

Rest for the Wall Street Weary
Two recently formed investment funds look to put their money into
California commercial real estate

By Jim Emerson
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Recent stock market troubles cannot help but create new golden opportunities for California, as more investment fund capital flows in statewide in search of real estate transactions.

Infusions of fresh capital from opportunistic investors typically foreshadow improvements in market conditions and mark the beginning of a new real estate market cycle. According to **Merrill Lynch**, between Jan. 1 and July, investors put an additional \$2.7 billion into real estate investment trusts, which are companies that invest in real estate holdings. The figure is a huge leap from \$34 million for all of last year.

As an asset class, real estate in California is becoming more competitive and attractive to institutional investors disappointed by hefty losses in the stock market.

Two investment funds have recently raised millions of dollars for equity and debt investments here. **McCarthy Cook & Co.** formed a new \$495 million investment fund to use primarily for buying office properties. Another firm, **Haverford Realty Investors**, launched a \$300 million fund in June to invest during the next 12 to 18 months, mostly in California.

Haverford is backed by financial services companies that are interested in acquisitions of office, industrial, retail and multifamily properties, including new condominium developments. It has the discretionary powers to close deals on its financial backers' behalf.

"We're spending time in both Northern California and Southern California looking for deals," said David B. Blenko, managing director of Haverford Financial Group.

Within one week of raising the first \$16.5 million for its latest investment fund Haverford Realty, based in El Segundo, provided \$2.6 million in equity financing for an investment partner to acquire Madison Woods, a 116-unit apartment complex in Sacramento.

Another \$20 million for more equity and mezzanine debt financing deals are already in the pipeline, which Haverford expects will close before the end of this year. The firm wants to focus on investments in the \$1.5 million to \$10 million range.

Haverford will serve as a money partner for "seasoned" partners for joint ventures, providing loans for a fixed rate of return or a negotiated percentage of profits generated.

With many traditional funding sources either inactive in California or focusing on larger deals, Haverford perceives market conditions as ideal for investing with midsize partners.

"While it's not a situation where a rising tide lifts all boats, it's the best time in years for us to make investments in our value-added niche," Blenko said. "We can create a structure that fits the deal. It can be debt or equity."

Haverford expects to invest primarily in commercial properties in Southern California and some selected markets outside of the state, such as Las Vegas, Denver and Salt Lake City.

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"Right now we're working on closing deals for industrial development, repositioning a shopping center and a condo development deal in California, but I don't expect we'll do many office deals in the next six months," Blenko said.

Residential deals will have a better chance than office, industrial or retail deals of being approved by Haverford in Northern California. Officials don't rule out the region for other property types, but if it's an office property, it must be fully leased with good cash flow because that sector may not have bottomed out yet, he said.

Office Opportunities

While Haverford Realty takes a more cautious approach in the office sector, Los Angeles-based McCarthy Cook wants to invest the bulk of its new \$495 million fund in office and mixed-use properties throughout the state.

McCarthy has formed a joint venture with Boston based **Charlesbank Capital Partners LLC**, a private investment firm representing Harvard University and other university endowments. McCarthy has discretionary powers to make investment decisions for the fund, which is called the Charlesbank Realty Fund V. It wants larger deals, typically for \$30 million or more.

"Our preference is for deals in San Diego, while our primary interests are major markets in Orange County, Los Angeles and the San Francisco Bay area," said Edward Cook, co-president of McCarthy Cook. "The state has strengths in the south that wane as you move north."

Compared to the jittery stock market and bond markets, commercial real estate in California is an attractive investment, Cook said. In recent months, there has been more investor money and transaction activity flowing into the state, he said.

"Compared to last year, which was quiet, the deal flow has definitely increased," he said.

McCarthy Cook is looking for properties to buy and manage for the Charlesbank investment fund. The firm has representatives at regional offices in San Francisco and Costa Mesa looking for properties for investment. Outside the state the firm considers deals on office properties in the major markets of Arizona, Washington, Oregon and Colorado.

The goal is to make at least \$200 million in investments this year for the Charlesbank fund.

"To do that successfully, we will be reviewing many different opportunities over a large geographic area, but with a specific focus on California," Cook said. "By year's end I see us acquiring at least one major asset for \$75 million or more.

"We're very interested in looking at opportunities. It can be anything from an office that's fully leased to substantially underleased or even properties with leasing challenges," he added.

The fund will consider office properties with low yields in markets where there's good long-term prospects and opportunity for added value in the future.

"We're very entrepreneurial in our underwriting and willing to be very aggressive," Cook said.

In addition to acquiring properties, McCarthy Cook also will consider purchasing office debt or loans to gain a participating share of ownership with the current property owners.

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McCarthy Cook, like Haverford Realty, already owns a commercial portfolio with properties throughout the state. As of mid-July there were no negotiations for deals under contract, yet, for the new Charlesbank fund, according to Cook.