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Real Estate ALERT

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

JULY 4, 2018

THE GRAPEVINE

Two real estate pros have launched their own New York investment shop. **David Steinberg** and **Nirmal Roy** formally opened **Foundation Capital** last month. The firm will chase opportunistic returns via investments in real assets, including distressed opportunities in real estate equity and debt. Steinberg previously was a managing director and principal at **Madison Capital** of New York, where he spent eight years. Before that, he worked at **FrontView Advisors, Antares Investment** and law firm **Paul Hastings.** Roy was previously at **BHR Capital,** a New York hedge fund operator. He had prior stints at **Meadow Partners, Silver Point Capital** and **Starwood Capital.**

Payton Reid has joined **Choice Hotels International** as a managing director

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Blackstone Lands JW Marriott in San Antonio

Blackstone has struck a deal to buy a JW Marriott luxury resort in San Antonio from a **Miller Global** partnership for just under $650 million.

The price for the 1,002-room JW Marriott San Antonio Hill Country Resort & Spa works out to almost $650,000/room. **Eastdil Secured** is brokering the sale for Denver-based Miller and its partner, **Principal Real Estate Investors** of Des Moines, Iowa.

The agreement comes roughly a year after the property hit the market. Since then, the resort sector has seen improved performance, shifting investor sentiment from tepid to enthusiastic.

Resorts — typically upper-upscale or luxury hotels with a high concentration of leisure amenities, located in prime vacation areas — largely fell out of favor with investors during the 2008-2010 market downturn and were slow to rebound when the economy revived. Buyers were wary because the properties are costly to

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Foreign Buyers Hit by Rising Cost of Hedging

The cost of insuring against fluctuations in currency values continues to rise for foreign investors, making it harder for them to compete in the primary U.S. markets they typically favor.

The price of currency hedges has risen dramatically for South Korean and Japanese buyers of U.S. real estate in the last six months, according to a **CBRE** report. Fueled by the quickening pace of interest rates hikes in the U.S., the expense has also worsened in recent months for investors from Europe.

For investors required to hedge against a drop in the dollar's value, the cost is making the historically low capitalization rates for properties in top U.S. markets like New York, Boston and San Francisco difficult to swallow.

"Currency hedging is our biggest issue right now," said an acquisitions chief at a major shop that invests European capital. "Our pipeline of opportunities remains

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Hines Breaks Up Big Office Portfolio for Sale

Hines has launched separate marketing campaigns for seven office properties nationwide, worth more than $900 million in total.

The properties, which encompass about 2.2 million square feet, were originally shopped quietly as a portfolio, along with an eighth property. Hines is now opting to market them one-by-one. **Eastdil Secured** has the listings: Three in Massachusetts, two in California and one each in Minnesota and Washington, D.C.

The offerings are part of the ongoing liquidation of Hines Global REIT. The Houston investment manager announced in April that it plans to sell the vehicle's interests in 34 properties in the U.S., Australia, Russia and Europe.

The seven listed properties represent the bulk of the nontraded REIT's U.S. office holdings.

The largest concentration is in suburban Boston, where three properties totaling 1.2 million sf are on the block with a combined valuation of about $315 million.

The largest of the three is the 510,000-sf Riverside Center, at 275 Grove Street in

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McCourt Eyes Partner for Texas Project

Billionaire real estate investor **Frank McCourt** is looking to bring in a partner on a site in downtown Austin where he plans to build a $1 billion mixed-use complex.

The land, two parcels totaling 4.7 acres on Rainey Street, is valued at about $150 million. The relative stakes of McCourt and the partner would be open to negotiation. The partner would likely commit to spend hundreds of millions of dollars on the development. **HFF** has the listing.

The envisioned "live-work-play" project, called Waller Creek Center, could encompass some 3 million square feet of commercial and residential space.

McCourt, who formerly owned the **Los Angeles Dodgers,** is operating via his **McCourt Global** family office, led by him and his son **Drew McCourt.** The New York-based family office bought the 3.3-acre parcel at 92 Red River Street in 2014 and an adjacent 1.4-acre lot the following year. The property is near the Colorado River and Waller Creek.

Marketing materials describe the land as the largest development site in downtown Austin. The surrounding area has seen extensive redevelopment over the past 10 years.

The parcels are in the Rainey Street Historic District, in the southeast corner of downtown Austin. They were rezoned in 2005 to allow for redevelopment. Overall, downtown Austin has some 15.7 million sf of offices, 16,000 residents and 110,000 daytime employees.

