

APRIL 16, 2003

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THE GRAPEVINE

A **GE Capital** subsidiary has nixed plans to start buying opportunity-fund stakes on the secondary market. GE Equity had intended to make the investments through a group headed by managing director **Elliot Royce**. But after unsuccessfully bidding on shares of a few commingled vehicles, Royce left the company in December to join **Allianz Private Equity Partners** of New York. GE has no plans to replace Royce or to take another crack at the market, in which limited partners sell their fund shares, often at a discount.

Robert J. Murray has jumped to **Praedium Group** from **Citigroup**. At New York-based Praedium, Murray is a vice

See GRAPEVINE on Back Page

Public Pension Funds Cut Realty Holdings 6%

For the first time in several years, the real estate investments of the nation's largest public pension funds fell in 2002, as managers moved to keep holdings in proportion with declining stock portfolios.

The Top 50 funds, ranked by real estate assets, had total real estate holdings of \$90.4 billion at the end of last year, down 5.9% from \$96.1 billion at yearend 2001, according to **Real Estate Alert's** annual survey of public pension funds. That reverses gains of 4.5% in 2001, 16.5% in 2000 and 10.5% in 1999 (see tables on Pages 8-14).

Lend Lease Real Estate Investments, **RREEF Funds** and **Heitman Capital Management** were once again the most-active real estate advisors to big public pension funds last year. It was the fourth consecutive year that the firms captured the top three spots in the ranking. Also, **Townsend Group** remained the most

See PUBLIC on Page 9

Mixed-Use Building on Block in San Diego

A **Starwood Capital** partnership is shopping an office/retail building near San Diego that it acquired two years ago.

The fully occupied Hazard Center, in Mission Valley, consists of 263,000 square feet of office space and a 137,000-sf retail component. It might attract bids of \$100 million, or \$250/sf. **Secured Capital** has the listing.

Starwood, an opportunity-fund operator based in Greenwich, Conn., owns the property in partnership with **WCB Properties**, a Newport Beach, Calif., affiliate of **Whitehall Street Real Estate Fund**. They bought it in 2001 from **TimesSquare Real Estate Investors** of Hartford for \$70.8 million, or \$177/sf.

Office tenants include **AIG Claim Services**, **Aetna Health Plans** and **Royale Energy**, which pays \$30.15/sf through 2005. Financial planner **Corporate Deposit Program** subleased 4,000 sf last fall at \$32/sf. The retail space is anchored by a seven-screen Mann Theatre and a 14,000-sf Barnes & Noble. The 15-story

See MIXED on Page 4

Swiss Insurer to Broaden US Investments

Zurich Financial Services, the giant Swiss insurer, plans to start a second U.S. investment program, which could result in the purchase of up to \$1.3 billion of real estate over the next four years.

The operation, called Zurich Global Investment Advisors, will likely look at a mix of core and value-added office, retail and industrial properties. That will differentiate it from the existing program, Zurich Structured Finance, which buys only properties that are net-leased for the long term to tenants with strong credit ratings. It has a \$2 billion U.S. portfolio.

Managing director **Christian Halabi**, who runs the existing program out of New York, will also oversee the new operation, which is likely to begin investing in the third quarter.

Zurich Global will be capitalized with up to \$500 million of equity. It will finance 50-60% of its investments, giving it total buying power of as much as

See SWISS on Page 4

T-Rex Sees Apartment Niche

Opportunistic investor **Thomas Mulroy**, who has focused heavily on distressed telecom properties over the past couple of years, is launching a venture that will invest up to \$150 million in apartment properties this year.

This marks the first time that Mulroy's firm, **T-Rex Capital** of New York, will stray from the opportunistic arena into core and core-plus investments. The move, Mulroy says, is aimed at exploiting the current strength of multi-family markets throughout the nation.

Even though T-Rex Residential will target fully stabilized apartment complexes, which are not known for producing high yields, Mulroy anticipates that rising property values and the use of up to 90% leverage will produce annual returns of 10-15%. The vehicle will generally seek out properties around the country that have at least 250 units and cost at least \$20 million. If any value-added or distressed opportunities are spotted, they will go into T-Rex Capital's main portfolio.

Mulroy launched T-Rex Capital in early 2000 with the intention of raising a commingled opportunity fund. However, as the market for distressed and underperforming assets dried up, Mulroy shifted gears to avoid having to deploy capital into a weak market. Instead, he formed a joint venture with an unidentified Wall Street institution to do one-off transactions.

