

## JCR Capital Raises Equity for Opportunity Fund



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JCR Capital has raised the initial batch of capital for a fund that would provide debt and equity for distressed real estate and loans.

The Denver finance company, led by Jay Rollins and Maren Steinberg, both veterans of the opportunistic investment world, has raised \$17 million of investor commitments towards its goal of up to \$30 million for its fund, JCR Capital Distressed & Opportunistic Real Estate Fund I LP. Investors also made a \$5 million entity-level commitment to JCR.

Investors in the fund are PartnerRe Capital Markets Corp., a unit of reinsurer PartnerRe; **JAM Equity Partners**, which owns a stake in JCR, and Branzan Investment Advisors, a Denver money manager.

The fund's focus is on providing capital - not buying assets - either to investors in distressed loans or owners of properties in distress that need to be recapitalized. It can do that by injecting equity or preferred equity, or providing a variety of debt instruments, from short-term, hard money loans to participating loans.

It aims to stay strictly in the small-balance space, pursuing deals where it invests \$500,000 to \$10 million. Most other capital providers and investors generally aim much higher.

"Exit strategies are easier to achieve because there is more liquidity in the small balance market," Rollins said. But JCR can pursue large deals as well, by teaming up with co-investors.

JCR's focus on providing capital as opposed to buying assets is a reaction to market realities. During the last major real estate downturn in the early 1990s, lenders and regulators sold volumes of distressed loans and properties, setting market-clearing prices and creating plenty of opportunities for deep-pocketed investors.

But that's not quite happening this time around.

Regulators have enabled lenders that generally have been loathe to sell loans that might be underwater. And the FDIC has not become a massive source of investment opportunities for most investors, despite taking over 140 banks last year and 26 so far this year. Most assets of failed banks have been sold to acquiring institutions through loss-share agreements, while another big slug has been sold through structured offerings that have been acquired by only a handful of the country's largest real estate players.

That leaves only the CMBS market's special servicers as sources for investment opportunities. And the thinking long has been that discounted pay offs, where borrowers are allowed to pay off their debt at a discount to par value, often generate the greatest proceeds.

"The waves of maturing debt on commercial real estate are just beginning and the capital markets have not yet recognized their losses," Rollins said. "The opportunities to provide capital at a reset basis are now starting to appear and will last for some time."

That means JCR would provide the capital necessary for borrowers to pay off their debt. It also has developed a bad-bank structure that banks can use to offload some of their soured loans.

"We are focusing on working with sponsors and entities which control the assets, thus avoiding the bid/ask gap that currently exists," Rollins said.

He said borrowers can be classified in two groups, one of which he called the "911" borrowers, who are in dire financial straits, but have an opportunity to negotiate a discounted pay off. In those cases, JCR can serve as a "white knight." The other group he called "411" borrowers, who need short-term capital to facilitate the completion of a property or loan acquisition.

Rollins and Steinberg are both seasoned opportunistic investors and have worked together for some 15 years.

During the 1990s, he led Eastern Realty, a Maryland investment firm he founded that focused on buying raw land from the RTC. He moved to Crown Northcorp, a Columbus, Ohio, workout specialist when that company acquired Eastern Realty. In 1999, he **joined Newman & Associates**, a GMAC Commercial Mortgage affiliate where he developed a series of high-yielding lending products, such as mezzanine and bridge loans and a variety of structured loan packages. He formed JCR **in 2006** in a venture with mortgage banker Guy Johnson.

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