Separately, McCourt Global has hired **CBRE** and **HFF** to line up a development partner for a site on the West Side of Midtown Manhattan. **The Real Deal** reported the offering. Market pros estimate the land could be worth $300 million to $400 million. The parcel is at 360 10th Avenue, between West 30th and West 31st Streets in the Hudson Yards development area. It could accommodate 733,000 sf of commercial space, assuming that McCourt and a partner purchase 437,000 sf of air rights.

McCourt Global bought the site from **Sherwood Equities** of New York for $167 million in 2014. It has pitched a potential $3 billion mixed-used development that could include office, retail and residential space. The likely play would be to build luxury condominiums above offices. Floorplates would be sized to "fulfill demand in Hudson Yards by small to mid-size tenants," according to marketing materials. Bidders have been told McCourt Global would occupy some 50,000 sf as its headquarters. ❖

Swedish Firm Snags DC-Area Rentals

Akelius Residential is under contract to buy a suburban Washington apartment tower from **AvalonBay Communities** for $170 million.

Eastdil Secured is brokering the sale of the 383-unit Avalon Ballston Place, in Arlington, Va., for locally based AvalonBay. The price translates to $444,000/unit.

The occupancy rate is 95%. The 25-story building, at 901 North Pollard Street, includes 5,000 square feet of retail space that's fully leased.

When the 2001-vintage property hit the market in the spring, it was pitched as a "restore to core" opportunity ripe for value-added improvements. Competing properties with modern finishes command rent premiums of more than $300.

The play is right up the alley for Akelius, a Swedish investment firm founded in 1994 by tycoon **Roger Akelius.** The company owns some $7 billion of multi-family properties in Europe, Canada and the U.S. encompassing about 50,000 apartments. According to its website, Akelius routinely upgrades around 4,000 units annually at a cost of $200 million. The firm has been bolstering its U.S. holdings in recent years.

The units at Avalon Ballston have 1-3 bedrooms and rent for $2,000 to more than $4,000. Features include washer/dryers, wall-to-wall carpeting and balconies or patios. Two Metrorail stations are within walking distance.

The property, about five miles west of downtown Washington, is in the Rosslyn-Ballston Corridor, which boasts 25.2 million sf of office space and 2.3 million sf of retail space. ❖

High-Rise Apartments Offered in Conn.

Bentall Kennedy is shopping a 500-unit apartment building in Connecticut that could appeal to core-plus investors.

The high-rise, next to Yale University's campus in downtown New Haven, is valued at roughly $165 million, or $330,000/unit. Toronto-based Bentall, which is representing an unidentified advisory client, has given the listing to **CBRE.**

The 32-story tower, at 360 State Street, was built in 2010. The apartments are 94% occupied. There is also 23,000 square feet of street-level retail space fully occupied by supermarket Elm City Market. A 467-space garage is on the lower four floors.

The owner has installed vinyl plank floors in some apartments. A buyer could make additional improvements and seek to raise rents, which average $2,033, in line with the level at competing properties.

Other selling points: The property offers better views than its mostly mid-rise competitors. Also, the estimated value is a significant discount to replacement cost.

The apartments range from studios to three bedrooms and average 678 sf. They feature oversize windows, smart thermostats, washer/dryers and stainless-steel appliances. Units on the top four floors have ceilings at least 11 feet high, and some of them have balconies as large as 1,000 sf. Amenities include a half-acre landscaped terrace on the sixth floor, barbeque grills and a resort-style heated pool. There's also a resident lounge, a game room, a library, a business center, a screening room and a high-end fitness center.

In addition to Yale's campus, the property is near Yale New Haven Hospital and the State Street Station of Metro-North Railroad. Union Station, which offers Amtrak service to Boston and New York, is five blocks away.

The average household income of tenants is $135,000 overall and more than $400,000 for those in penthouses. More than three-quarters of the occupants have an affiliation with Yale University or Yale New Haven Hospital. ❖

San Diego Complex Up for Grabs

A San Diego office complex valued at about $110 million is on the block.

The offering encompasses the 279,000-square-foot Elements at Wateridge and an adjacent development parcel. The capitalization rate at the estimated value is unknown, but similar properties have been commanding yields of about 6%. **HFF** is representing the local owner, **Parallel Capital.**

The Class-A property, in the Sorrento Mesa submarket, is 91% occupied, with an unusually long weighted average remaining lease term of 11 years that offers stability.