Mulroy became one of the first and most-active buyers of troubled telecom hotels, spending more than \$300 million on the properties in 2000 through a division called T-Rex Technology Centers. Some of the properties have been flipped, while others were converted into multi-family and other kinds of properties — including disaster-recovery sites, which companies can use if their main offices become inaccessible.

When demand for disaster-recovery sites increased dramatically after the Sept. 11, 2001, terrorist attacks, T-Rex focused on such conversions by forming T-Rex Mission Critical. That venture has spent roughly \$100 million to date and plans to spend another \$100 million this year. Mulroy thinks the strategy can be effective for another two to three years. Most recently, it paid **Lockheed Martin** \$22.5 million in January for a 336,000-square-foot research-and-development site at 9220 Godwin Drive in Manassas, Va. Lockheed is vacating the property, and T-Rex will convert it into a disaster-recovery location for an unidentified tenant. T-Rex may hold the property for up to 15 years.

Meanwhile, T-Rex Capital continues to buy a variety of underperforming properties and loans. All told, T-Rex and its various divisions have invested more than \$600 million to date, including the use of up to 85% leverage.

Mulroy plans to ride the apartment venture for as long as it lasts. "It might evaporate in a year," he said of multi-family opportunities. "This happens to be an opportunity in the residential market right now." ♦

Glazer's Firm Eyes Shopping Centers

First Allied, a shopping-center owner based in Rochester, N.Y., has been on a buying spree and has no plans to slow the pace of deals.

The firm, which is headed by investor **Malcolm Glazer**, acquired some \$200 million of properties last year. It aims to buy another \$300 million of centers in the coming months.

First Allied targets anchored, Class-A shopping centers in established retail hubs. It typically seeks properties that range in value from \$15 million to \$25 million. The company owns 50 retail properties in 21 states, most located along the Eastern seaboard.

Matt Kaiser, First Allied's acquisition manager, finds stable anchors like grocery stores and drug stores attractive. "We like the comfort of an anchor tenant who's going to be there for 20 or 30 years," he said. "We don't get comfortable with a lot of big-box centers — there's not a lot of growth there. There usually aren't a lot of rent bumps."

Kaiser, who declined to disclose the value of the firm's shopping-center portfolio, said First Allied benefits from being a "very careful, private investor" that at the same time can be more nimble than a public company. "It's tough for public REITs to get off their standards," Kaiser said. "But when we see upside, paired with a good location, we can pick them off."

First Allied recently closed on an unusual deal — its \$22.9 million purchase of the vacant, 850,000-square-foot Tampa Bay Center from **Rouse** of Columbia, Md. But the company is not getting into the mall business. It was attracted by the fact that the property, at Hines Avenue and Martin Luther King Jr. Boulevard, is directly across the street from Raymond James Stadium, the home of the **Tampa Bay Buccaneers** football team — which Glazer owns. Glazer plans to tear down the mall and construct a three-story, 150,000-sf training facility for the team.

First Allied competed with **DeBartolo Property** for Tampa Bay Center, which had fallen prey to tenant bankruptcies and stiff competition from nearby suburban malls. DeBartolo, of Youngstown, Ohio, had mulled redeveloping the site into an open-air shopping center.

In addition to its shopping-center portfolio, First Allied owns mobile-home parks, nursing homes and television stations. Kaiser, who is based in First Allied's Los Angeles office, can be reached at 310-275-8944. ♦

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Six Players Bid to Buy Prime Group

About six firms have made tentative offers to buy **Prime Group Realty**, although it remains unclear whether the Chicago REIT will move ahead and strike a deal.

The firms are seeking to snatch up Prime's 11.7 million-square-foot portfolio of office and industrial properties. The portfolio has a market value of well over \$1 billion, but is heavily leveraged. Prime, which is publicly traded, has a market value of \$93 million.

A Prime executive confirmed that about a half-dozen firms had submitted letters of interest by a March 31 deadline, but declined to identify any of the bidders. Market players said the bidders are likely to include Prime's creditors, as well as opportunistic investors. Among those being cited:

- **Miami-based LNR Property**, which wrote a \$75 million mezzanine loan to Prime in March on its top property, the 1.5 million-sf Bank One Corporate Center in downtown Chicago.
- **Vornado Realty** of New York and/or **Cadim Inc.**, a Montreal subsidiary of **Caisse de depot**, Canada's largest fund manager. In 2001, Prime defaulted on a \$62 million loan that the two players originated the year before. Vornado and Cadim foreclosed on the loan and received stock in the company as compensation.
- **GE Capital** of Fairfield, Conn.
- **Apollo Real Estate Partners** of New York.
- An unnamed Arizona pension fund advised by Prime's former chairman, **Michael Reschke**.

