

funds and special servicers. Non-performing loans will make up roughly 30% to 40% of sales, McVity predicted.

Garnet was mostly inactive in the commercial real estate loan market last year due to wide bid/ask gaps between buyers and

sellers. McVity believes the gap will narrow this year, pushed forward by sales from the Federal Deposit Insurance Corporation, increased regulatory pressure on banks and more realistic seller expectations.



Property Markets

JCR Capital Launches Debt, Distressed Property Funds

JCR Capital is starting up two funds that will invest in bridge loans and distressed properties, respectively. Jay Rollins, principal, said he launched the strategies in response to an observation that some investors wanted current low-risk returns while others are more bullish. “[Some investors are saying] ‘This is the opportunity of a generation and I want to double my money,’” he said of the latter group. The firm does not have a set amount that it is raising for the fund.

JCR Capital Debt Fund 1 will originate short-term bridge loans. “The opportunity is to do short-term bridge loans on opportunistic deals for a 15% or 16% yield, pay the investors 12% and take the difference for us,” Rollins said. The fund will buy loans of \$1 million to \$10 million. *JCR Capital Equity Fund 1* will seek higher returns buying distressed properties and making equity investments. It will also buy non-performing loans and performing assets that are overleveraged or jeopardized by the changing underwriting standards.

Geographically, the funds will seek acquisitions in all parts of the country apart from the Northeast. “Because we’re in the West, we have a bias toward the Western U.S. But we wouldn’t discount other markets we know—Florida, Texas and the mid-Atlantic,” Rollins said. Rollins recently sold a 40% stake in his firm to JAM Equity Partners, a unit of Nashville-based private equity firm Jacobs Asset Management.

Opportunities today remind Rollins of the situation in 1992, when he formed Eastern Realty Corporation to acquire distressed assets and notes from thrifts and the Resolution Trust Corporation. “I’ve been to this movie before and it worked out pretty good the last time,” he said. “This is a little trickier than 1992 because then it was just supply and demand. Here you’ve got to be thinking about how does the next guy buy it? Who has the cash? What’s the NOI really worth?”

Rollins believes that private equity firms will play a much greater role in the market. “When the dust settles, who’s going to be lending, who’s going to be the capital buyers? Numerous private capital providers like us who are going to have a big stake in the marketplace,” he said. “Wall Street’s gone, it’s a total game changer. There will be numerous private capital providers like us who are going to have a big stake in the marketplace.”

Retail Landlords Offering Tenant Concessions

Some retail landlords are starting to take the tack that it’s better to reduce rents and keep tenants than to re-lease empty space. There are a few landlords who are offering rent reductions or are opting to collect a percentage of a tenant’s sales revenue in lieu of rent. The concessions have become common, even when landlords aren’t fighting an exodus of tenants, said Deborah Jackson, executive managing director at Weiser Realty Advisors.

In the past year at least 18 retailers have filed for bankruptcy, including Value City, KB Toys, Mattress Discounters and Buffets, Inc. Some have closed all their stores, according to Realpoint, a Horsham, Pa.-based rating agency. This is on top of more than 1,500 store closures announced by struggling retailers.

Faith Hope Consolo, chairman of the retail group at Prudential Douglas Elliman, is seeing landlords offer up to a year of free rent on 10-15 year leases. Landlords are also willing to freeze rental rates for the first two to three years. These concessions are coming against the backdrop of lower rental rates, she added. Asking rents on one retail property in New York’s Midtown East recently dropped 10% to roughly \$270 per square foot. The area has a number of older leases coming due, she added.

Another potential issue for landlords is the use of “kick-out clauses,” which allow smaller tenants to break leases in the event of a big-box vacancy. This kind of movement could prove disastrous for smaller properties in secondary and tertiary markets. “It will be a nail in the coffin for those projects that have had problems,” Jackson said.

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