But a buyer could boost its return by leasing vacant space and developing the eight-acre parcel. According to marketing materials, the site could accommodate 178,000 sf of space that would generate $4.5 million of annual revenue.

American Specialty Health has a lease on 72% of the space until 2031, with no termination options. Other tenants include pharmaceutical company **Daiichi Sankyo** and technology companies **Amobee** and **Ntrepid.**

The property has three buildings. Two are fully occupied — the 107,000-sf building at 10221 Wateridge Circle and the 86,000-sf building at 10241 Wateridge Circle. The third, an 86,000-sf building at 10201 Wateridge Circle, is 70% leased. The buildings, with five or six stories, were completed in 1985.

The complex is near the junction of Interstate 5 and Interstate 805, 15 miles north of downtown San Diego. Amenities include a recently renovated indoor/outdoor fitness facility and a restaurant with outdoor dining. The property is adjacent to a park with tennis courts, beach volleyball courts, grills and trails. ❖

KBS Showing Offices Near St. Louis

KBS Realty is marketing a Class-A office complex in an upscale market near St. Louis.

The 580,000-square-foot Pierre Laclede Center, in Clayton, Mo., is expected to attract bids of about $100 million, or $172/sf. KBS, of Newport Beach, Calif., is pitching the property as stabilized, with a 97% occupancy rate, but providing the potential to raise below-market rents. **HFF** has the listing.

The complex, about 10 miles west of downtown St. Louis, encompasses a 16-floor building with 218,000 sf at 7701 Forsyth Boulevard and a 24-story building with 362,000 sf at 7733 Forsyth Boulevard. It is the largest office complex in Clayton's Central Business District, which has a 97% average occupancy rate.

The 12 largest tenants occupy 55% of the space and have a weighted average remaining lease term of 4.8 years. Among them is the **St. Louis Club,** a private dining club that has been a tenant since the building was completed in 1964. It occupies 48,000 sf on several floors under a lease that runs until 2023.

The rent roll also includes **Centene** (59,000 sf until 2022), law firm **Lathrop Gage** (31,000 sf until 2021), **Morgan Stanley** (30,000 sf until 2025) and **Central Bank of St. Louis** (26,000 sf until 2027).

The amenities package includes a fitness center, conference and meeting facilities, outdoor space, a cafe, a concierge and car-washing services. The complex has had $19 million of improvements since 2010, including updates and renovations to the mechanical systems, amenities, common areas, lobbies and roofs.

KBS acquired the complex for $74 million in 2010, early in the market recovery. The investment manager marketed the property two years ago, but pulled the listing to focus on lifting the occupancy rate, then 93%. ❖

NC Office Portfolio Comes to Market

Bridge Investment is teeing up four office buildings and a parcel in North Carolina that together are valued at about $101 million.

The offering encompasses 380,000 square feet in two buildings in Durham and two in Charlotte, plus the land under a Charlotte bank branch. The office properties are valued at roughly $95 million, or $250/sf, and the site is worth about $6 million.

Bridge, a Salt Lake City investment manager, will consider bids on the entire portfolio, as well as offers on either pair of buildings or the parcel. If they sell as a package at the anticipated price, the buyer would see an initial annual yield in the neighborhood of 6%. **Cushman & Wakefield** is kicking off the marketing campaign this week.

The portfolio is being touted as offering stability with the potential to boost returns by leasing vacant space and lifting rents as tenants renew. The Charlotte properties are 95% occupied at below-market rents, and the Durham properties are 81% occupied.

The 0.9-acre parcel, at 6200 Fairview Road, hosts a stand-alone Bank of America branch whose ground lease runs until 2024 and has a five-year renewal option. After that, the high-visibility site could be redeveloped for office, multi-family, hotel or other uses.

The land is adjacent to the listed Charlotte buildings, which total 183,000 sf. One Fairview Center, at 6302 Fairview Road, is a seven-story building developed in 1984. Two Fairview Center, with four stories, dates to 1968. Each has undergone extensive renovations since 2016. They are in the SouthPark submarket, near numerous shops and restaurants.

There are 21 tenants, including **Finance of America** and the **U.S. General Services Administration,** with a weighted average remaining lease term of 5.3 years. In-place rents are $23.87/sf, compared with $30/sf for the surrounding area. The complex has a fitness center, a deli and more than 950 parking spaces. The 1.8 million-sf SouthPark Mall is across the street.

The Durham properties have a combined 197,000 sf. Carlisle Place, at 4721 Emperor Boulevard, and Stratford Hall, at 1009 Slater Road, are four-story, Class-A buildings within the Imperial Center business park, near Research Triangle Park and Raleigh-Durham International Airport.

