



Real Estate

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Orrick's Global Real Estate Roundup

As we look back on a busy fourth quarter 2012 that saw a flurry of deal closings in the final weeks of the year for core and value-added commercial properties in the US, an active transaction pipeline is already ramping up for 2013, giving further evidence that US real estate assets are once again an attractive investment option for national and international investors. How are the European and Asian real estate markets faring and what investment trends are emerging in those regions? Orrick's International Real Estate Group takes a look around the world and shares some observations and trends for select markets along with highlights of deals that recently closed with the assistance of the Orrick teams.

United States

There are many indicators that the U.S. commercial real estate market is making a strong comeback: from the recovery of the commercial mortgage-backed securities industry, the entry of new capital from domestic and foreign sources spurred by low interest rates and demand for higher returns, to the flocking of new digital media and technology companies to some of the nation's hottest real estate markets: Midtown South in New York and South of Market in San Francisco, among others. At the close of the year, Orrick advised pension funds and their advisors, investment funds and other institutional investors in several high value acquisitions, dispositions and refinancings of core and value-added assets in these markets, we also saw increased activity for our fund formation practice, and assisted on the IPO of the first REIT focused on the REO-to-Rental market. In Q4 alone, our US team assisted in the closing of more than 25 transactions with an aggregate transaction volume in excess of \$3 billion.

Real Estate Investments

As many pension funds and REITs return their investment focus to core properties, they drove much of the activity towards the end of 2012. In December, we helped **LACERA** close two large New York portfolio investments with an aggregate value of several hundred million US Dollars: the acquisition of the 50-story **Madison Belvedere luxury residential tower in Midtown Manhattan** from developer Rose Associates - one of the top 10 largest multi-family transactions in the nation in 2012 - and the joint venture acquisition of the **retail condominium units**

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Orrick Elevates Two Real Estate Lawyers to Partnership



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currently leased by Gap in the historic building of the former Knickerbocker Hotel in **Times Square**. We also advised LACERA in connection with seven mortgage loans from Bank of America to finance **retail and industrial properties** in Pennsylvania, Virginia, Rhode Island and California.

In one of the largest **Los Angeles** single property investments of the year, we represented **RREEF** on its sale of the trophy 1-million-square-foot **Wilshire Courtyard office and entertainment complex** to Tishman Speyer. The illustrious tenant list of the Class "A" Miracle Mile property includes E! Entertainment, The Oprah Winfrey Network, 20th Century Fox, Los Angeles Business Journal and Wenner Media.

We also represented an international fund advisor in its \$120 million sale of partnership interests in the fee owner of a 25-story **office building in San Francisco's South of Market** district.

In another **Midtown Manhattan** deal, we represented an international opportunity fund in a \$165 million mortgage refinancing provided by a lending syndicate arranged by Wells Fargo for a 42-story, Class "A" **art deco office building** with 12,000 square feet of retail space. The transaction was notable in that it involved a concurrent equity restructure which collapsed a multiple mezzanine borrower equity structure.

In the multifamily sector, we assisted a pension fund advisor in the negotiation of a joint venture with a major insurance company to invest in three large **multifamily development projects** in Williamsburg, **Brooklyn**, in **San Francisco** and **Corte Madera**, California for an aggregate transaction value of more than \$400 million.

In the hospitality sector, we advised an international opportunity fund on its acquisition of both a mezzanine loan indirectly secured by the **Los Angeles Marriott Burbank Hotel** and the **Denver Renaissance Hotel**, containing over 800 keys in total, and the underlying mortgage loan. We assisted the client in exercising its right to purchase the mortgage loan under the intercreditor agreement and subsequently negotiated a deed-in-lieu of foreclosure with the borrowers/owners of the hotels that involved the negotiation of new hotel management agreements with the existing managers and assignment, assumption and modification of the existing franchise agreements with Marriott. We also assisted the client in obtaining a mortgage loan secured by the Burbank Marriott Hotel.

We also advised an opportunity fund in the modification of two separate loans secured by **portfolios of industrial, multifamily and retail properties** with an aggregate loan amount of more than \$300 million.

Fund Formation and REITs

Orrick has been at the forefront of the **REO-to-Rental** market with a multi-disciplinary working group that is focused on facilitating financings of residential real property acquired for rental. We were one of the first firms engaged to work on matters related to this initiative and advised **Silver Bay Realty Trust Corp.** in its initial public offering (IPO), making it the first publicly traded Real Estate Investment Trust (REIT) focused on the single-family rental market. The company raised \$245 million in its December IPO, and its shares traded on the New York Stock Exchange under the symbol "SBY." In early January, Silver Bay's over-allotment option closed with another \$34.8 million, bringing the offering's total amount raised to \$263.4 million. Concurrently with the closing of the IPO, Silver Bay acquired an initial portfolio of single-family residential properties from entities associated with Two Harbors Investment Corp. and Provident Real Estate Advisors in exchange for equity interests in Silver Bay. Silver Bay is using the proceeds from the offering to purchase additional single-family properties. Thus, the overall transaction involved a spin-off, an IPO and an acquisition.

In addition to our involvement in the REO-to-Rental market, our fund formation practice has been active assisting one of the leading green project developers in the United States with the formation of its second fund, a **\$200+ million value-add fund** for the acquisition and redevelopment or development of green office and multi-family properties, and we also closed several other new funds during the second half of the year.