In addition, **Parkway Properties** of Jackson, Miss., is interested in buying a few of Prime's core properties should Prime decide to sell off its assets piecemeal.

Prime's problems began a few years ago, when it bought too many properties — including some poor performers — and over-leveraged them. It reported a \$13.3 million net loss in the fourth quarter. Prime's auditor, **Ernst & Young**, has warned about the REIT's ability to remain solvent.

In December, Prime hired **Merrill Lynch** to evaluate its options, including a possible merger or liquidation of assets.

But it remains far from certain that the current round of bidding will result in a deal. After buying a 6.6% stake in the company last December, **Northland Capital Partners** of Newton, Mass., started negotiating to make an additional infusion in Prime, but the company broke off the talks in February. ♦

Phased Sales of Apartments Planned

An assisted-living company emerging from bankruptcy plans to sell 100 apartment properties in stages to raise cash to pay off creditors.

Grand Court Lifestyles of Boca Raton, Fla., has put the first six complexes on the market as a package. The fully stabilized properties, which encompass 1,043 units, are located in Texas, Kansas and Missouri. The company is being advised

on the liquidation by **Keen Consultants** of New York.

The Class-A complexes are all about 90% occupied. The largest is the 255-unit Windrose, which consists of 24 garden-style apartment buildings in Kansas City, Mo.

The other properties are:

- **Center Ridge**, in Duncanville, Texas (224 units in 22 buildings).
- **Northgate Village**, in Dallas (168 units in 16 buildings).
- **Shiloh Village**, in Dallas (168 units in 15 buildings).
- **Webber Gardens** in Fort Worth, Texas (120 units in 13 buildings).
- **University Village** in Kansas City, Kan. (108 units in five buildings).

Grand Court began investing in apartment properties — especially HUD-regulated complexes — in the late 1970s as a tax shelter. Then operating as **J&B Management**, the firm amassed a large apartment portfolio, which was not perceived as a moneymaker at the time. The firm later shifted gears and began investing in assisted-living facilities that it planned to own and manage. It went public in 1998, but the oversupplied assisted-living market crashed, dragging Grand Court into bankruptcy in 2000.

Ironically, the multi-family market took off, with stabilized apartment properties suddenly becoming highly desirable. As a result, Grand Court has emerged from bankruptcy with a restructuring plan centered on the sale of its apartments to raise funds.

Grand Court has put the properties into a liquidating trust called GCL Holdings. The entity will offer a series of packages until the portfolio is liquidated. For more information, call GCL at 866-559-5921. ♦

Offices Near Milwaukee on Block

Principal Financial is shopping two office properties in suburban Milwaukee that could fetch about \$23 million.

Both are located in Brookfield, along Interstate 94, where the thickest concentration of suburban office buildings in the Milwaukee area are clustered. Principal is willing to sell them individually or as a package. **CB Richard Ellis** has the listing.

The larger property, located at 400-440 Executive Drive, is valued at about \$96/sf, or \$17.2 million. The 165,000-square-foot complex, which consists of two three-story buildings, is 90% occupied at triple-net rents ranging from \$17 to \$20/sf. But the leases will soon expire for the two largest tenants: **American Family Insurance**, which occupies 75,000 sf, and **Trinity Universal Insurance**, which uses 40,000 sf. The lobby and common areas are undergoing extensive renovations.

The smaller property, an 80,000-sf building called Bishop's Woods, is valued at about \$5 million. It is located at 1355 Bishop's Court. The occupancy rate is 72%, but the building will soon be 85% vacant, which could make it attractive to an end-user.

For more information, call **Mike Vesper** of CB at 312-861-7800. ♦

Houston Office Portfolio on Block

A **Morgan Stanley** partnership is marketing three Houston office buildings.

The partnership, between Morgan Stanley Real Estate Fund III and **Macfarlan Real Estate Investment Management** of Dallas, is thought to be seeking \$54 million, or \$100 a square foot, for the 540,000-sf portfolio. **Cushman & Wakefield** has the listing. The three buildings are being offered as a package.

The largest property, the 198,000-sf building at 6363 Woodway Drive, is 89% occupied. Asking rents are \$19/sf. The rent roll is dominated by local professional firms. The 11-story building, which includes parking for 515 cars, was constructed in 1983. The Morgan Stanley team acquired it from **Travelers Insurance** in 1996 for roughly \$10 million.