Carlisle Place, which has most of the vacancy, was developed in 2007. Stratford Hall was built in 1995 and renovated this year. They have 15 tenants, including **Accord Healthcare** and **BAE Systems,** with a weighted average remaining lease term of 5.9 years. In-place rents are $25.82/sf, compared with $28/sf for the surrounding area. The business park has a fitness center and walking trails. There are 822 parking spaces. ❖

Net-Leased Fla. Warehouse on Block

Fortress Investment is marketing a Southern Florida distribution center, as it continues to sell some properties in a portfolio it just acquired in a sale-leaseback deal.

The New York investment manager has tapped **CBRE** to market the 779,000-square-foot property, in Pompano Beach. Bids are expected to hit $105 million. A sale at that $134/sf valuation would indicate an initial annual yield of 5.2%.

The complex is fully leased on an absolute-net basis to **Supervalu,** one of the nation's largest food wholesalers. The lease runs until 2038 with five renewal options of five years each. Supervalu, which posted revenues of $14.2 billion last year, is rated B1/B+ by **Moody's** and **S&P.**

The property, on 52 acres at 1141 Southwest 12th Avenue, encompasses a 722,000-sf distribution facility and three single-story office and auxiliary buildings totaling 57,000 sf. The warehouse includes freezer/cooler space that accounts for 15% of that building. Ceiling heights are 24-28 feet. There are 48 dock-high doors for loading on two sides of the building and dedicated storage for 179 trailers.

In April, Fortress agreed to pay Supervalu $483 million for eight distribution centers around the country that total 5.8 million sf. Supervalu signed 20-year leases on each of the warehouses, agreeing to pay $31 million of rent in the first 12 months of the leases.

The sale of seven of the properties, including the Pompano Beach facility, closed in May, with the remaining one due to close in October. Fortress immediately flipped a 695,000-sf distribution center in Commerce, Calif. **Rexford Industrial Realty** paid $121 million, or $174/sf, for the facility, at 5300 Sheila Street. CBRE also brokered that trade.

Fortress may offer other properties from the portfolio. Three of the distribution centers are in Illinois (Champaign, Joliet and Oglesby). The others are in Green Bay, Wis., Stockton, Calif., and Harrisburg, Pa., where Fortress is funding a $20 million expansion.

Supervalu used the proceeds from the sale to pay down debt. The company also owns retail grocery stores, but is shifting its focus to wholesale distribution, which accounts for 78% of its income. Supervalu still owns 13 million sf of properties. ❖

Fund Shop Lists Rentals Near Chicago

A luxury apartment complex in Chicago's western suburbs is being pitched as a value-added play.

The 294-unit property, in Downers Grove, Ill., could attract bids of roughly $75 million, or $255,000/unit. At that price, the buyer's initial annual yield would be about 4.9%. The owner, Los Angeles fund shop **American Realty,** has given the listing to **Moran & Co.**

The complex, dubbed Residences at the Grove, is 94% occupied, slightly below the 96% average in surrounding DuPage County.

Six units have been upgraded, enabling rents to be raised by $160-450. A buyer could seek to boost its return by continuing that renovation campaign.

The property, which was built in 2009, is on a 16-acre site at 2845 Easton Street. It encompasses three seven-story buildings with 270 apartments and five three-story buildings with 24 townhome units. The apartments average 938 square feet, and the townhomes average 1,734 sf.

The units range from studios to two bedrooms and have nine-foot ceilings, carpeting, granite counters, washer/dryers, stainless-steel appliances and patios or balconies. Amenities include a heated swimming pool, outdoor grilling stations and a clubhouse with a kitchen. There are 532 parking spaces, some in a climate-controlled underground garage.

The site is near the intersection of Interstate 355 and Butterfield Road, which is a major retail corridor. It's surrounded by seven major employment clusters with more than 1.6 million jobs, including the Illinois Technology and Research Corridor, about five miles west, and Chicago's Central Business District, about 25 miles east.

The property is four miles from a Metra train station, which connects to downtown Chicago. ❖

Merchants' Buying Manhattan Offices

A year after hiring a new leader for an expansion push, **Merchants' National Properties** has struck its first New York office deal, agreeing to buy two buildings for about $48 million.

The fully leased properties, at 135 and 161 Bowery on the Lower East Side, are roughly the same size and total 50,000 square feet. The purchase price works out to $960/sf and a capitalization rate of 5%. Two joint ventures that include **Caspi Development** of White Plains, N.Y., are the sellers. The off-market trade is being conducted without a broker.

