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DEAL FOCUS: PORTNER FLATS

JONATHAN ROSE, SOMERSET JV BREAKS GROUND ON AFFORDABLE HOUSING DEAL

BY KAITLYN MITCHELL

A partnership between Somerset Development Company, New Community Partners, and Jonathan Rose Companies has started construction on Portner Flats, a new 96-unit affordable housing high-rise in Washington, D.C., that is replacing a similarly focused, smaller apartment complex. Plans for the project include the development of a 288-unit market-rate apartment property on the site, which will see its slice of affordable housing rise substantially from the original 48 units at Portner Place Apartments. The property is slated for completion in about 20 months.

The partners, which acquired the property in 203, were able to complete the complex deal partly as a result of a zoning density change at the site at 1440 V Street NW. The aim is to preserve and create affordable units as well as adding market-rate units to the city's inventory. "Portner Flats is in the heart of one of the hottest real estate residential markets in D.C.," said Nancy Hooff, founding partner at Somerset Development. "This project is creating a mix of incomes, and building healthier communities."

Under D.C. zoning laws, only 8% of new developments have to be affordable. "The community has been losing economic diversity with gentrification," said Jim Campbell, founding partner at Somerset Development. Most of the 48 former residents will be coming back to the property, and all are subject to low-income housing tax credits, added said Nathan Taft, director of acquisitions for Jonathan Rose Companies.

Citi Community Capital provided the initial first mortgage loan through Freddie Mac. "It was a long process, with lots of meetings with neighborhood organizations and the zoning commission," Campbell said. "The overall plan was to ensure no displacement of tenants, but the financing had to be put in place before any of that."

The property is being developed with the Portner Place Tenant Association, which exercised its right of first refusal through the city's Tenant Opportunity to Purchase Act (TOPA). "TOPA gave us the ability to match the offer and expand affordable housing rather than have a straight market interaction with the tenants displaced," Campbell said. "This is a niche market for us to help tenants preserve affordability in the rapidly rising residential market," added Hooff. "We had very broad support in the neighborhood."

Developer High Street Residential bought the half-acre U Street portion of the site, and has joined forces with Deutsche Asset Management to develop the 288 unit, Class A component of the



RENDERING OF PORTNER FLATS

deal. The market-rate apartments also will include more than 15,000 square feet of retail in the U Street Corridor.

All units in the affordable component of the property are set aside for households at or below 60% Area Median Income, making them more affordable than the requirements under Inclusionary Zoning, which requires less than an 80% AMI level. "This project is sustainable in more than just the green efficient way – it's a model that is sustainable economically," said Taft.

Prior to the transaction, Portner Place was a distressed HUD Section 8 housing complex, consisting of four three-story wood frame apartment buildings with a large surface parking lot. The property suffered from poor maintenance in a quickly gentrifying neighborhood. The new Portner Flats has been designed to meet Enterprise Green Communities standards, meaning that high-quality non-toxic construction materials will be used, indoor air will have low volatile organic compounds (VOC), and low-flow toilets and sinks will be installed in all units, said Taft. The roof will be planted with greenery, which absorbs and reflects the sun instead of allowing it to get through, added Campbell. The building will also be energy efficient from a storm-water management standpoint.

Somerset Development worked with the families who were displaced to make sure that their temporary homes kept their children in the same

school districts and kept workers nearby their jobs. "Everybody seems pretty happy in their offsite location, and we'll continue to provide supportive services in the meantime," said Hooff. "We're tapping into the force of gentrification to preserve diversity."

Portner Flats will emphasize sustainable design principles and outdoor landscaped spaces. Resident amenities will encompass a playground, garden, meeting rooms, computer lab, fitness room and laundry facilities. Additional resident services include computer training, after-school programs, senior programs, financial counseling and job training. Portner Flats is within walking distance of mass transit. The ratio of parking in the shared garage underneath the two buildings is three spaces per every 10 units, said Campbell. There are 31 reserved spaces for residents of the affordable Portner Flats, and 24 of those spots are reserved free of charge for original tenants who had cars before the displacement.

Portner Flats' development is being financed with exempt tax bonds issued by D.C.'s housing finance agency, and 4% Low Income Housing Tax Credits. Prudential Mortgage Capital Company underwrote FHA insured construction and permanent loans via the 221(d)4 program. Boston Financial is the Tax Credit Syndicator and Capital One is the LIHTC investor. Clark Construction signed a Project Labor Agreement and the building was designed by Eric Colbert & Associates.