Also up for grabs is the 179,000-sf building at 1616 South Voss Road. The occupancy rate is 80%, with asking rents of \$19/sf. Tenants include **McDonald Financial** and **Greystone Petroleum**. There is parking for 625 cars. The 10-story building was constructed in 1981. The Morgan Stanley team bought it in 1997 from **Eastgroup Properties** of Jackson, Miss., for \$13 million. The property was once named after lead tenant **Santa Fe Energy**, but that firm moved out following a 2000 merger with **Devon Energy** of Oklahoma City.

The remaining piece of the portfolio is the 163,000-sf building at 7500 San Felipe Street. It has an occupancy rate of about 80%, with asking rents of \$19.50/sf. Tenants

include **American Title**, **Society of Petroleum Engineers** and **Big "6" Drilling**. There is parking for 570 cars. The 10-story building was constructed in 1978. The Morgan Stanley team bought it in 1997 for about \$11 million from a Hong Kong-backed entity known as **Gain Million Investment**. ♦

Group Targets Medical Offices

A consortium of private investors is looking to spend \$200 million on medical office buildings around the country.

The unidentified group, advised by **NAI Mathews Partners** of Nashville, is seeking underperforming buildings that can provide yields of about 12% after being leased up. The group has \$50 million of equity and will raise \$150 million of debt to finance its acquisitions.

The primary target is properties in major cities in Arizona, California, Florida, Georgia and Texas. The typical building will range in size from 40,000 to 60,000 square feet, although the group is willing to buy properties of any size. It will focus on buildings with occupancy rates ranging from 50% to 85%. Tenants will generally be doctor practices. The ideal target is a Class-B building in a Class-A location.

The group is looking to deploy its capital and close deals as quickly as possible. It intends to hold the properties for five to seven years.

For more information, call **Joseph Schrott** of NAI at 615-850-2700. ♦

Mixed ... From Page 1

property, which includes a 2,200-car garage, is located at 7676 Hazard Center Drive, near Interstates 8 and 805 and Highway 163. It was built in 1990 by local developer **R.E. Hazard**. TimesSquare gained control in 1999.

An adjacent, 300-room Doubletree Hotel is separately owned and not part of the offering. ♦

Swiss ... From Page 1

\$1.3 billion. The goal is to invest the money by the end of 2006.

While the strategy has not been fully fleshed out, it's expected that Zurich Global will avoid high-risk properties or markets. Although it may make a few purchases in Canada, most will be in the U.S. The operation will typically hold investments for 2-5 years — far shorter than the 15-year-plus horizon of Zurich Structured.

Zurich Global will consider investments through joint ventures. It also plans to invest in commingled funds, with a minimal amount possibly going to funds that concentrate on development.

With the new program, Zurich Financial is seeking to diversify its U.S. holdings, which include various non-real estate investments. The company, founded in 1872, is one of the five largest insurers in the U.S. and Europe. ♦



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Fitch Warns of Retail Delinquencies
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Rabbi Quitting UBS to Form Fund
Recapt Hires Ex-LoopLender Exec
Investors Snap Up Hotel CMBS
Strong Demand for 2 REIT Issues
Funds Florida Apartments
AC Syndicating NY Loan
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Y Targets High-Yield Loans

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credit analyst, focusing on
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Solow Seeks Giant Loan on Manhattan Trophy

Developer **Sheldon Solow** is seeking a \$400 million loan on the 1.5 million-square-foot building at 9 West 57th Street, which is considered one of the finest office properties in Manhattan.

The transaction would enable the developer's firm, **Solow Building**, to take mortgage of only about \$100 million from an insurance company. With a market value of \$700 million or more, the building can easily sustain a good deal more debt.

The 50-story property is a cash cow for Solow, who developed it in 1972 and has owned it ever since. It is estimated that the building throws off \$90 million of net operating income a year.

Solow began informally talking to a handful of lenders about a mortgage

www.CMAAlert.com

See SOLOW on Page 10

LaSalle, Wells Won 90% of Trustee Jobs in '01

LaSalle Bank and **Wells Fargo** last year increased their stranglehold on trustee assignments for U.S. commercial MBS deals, exceeding a combined 90% market share for the first time.

LaSalle captured 51.5% of trustee contracts on new CMBS deals, based on dollar amount, while Wells nabbed 39.3% of the new business, according to **Commercial Mortgage Alert's** CMBS Database (see table on Page 8). Their combined 90.8% share was the highest ever by two players, exceeding their 87.1% total in 2000. Their combined share in the second half of last year was an even more astounding 94.6%.