The buildings are a block apart on the east side of the Bowery, between Delancey and Grand Streets. Caspi and **RWN Real Estate** of New York developed the eight-story building at 135 Bowery in 2017, outfitting it with pre-built suites designed to appeal to "creative" office tenants. The rent roll includes co-working firm **Breather.** Restaurant Tang Hot Pot occupies ground-floor retail space.

The seven-story building at 161 Bowery is owned by Caspi and **Artemis Real Estate** of Chevy Chase, Md. It was constructed in 1920 and renovated last year to feature the loft-style space popular with creative firms. Tenants include **Ansatz Capital, Brainly** and **Kik Interactive.**

New York-based Merchants' could look to boost rents as leases roll over. The surrounding neighborhood, once dominated by lighting and kitchen-supply retailers, has been gentrifying, which is pushing up rental rates for the limited office supply.

The company has been looking to expand its holdings in New York, Washington and Atlanta since hiring **Craig Deitelzweig** last year as chief executive and president. Its first acquisition since the hire was an 11,500-sf retail condo at 124 Hudson Street in Manhattan. It paid $15.2 million in that yearend deal.

Including subsidiary **Marx Realty,** Merchants' owns some 4.3 million sf of office, retail and residential space nationwide and has five mixed-use projects under development. ❖

Redevelopment Play Available in NY

A nearly vacant building in Manhattan's Greenwich Village neighborhood is being pitched as a redevelopment play, with an asking price of $40 million.

The four-story property, at 64 University Place, encompasses 25,000 square feet. **Avison Young** is representing the local owner.

The street-level space is occupied by high-end grocer **Agata & Valentina.** The top three floors are vacant, following the closure of the **Institute of Audio Research** at the end of last year.

The timing of any redevelopment would hinge on when the supermarket moves out. Its lease expires in 2026, but a buyer could seek to negotiate an early termination. The tenant may be amenable, because the lease carries significant rent increases, including a jump from the current $690,000 to $1.2 million at yearend 2019.

The marketing campaign highlights two potential redevelopment plays. A buyer could raze the building and construct retail and residential units totaling roughly 38,000 sf. Or it could convert the property into a 41,000-sf community facility with street-level retail space. Either way, the asking price translates to roughly $1,000 per buildable foot.

The building is on the west side of University Place, between East 10th and East 11th Streets, near Union Square Park. Two luxury condominium projects are nearing completion two blocks north on University Place. A partnership led by **William Macklowe Co.** of New York is developing a 23-story building at 21 East 12th Street, and a six-story property is being constructed at 116 University Place by the team of **Ranger Properties** and **KD Sagamore Capital,** both of New York.

The 64 University Place listing is one of Avison's largest since the brokerage hired **James Nelson** away from **Cushman & Wakefield** in February and installed him as a principal in charge of property sales in the New York area. ❖

Onyx Partnership Showing NJ Complex

A partnership is offering a newly renovated office complex in Northern New Jersey that could attract bids of about $75 million.

The 304,000-square-foot Country Club Plaza, in Paramus, is 97% occupied, mostly by investment-grade tenants. At the estimated value of $247/sf, the buyer's initial annual yield would be 7.2%, based on $5.4 million of in-place net operating income. **CBRE** is representing the owners, **Onyx Equities** of Woodbridge, N.J., and **Garrison Investment,** a New York fund operator.

The two-building property is at 115 and 117 West Century Road. The Onyx partnership bought it in August 2016 from **Barings,** a **MassMutual** unit then operating under the name of Cornerstone Real Estate, for $35.2 million, or $117/sf. Cornerstone had foreclosed on **Deutsche Asset Management,** which bought the complex for $52 million in 2005.

The Onyx team has spent $3.2 million on upgrades, including improvements of the lobbies, common corridors, elevators and shared conference rooms. New and renewed leases totaling 250,000 sf were subsequently negotiated at rents 17% higher than before, according to marketing materials.

The tenants include **Merrill Lynch** (until 2024), **Octapharma USA** (until 2034) and **Sony Electronics** (until 2029). The weighted average remaining lease term is 8.3 years.

Country Club Plaza is at the junction of the Garden State Parkway and Route 17, 15 miles west of Manhattan. ❖

Hines ... From Page 1

Newton, Mass. The complex, which is 88% occupied, encompasses three buildings connected by a four-story glass atrium. Hines acquired it for $197.1 million in 2013. The campus is at the intersection of the Massachusetts Turnpike and Route 128, next to the Riverside Station MBTA stop.