In the retail sector, a multi-practice team advised **an international real estate investment manager** on the formation of a joint venture to invest in a pool of triple net lease retail properties with initial commitments of \$110+ million; and on the initial purchase by the joint venture of approximately \$50 million in triple net lease retail properties.

CMBS

A multidisciplinary Orrick team represented the subsidiary of multiple investment funds and a publicly traded REIT, as the sole remaining certificate holder, in the **collapse of the LaSalle Bank MF5 Commercial Mortgage Backed Security Trust** valued at nearly \$250 million, and the subsequent sale of a 40% interest in the resulting mortgage loans to a major financial institution.

Japan

The Japanese real estate market is continuing to see increased foreign interest, after a long lull in activity since 2008, buoyed by recovering land prices and a sizeable inventory of maturing commercial real estate secured distressed debt and CMBS. In addition to traditional global real estate funds, the market is seeing increased influx of capital from Singaporean funds and other ex-Japan Asian investors who are slated to become major players in the region. With a solid client base of international investment funds, our Tokyo team has continued to increase its market share and ranks among the most active international law firms in the commercial real estate market. Selected recent engagements include:

- Assisted the subsidiary of an international opportunity fund in the disposition of close to ¥400 billion in real estate ownership interests in a number of high value assets, including **three iconic Tokyo office and retail buildings**.
- Advised another international real estate investment fund in four of its investments in Japan in 2012, including the acquisition and/or financing of a **portfolio of business hotels, a data center, office/retail property and a resort hotel** with an aggregate transaction value of over ¥40 billion.
- Represented the mortgage lending division of a global insurance company with the acquisition financing of a portfolio of **24 retail, residential and office properties** located in Japan by a publicly traded Japanese real estate investment trust (J-REIT) using a trust financing structure.
- Assisted a leading international real estate investment opportunity fund with the ¥8.8 billion loan and bond refinancing of existing indebtedness secured by a **portfolio of residential properties** located in Japan with non-recourse senior and mezzanine financing.

Germany

Over the past three months, commercial real estate activity in Germany has been at its highest level since 2007 due in part to a few unusually large transactions in eastern Germany. However, the uptick in activity does suggest that investor interest may have begun to return to the secondary commercial property market. In particular, the retail sector remains one of the most active asset classes. The German market has also seen increased investment activity from large insurance companies who are looking to asset managers to source investment deals for their real estate portfolios. Our Berlin team recently advised a private equity fund on the sale of a significant **logistics portfolio at the Port of Hamburg** to a major insurance group.

In the retail sector, we assisted a London-based global asset management firm and its German Retail Income

Fund on the **acquisition of a shopping center in Northern Germany**. We also completed the final closing of "Project Blue," the €700 million **sale of 45 German wholesale properties** in a deal that spanned the past 3 years. We assisted a private equity fund on the €300 million refinancing of its **pan-European office portfolio** and an aggregate €250 million in total sales of various commercial properties.

In the hospitality sector, we advised an international private equity fund on its **sale of the historic "Steigenberger Europäischer Hof"** hotel in Baden-Baden to the Steigenberger Group. The combined transaction included both the sale of the hotel operations as well as the property and building. The Steigenberger Group's purchase of the Europäischer Hof ensures the continued operation of the historic hotel under the iconic Steigenberger name.

United Kingdom

The UK remains the most active European market in terms of commercial real estate activity in general, with a particular focus on London and the Southeast. The shopping center sector showed modest signs of recovery. Orrick's London real estate team has long been an advisor to the UK retail sector, serving as **main transaction counsel for one of the largest national shopping center operators**. We have seen increasing activity in the finance area which may mark the return of liquidity in the market.

We have seen strong activity on the development side of our practice and closed a significant number of deals in 2012, most recently the **acquisition and development of 4 significant sites for mixed use** within the Royal Docks in East London, a major regeneration area, from a statutory body.

While the UK office market remained cautious throughout the second half of 2012, Orrick's London real estate team did see an uptick in activity in 2013 and recently closed a high profile deal in London's South Bank representing a UK pension fund and its fund manager, **LaSalle Investment Management**, on its **£56 million sale of the landmark London Television Centre** to ITV, the television channel that airs the hit TV series Downton Abbey in the UK. The deal involved complicated overage provisions in the event of substantial redevelopment of the site in the next 10 years. Prior to the purchase, ITV had been locked into a 56-year lease with no breaks on the 22-story tower and studio complex, which serves as ITV's headquarters and studios.

Russia

Orrick's international Russia team advised on three of the largest deals in Russia during the first half of the year, including Hines' sale of the prestigious **Ducat Place III** office building in Moscow, Immofinanz's buyout of the remaining shares of Moscow's **Golden Babylon Rostokino shopping center** and Aareal Bank's sale of **Pushkino Logistics Park** located near Moscow.

In the last quarter of the year, a joint Moscow/London/German team represented **ZAO Raiffeisenbank** on a secured loan to refinance the construction of a **logistics center** near Moscow and on the concurrent sale by the former owner of borrower equity to the new investor. We advised on both the financing and M&A aspects of the transaction and acted as escrow agent.

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