## Banks Eye Big Student-Housing Deal

**Morgan Stanley** is syndicating a portion of an $860 million mortgage it closed a few weeks ago on a portfolio of student-housing properties.

The bank led the financing deal for a partnership between **Blackstone** and **Landmark Properties.** The two investors announced an initial joint venture last August to acquire a sprawling student-housing portfolio, in the first step of an ongoing effort to invest in the sector.

The floating-rate loan is priced at 175 bp over the Secured Overnight Financing Rate. It has an initial term of two years, followed by three one-year extension options. The leverage is around 65%, which pegs the portfolio's value at more than $1.3 billion.

Sources say that **Wells Fargo** has committed to take down half the debt, and that it and Morgan Stanley will hold some $300 million jointly. They're expected to sell down the remaining $560 million in a process that probably would wrap up within the next month or two.

The new loan deal is to be collateralized by a 9,239-bed pool of 14 properties near a number of large universities across the U.S., including **Appalachian State University** in North Carolina, **Auburn University** in Alabama, **Colorado State University, Florida State University, Georgia Tech, Penn State University,** the **University of Georgia,** the **University of Nevada Las Vegas,** the **State University of New York at Buffalo,** the **University of Tennessee** and **Washington State University.** Most of the properties were built within the last four years, and occupancy is around 96%.

As part of the new venture, Blackstone and Landmark so far have acquired 13 student-housing properties totaling 8,678 beds. The new financing deal is backed by those purchased properties, with a portion of the debt earmarked for another potential future deal. ❖

## Silverstein Fund Closes On $2 Billion

**Silverstein Capital Partners** has raised $2 billion of equity for the third in a series of high-yield funds that originate construction loans and provide rescue capital.

The lending arm of New York-based Silverstein Properties held a final close last month for the vehicle, dubbed SCP JV 3 Lender, and plans to fully deploy the capital in the next 12 to 18 months. While the firm lends across the capital stack, its first two vehicles — which raised $2 billion of equity combined — focused on development projects, condominium-inventory loans and mezzanine debt.

Silverstein can use leverage to boost its lending capacity, but didn't do so with its first two vehicles. The return goal of the fund series is more than 10%.

Two foreign investors that backed the first two funds also contributed equity to the latest vehicle, along with three Israeli institutions. Silverstein didn't use a placement agent.

The manager lends across property types nationwide, with a focus on the top 20 metropolitan areas. Silverstein typically writes five-year, floating-rate loans, but terms are flexible. Loan-to-value and loan-to-cost ratios can go as high as 85%.

"Our success is based on our ability to provide borrowers a one-stop financial solution and lend at scale on loans we hold," said Silverstein Capital president **Michael May.** The fact that Silverstein Properties has in-house development and construction teams gives Silverstein Capital a leg up on other lenders, he added.

A large mortgage Silverstein originated last month typifies the firm's strategy. It wrote a $340 million construction loan to finance the development of Legacy Hotel & Residences, a 50-story mixed-use skyscraper in Miami. The tower will include hotel rooms, residential condominiums, office and retail space. Local developer **Royal Palm Cos.** already has begun construction, which is slated for completion in 2024.

Silverstein's largest loan to date was its April 2021 origination of $700 million of construction debt for a 1.1 million-sf mixed-use project in Bellevue, Wash. The borrower, a **Fortress Investment** partnership, plans to build a condominium tower, the Pacific Northwest's first InterContinental Hotel and a public plaza with retail space.

Silverstein Capital was formed in 2018 by Silverstein Properties, led by renowned developer **Larry Silverstein.** May, a former **CCRE** and **Credit Suisse** executive, reports to Silverstein Properties chief executive **Marty Burger.** ❖

## Banks, Insurers See Crowded Market

Banks and insurance companies expect 2022 to be a good but competitive year for commercial real estate lending, though the landscape will vary by property type.

A group of top bank and life insurance executives said the market in 2021 returned nearly to normal, a welcome change after many institutions white-knuckled their way through 2020. Originations last year were up — in some cases way up — and firms were able to achieve solid yield despite the vast amount of capital pouring in from new sources. Most balance-sheet lenders predict the good vibes will continue in 2022.

"I don't expect it to be much different than 2021 — other than probably even more competitive," said **Gary Otten, MetLife Investment Management's** head of real estate debt strategies.

The expected transition away from Libor went into effect with a bit of a jolt in the last few months of 2021, but most see it as nothing to worry about down the line. Property sectors hit hard early in the pandemic, especially hotel and retail, have firmed up a bit, and institutions are growing more willing to lend on those assets. There will continue to be a bifurcation between those properties deemed more solid — for example, destination hotels and retail strip centers with a high concentration of essential tenants — and those on shakier ground, such as hotels catering to business travelers and malls. Office properties, meanwhile, remain more of a conundrum.

As the economy continues to recover, questions about liquidity, competition and the sheer amount of capital chasing deals are percolating. Those themes reverberate through years

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when commercial real estate is seen as a decent place for investors to place capital.