The 532,000-sf Campus at Marlborough, at 100 Campus Drive in Marlborough, Mass., is 78% leased. Its three connected buildings sit on 121 acres, and approvals are in place to construct an additional 650,000 sf. There's a cafeteria, a fitness center and conference facilities that include a 300-seat auditorium. Hines paid $103 million for the property in 2011.

The other Boston-area property should appeal to opportunistic buyers. The 185,000-sf building, at 250 Royall Street in Canton, Mass., is fully occupied, but will become vacant next year when its sole tenant relocates. The three-story building was completed in 2001. Hines bought it in 2011 for $57 million.

In California, Hines is offering the 350,000-sf Campus at Playa Vista, in the Silicon Beach area of Los Angeles. As previously reported, the "creative" office complex is expected to fetch roughly $1,000/sf, or $350 million. The four Class-A buildings in the complex are 98.7% leased.

Also in Southern California, bids are sought on a 132,000-sf building at 2300 Main Street in downtown Irvine. Developed in 2002, the five-story building is fully occupied. It's valued at roughly $40 million, about what Hines paid for the property in 2013.

The Washington listing is for the 268,000-sf building at 55 M Street SE, valued at roughly $145 million. The nine-story building, completed in 2009, is 96% leased. It's at the corner of Half Street in the Capital Riverfront submarket, about a block north of the **Washington Nationals'** baseball stadium. Hines acquired it for $140.9 million in 2013.

The only Midwest property is the 255,000-sf building at 9320 Excelsior Boulevard in Hopkins, Minn., 12 miles southwest of Minneapolis. It was completed in 2010 and is fully occupied by **CarVal Investors.** Hines paid $69.5 million for the property in 2011.

Hines Global REIT owns two other U.S. office properties: the 524,000-sf Summit office complex in the Seattle suburb of Bellevue, which the REIT acquired in 2015 for $316.5 million; and the 289,000-sf building at 550 Terry Francois Boulevard in San Francisco, which it acquired in 2012 for $180 million. The San Francisco building was included in the scuttled portfolio offering. Neither of the two properties is currently on the market.

The REIT also owns four retail centers, in Minnesota, Florida, Tennessee and Texas, and a residential property in Texas. The rest of its holdings are outside the U.S. ❖

Hedging ... From Page 1

robust, but the cost to hedge has rendered us far less competitive on the uber-core product."

Currency hedges are typically purchased by fund operators, insurance companies and pensions that are required to repatriate capital — whether for tax purposes or to repay investors. Some are legally required to safeguard the value of U.S. investments when translated to their home currencies. Companies that can hold investments in dollars, and aren't required to convert them to their home currencies, don't have to take on that expense.

The cost of hedging against changes in value between two currencies generally reflects the difference in interest rates in the respective countries. The **Federal Reserve's** recent increases in its key rate — a quarter-point each in December, March and this month — have widened the gap with countries whose central banks continue to hold rates down.

For investors based in South Korea and needing to convert dollars to won, hedging costs jumped by a whopping 165 bp in the six months ended May 31, to 1.9% of the amount being hedged, according to the CBRE report. Japanese buyers saw a 60 bp increase in the cost of hedging the dollar against the yen, to 2.8%, in the same period. For Euro-denominated investors, the cost rose by 70 bp to 3.1%.

"That potentially can take 100 to 200 basis points out of an overall return in today's environment," said **Richard Barkham,** CBRE's chief global economist. In markets where sale prices for prime properties are yielding capitalization rates of 5% or less, hedging costs can siphon off about half of the cash-on-cash yield, the report noted.

"The result has been moderation of capital flows into real estate in the near term because cap rates have remained tight," said **Chris Ludeman,** global and Americas president of capital markets at CBRE. He added: "We expect this condition to be short term, and demand for U.S. real estate from global investors remains strong."

First-quarter U.S. acquisitions were down sharply for Japanese investors — by 96% from the same period of 2017, to just $51 million — and South Korean buyers (down 82% to $90 million), according to CBRE data. However, overall foreign investment was up by 11.5%, to $12.1 billion, from the year-earlier period, thanks in part to substantial increases in investment capital from China, Hong Kong and the United Arab Emirates.

