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\$2B Fund to Capitalize on Transitioning RE Market

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A new private equity fund, CDC Real Estate Opportunity Fund I, has been established to capitalize on certain advantageous circumstances that may arise in the market as a result of the credit crunch.

Formed by the head of Vienna, Va.-based Clemente Development Co. and Clemente L.L.C., the fund has commitments totaling \$200 million with the potential to leverage as much as \$2 billion.

Timing was behind the creation of the office property-focused CDC Fund I, according to C. Daniel Clemente, chairman & CEO of Clemente Development. He predicts that underwriting requirements will further tighten and real estate asset values will decline beginning next year; property price tags being based on existing operating income, as opposed to the promise of higher rental rates upon lease rollovers in the future.

Industry experts already see the writing on the wall. "A couple of years ago, we saw buyers purchasing buildings that were value-add, that weren't leased, but now the market's a little soft," Tonya Ginter, director of research and marketing with real estate services firm GVA Advantis, told *CPN* today. "Buyers are more wary about buying buildings that aren't fully occupied; leased buildings are just more stable."

What's happening with lending in the commercial market is the same thing that happened in the housing market, Clemente noted. "Commercial banks were making a lot of loans on an interest-only basis for a period of three, four, five years," he said. "They anticipated selling off the debt. And they had nothing to lose and everything to gain because they were getting fees for originating the loans. But when the loans come due, the syndicators who overpaid for the property will only be able to get 65 percent, and the property is going to be appraised at a lower number because they'll be using today's rents, not fabricated rents."

The fund will target strong income-producing office real estate in the Metropolitan Washington, D.C., market, where Clemente Development has over 30 years of development and management experience, and then move out from there to other major metropolitan areas. "We see everything that comes on the market in the D.C. area and we've identified six office buildings that we're interested in, but the prices haven't come down to what we want," Clemente said. "The building values have not fallen yet because the existing loans have to mature and that won't start to happen until next year. The first quarter of 2009 is going to be a bloodbath but nobody wants to talk about it because they want to present a good picture of the economy; people are just tired of hearing bad news." In the meantime, Clemente Development will dedicate its efforts to increasing the amount of money in the fund.

Clemente Development is not alone in the move to exploit the impending change in the real estate market. Last month, TIAA-CREF Asset Management announced the launch of TIAA-CREF U.S. Real Estate Fund I L.P., a closed-end fund that will target high-quality office, retail, industrial and multi-family assets with reliable income streams from credit-worthy tenants and a modest level of anticipated short-term lease turnovers.