"The biggest question for us in the next year will be just, there's a lot of money out here. The capital-raising for our [third-party investor] fund business has been really strong, and we know we aren't alone," said **Bryan McDonnell,** head of U.S. debt and chair of global debt for **PGIM Real Estate.**

Insurers in particular said they've perceived more pressure from other classes of lenders, likely for several reasons. For one, owners of some assets, such as apartment properties, that historically have favored longer loan terms — traditionally the focus of insurers — have shifted somewhat to shorter-term debt. At the same time, certain larger life insurers have ramped up in some areas over the last few years — such as the shorter-term, higher-yielding end of their businesses — pushing them into new waters with competitors including debt funds and banks.

Many also have a lot more money to get out the door. McDonnell said PGIM's third-party business that writes loans on behalf of investor clients has ratcheted up sharply over the past few years. MetLife and other big insurers have likewise boosted their own investment-management businesses in the same time frame.

Simultaneously, private equity shops have been wading into the life insurance business. In November, **Blackstone** bought a chunk of **Allstate's** business, Allstate Life Insurance Co., for $2.8 billion. **KKR** last February purchased **Global Atlantic** in a $4.4 billion deal. **Apollo Global Management,** which had owned a 35% stake in **Athene Holding** since 2019, this week completed a previously announced merger with the affiliate in a deal valuing Athene at some $11 billion.

The deals provide their private equity ownership groups with a deep and reliable pool of capital they can tap for a variety of investment lines, including commercial property financing. They also may result in life-company investment units that are more omnivorous in their lending, in line with their parent entities. The ultimate outcome of the acquisition trend — along with the growth of insurance-company third-party investment platforms — could be a blurring of what were once clear lines as various lenders overlap across traditional asset and loan models, looking for yield.

"You're going to start seeing that play out, and I've been trying to beat the drum, trying to tell people that's going to happen," McDonnell said. "Don't put certain investors in a box anymore."

Banks have also seen a stiff wave of competition over the past year, as more institutions return to the table after a year of uncertainty and time spent on loan modifications tied to the pandemic. Many moved strongly into the multi-family and industrial sectors, seeking conservative plays where cashflows are most consistent.

Those two property types are expected to remain the strongest draws this year, which will deepen competition and probably keep spreads tight.

**Al Brooks,** head of commercial real estate at **JPMorgan Chase,** said that in terms of volume, the bank booked an extremely good year in 2021. JPMorgan is consistently the top multi-family lender among banks, and it was positioned well to take advantage of strong investor interest in the sector. He expects apartment properties to be a significant focus again in 2022 — and not just because of the sector's solid cashflows during the pandemic.

"It feels as though we're going to have a little bit of distancing going on for a while, and we don't know what the standard will be going forward," he said. "One heartening sign we're seeing is tech companies signing the largest leases in major markets, such as New York City, San Francisco and Chicago."

Brooks also said office assets are expected to still present tough choices for most larger lenders, who've grown sensitive to any whiff of softness in tenancy and leasing.

"It feels as though we're going to have a little bit of distancing going on for a while, and we don't know what the standard will be going forward," he said. "How likely are [tenants] to renew at the same numbers and to the same amount of space?"

Throughout the pandemic, arguments on both sides of the equation have been offered. On one hand, office workers can do their jobs remotely, and companies therefore won't need as much space. On the other, however, firms will retain physical offices, and will want greater square footage per employee to maintain safe distances to help reduce virus transmission. And given the lengthy leases typically signed for office space, no one knows exactly how the tension will play out.

"You have the great benefit in office of long lease terms, which has helped immeasurably over the past two years," said **Jamie Woodwell,** a vice president with the **Mortgage Bankers Association** who oversees the organization's research activities.

Woodwell expects differentiation among property types and markets over the next year. The office sector will be the largest area of unease. Lenders likely will become even more careful about choosing where to lend. "You've got San Antonio versus New York, and suburbs versus cities — and very different stories unfolding in different parts of the market," he said.

While it will take time to reach a point of clarity, the good news has been that improvement from a year ago has been widespread, Woodwell added. "If you look at where 2021 was versus 2020, every property type was up, and pretty significantly," he said. "So things are headed in the right direction."

MetLife's Otten described circumstances much the same way. "Compared to normal, pre-Covid years, we did nowhere near as much office, hotel or retail — but we still did more transactions than we've ever done," he said.

That's partly because MetLife has shifted in recent years to closing a larger number of smaller financing deals rather than fewer bigger loans. The move is tied to the expansion of its third-party investment business, which requires more diversity in the debt it originates. But the sheer number of deals also shows the continued optimism from lenders overall.

**Keith Honig,** who heads up commercial mortgage origination for **Pacific Life,** echoed the sentiment.

"I'm hearing there's a lot of that potential for transactions out there, which in my opinion should bode well for a strong 2022, transaction volume-wise," he said. "We've got a busy pipeline, and things that are moving forward into the first quarter should give us a strong start to the year." ❖

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