On the flipside, a pullback by some foreign investors benefits domestic core buyers, who are finding it easier to compete for properties in primary markets. "Domestic money is as hot and aggressive as ever," said one broker. Meanwhile, foreign buyers are likely to continue pushing into secondary markets in pursuit of higher yields to counterbalance rising hedging costs.

For now, it looks like the trend will continue, as the Fed is expected to increase rates twice more this year. But brokers and investors alike see the squeeze as a temporary phenomenon that will be relieved as other countries lift their interest rates.

"It will swing back around, the gap will start closing," said one investor grappling with high hedging costs. "It is not fun when you are on the wrong side of the cycle, but it will come back." ❖

Marriott ... From Page 1

maintain and highly dependent on discretionary spending in vacation markets.

But, the strengthening economy has led to an increase in corporate and leisure travel. What's more, because the properties are costly to build, there are substantial barriers to development, limiting the potential for more competition.

That backdrop has captured the attention of investors. **Blackstone** was among an early wave of buyers, paying $332 million for the 452-room Turtle Bay Resort in Hawaii in December. **JLL** brokered that sale for a **Credit Suisse** consortium of lenders that took control of the property in 2010. Blackstone followed that up in April by paying $1.6 billion for three resorts, in Arizona, California and Hawaii, with 2,314 total rooms. Eastdil arranged that sale for Singapore sovereign-wealth fund **GIC.**

The JW Marriott in San Antonio, which opened in 2010, is among the newest luxury resorts in the U.S. The property, which has maintained a four-diamond rating from **AAA** since 2013, is on a 644-acre site at the foot of Hill Country, a region that stretches from San Antonio to Austin.

The resort includes a seven-acre water park called River Bluff, two 18-hole golf courses, a 45,000-square-foot clubhouse, two fitness centers, a high-end spa, 265,000 sf of indoor and outdoor meeting space, and eight restaurants and bars. It has undergone more than $16 million of improvements, including an expansion of the water park.

The property is under a long-term management contract with **Marriott International** of Bethesda, Md. **Tournament Players Club** of San Antonio manages the golf courses — the only stop on the PGA Tour in San Antonio. ❖

NEW DEALS

Arizona Apartment Portfolio

Commerce Capital paid $64.5 million last week for three Tucson, Ariz., multi-family properties totaling 887 units. **Berkadia** represented the seller, **Holualoa Cos.** of Tucson. San Antonio-based Commerce paid $27 million for the 411-unit Stonybrook Apartment Homes at 4225 North First Avenue; $21.6 million for the 253-unit Quail Ridge Apartments at 4500 East Sunrise Drive; and $15.9 million for the 223-unit La Jolla de Tucson, at 444 West Orange Grove Road. Together, they are 96% occupied. The garden-style complexes were built between 1976 and 1982. Some units have balconies or patios, dishwashers and oversized closets. Each property has a fitness center and at least one pool. ❖

MARKET SPOTLIGHT

Chicago-Area Apartment Properties

- Sales will have to pick up sharply to approach last year's record $3.8 billion tally. Roughly $1.2 billion of trades have closed so far this year, according to Real Estate Alert's Deal Database, which tracks transactions of $25 million and up.
- New supply is projected to help compress the average occupancy rate by 30 bp this year, to 93.8%, according to Marcus & Millichap. But construction is starting to slow.
- Green Street Advisors said rising taxes and projected out-migration are a drag on the long-term outlook.

On the Market

Property	Seller	Hit Market	No. of Apts.	Estimated Value ($Mil.)	Estimated Value (Per Apt.)	Broker
3 properties in Mount Prospect, Naperville	Lone Star Funds	June	1,717	$302	$176,000	HFF
1000 South Clark Street	JDL Development, iStar	May	490	170	347,000	HFF
Linea	LaSalle, Roszak & Moceri	June	265	140	528,000	HFF
Wheaton Center, Wheaton	Edge Principal	June	758	135	178,000	HFF
Bourbon Square, Palatine	Lowe Enterprises	March	612	132	216,000	Moran & Co.
Burnham Pointe	Crescent Heights	May	298	125	419,000	HFF
Lex	Crescent Heights	May	329	116	353,000	HFF
Museum Gardens, Vernon Hills	AMLI	May	294	94	320,000	CBRE
Residences at Grove, Downers Grove	American Realty	June	294	75	255,000	Moran & Co.
Axis, Westmont	Pensam Residential	May	400	62	155,000	HFF
415 Premier, Evanston	Crescent Real Estate Equities	July	221	55	249,000	HFF
Hunter's Glen, Aurora	L3C Capital	May	320	53	164,000	CBRE
North 680, Schaumburg	North American, Urban Street	May	180	52	289,000	CBRE
Pembrook Club, Gurnee	Harbor Realty	May	280	45	161,000	CBRE
110 East Delaware Place	(Condo association)	May	68	35	515,000	CBRE
Valley Lo Towers, Glenview	Davenport Investments	May	112	35	313,000	Moran & Co.
Townhomes at Highcrest, Woodridge	Laramar	June	176	28	159,000	Newmark

Recent Deals

Property	Buyer	Closed	No. of Apts.	Sales Price ($Mil.)	Sales Price (Per Apt.)	Broker
North Harbor Tower	Waterton	June	600	$240	$400,000	(None)
Optima Chicago Center	Edge Principal	April	325	155	477,000	HFF
NorthShore 770, Northbrook	(Unidentified)	(Pending)	347	120	346,000	CBRE
Reserve, Hoffman Estates	InterCapital	May	642	104	162,000	Newmark
Vantage, Oak Park	Greystar, Magnolia	January	270	103	381,000	CBRE
Park Michigan	Horizon Realty	June	344	92	267,000	CBRE
Residence at Links, Glendale Heights	FPA Multifamily	February	632	83	131,000	HFF
Northgate Crossing, Wheeling	Azure Partners	April	288	72	251,000	Moran & Co.
Woodlands, Crest Hill	DRA Advisors	February	730	65	89,000	HFF
Hinsdale Lake, Downers Grove	Avanath Capital	April	582	63	108,000	CBRE
Lakeview 3200	Standard Property	(Pending)	90	53	589,000	CBRE
Midpointe	Bridge Investment	February	423	50	117,000	Berkadia
Towers at Four Lakes, Lisle	Eagle Management	January	476	49	102,000	Moran & Co.
5th Avenue Station, Naperville	Friedkin Realty	(Pending)	119	48	399,000	CBRE
Courthouse Square, Wheaton	CBRE Global Investors	February	149	47	314,000	HFF

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to handle real estate acquisitions. The Rockville, Md., corporation operates about a dozen select-service hotel brands, including Comfort Suites, Quality Inn and Econolodge. Reid moved over last month from **LidlUS,** where he was a vice president of real estate and helped the German grocer expand its presence in the U.S. He spent the last four years there, and before that was a financial analyst at **Clark Construction** of Bethesda, Md.

Apartment buyer **Rise Properties** has added an investment manager to work on acquisitions. **Beau Madsen** joined the firm last month at its office in Seattle. Madsen spent the past five years at **Security Properties,** another multi-family shop in Seattle. At Rise, he works under **Dave Kirzinger** and **Barrett Sigmund.** Sigmund joined the firm as its president in October, also from Security Properties. Rise is a nontraded Canadian REIT focused on U.S. multi-family properties, mostly in the Pacific Northwest.

Renat Yusufov joined **Wharton Equity** last month as a vice president in its New York headquarters. Yusufov came from **Ackman-Ziff Real Estate,** also in New York, where he spent about a year. Before that, he worked on acquisitions at New York-based **Related Cos.** for about a year and a half, and earlier had a four-year stint at **PricewaterhouseCoopers.**

As boutique New York brokerage **Eastern Consolidated** winds down, senior directors **Rubin Isak** and **Lev Kimyagarov** are leaving to head **Goldenwood Property** of New York. They'll be joined there by analysts **Mark Pietrogiacomo** and **Jonathan Sherman.** All four joined Eastern last year. Goldenwood is a shop that Isak ran on his own before he was hired by Eastern. The brokerage announced three weeks ago that it was shutting down after an unsuccessful search for a buyer. The firm, led by husband-and-wife team **Peter Hauspurg** and **Daun Paris,** focused on middle-market deals across New York.

Retailer **Macy's** has hired a staffer to help with its real estate disposition strategy. **Tim Karmazsin** started this month in New York as a senior associate. He reports to **Chris Erb,** who joined the department store company two years ago as head of real estate development. Macy's real estate team is led by **Doug Sesler.** Karmazsin came from **DLC Management** of Elmsford, N.Y. He previously spent eight years at **DDR,** the Beachwood, Ohio, REIT. Executive search firm **Rhodes Associates** arranged the hire.

Allianz Real Estate of America wants to add an associate in New York. The recruit would work on direct property buys, joint ventures and other deals across the U.S., reporting to the firm's head of acquisitions in the Americas, **Gary Phillips.** Candidates should have 2-5 years of experience.

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