State Street Bank, once a leading player, continued its decline. It won only 4.1% of the CMBS trustee assignments last year, down from 7.1% in 2000. At its high-water mark in 1994, State Street held a 28.2% market share. The

See TRUSTEE on Page 8

Lenders Originate \$340 Million of Mall Loans

A **Developers Diversified Realty** partnership this week closed on \$339.5 million of mall financing from four lenders.

Morgan Stanley, **Wells Fargo** and **Capital Trust** provided a \$175 million floating-rate mortgage, while **Wells Fargo** supplied \$159.5 million of fixed- and floating-rate mortgages.

The four lenders are institutional investors advised by **DRA** REIT based in Beachwood, Ohio, manages

between 1993 and 1995 by **Homart** Sears. They were included in a 20 million 1996 for \$1.85 billion to a partnership

See LENDERS on Page 2

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Wisconsin Resort Up for Grabs

A private group is marketing a massive water-park resort in Wisconsin that has an estimated value of \$90 million.

Wilderness Hotel & Golf Resort, a major Midwestern tourist attraction in the city of Wisconsin Dells, consists of a 443-room hotel, a three-acre indoor water park and two acres of outdoor water rides. The property also has a championship golf course and a five-star spa. It is adjacent to a five-star restaurant, which is not included in the offering.

The property, one of the state's few year-round resorts, draws about 4 million visitors a year. Revenues this year are projected at \$33 million. The occupancy level at the hotel is consistently above 60%, at an average rate of \$187. At the expected sale price, the buyer's initial annual yield would be around 11%.

The group of local investors developed the property in 1995. It is one of three water-park properties in Wisconsin Dells, which is located in the central part of the state, about 60 miles north of Madison. However, the other two properties, Great Wolf and Kalahari, open their water parks to the public. Wilderness Resort's parks are exclusively for its guests, which increases demand for the hotel.

Wisconsin Dells draws visitors from Illinois, Minnesota, Michigan and Wisconsin, capitalizing on the fact that there are few family-entertainment sites in the region suitable for all seasons.

CB Richard Ellis has the listing. It declined to comment. ♦

Legacy Shops Las Vegas Offices

A **Legacy Partners** venture is asking \$35.6 million for a recently renovated office complex in Las Vegas.

The 307,000-square-foot property, located at 101 Convention Center Drive, is 86% occupied. At the asking price of \$115/sf, the buyer's initial annual yield would be 10.4%. The Los Angeles office of **Colliers Seeley** has the listing.

The occupancy level will drop to 80% in July, when **Cox Communications** vacates its space. Another 30,000 sf, or 10%, rolls over by the end of next year. Asking rents are \$22.20/sf, while in-place rents average \$21/sf. Tenants include **AIG**, which occupies 13,000 sf, and various city and state agencies, which lease a combined 60,000 sf.

The two-building complex was built in 1980. Legacy, which is based in Foster City, Calif., teamed up with **ING Barings** in 1998 to buy it from **Nevada Public Employees** for \$24.8 million. The Legacy partnership renovated the property the following year and again last year. There is garage and surface parking for 925 cars.

The office-sales market in Las Vegas has become more active in the past year, although it is still dominated by medical office properties. The only significant purchase of late involving a traditional office property was New York-based **iStar Financial's** \$33 million acquisition in December of the 213,000-sf Wells Fargo Financial Center from **Finova Capital**, the troubled finance company based in Scottsdale, Ariz. ♦

NEW DEALS

Midtown Manhattan Office Property

A heated bidding contest for the 400,000-sf office building at 521 West 57th Street in Midtown Manhattan was won by **Townsend Capital**, which is headed by **Dennis Townsend**. The Baltimore firm has gone under contract to pay about \$88 million for the property. The seller, **International Flavors & Fragrances**, plans to lease back the 180,000 sf it occupies. The building has no significant tenant rollover until 2011. **Garibaldi Group**, which is handling the sale, fielded bids from about 15 investors.

Southern California Mall

Hager Pacific Properties of Encino, Calif., paid \$68 million for Baldwin Hills Crenshaw Plaza, an 850,000-sf mall in Los Angeles. The seller, **Pan Pacific Retail Properties**, was represented by **Sperry Van Ness**.

Orange County Office Complex

Layton-Belling Associates is under contract to pay about \$37 million, or \$137/sf, for Commerce Plaza, a 270,000-sf property in the firm's hometown of Newport Beach, Calif. Layton-Belling outbid a partnership between **J.P. Morgan Fleming** and **WCB Properties**, an investment firm backed by **Whitehall Street Real Estate Fund**. Orange County investor **Brad Schroth** had previously been under contract to buy the 18-building property for about \$40.5 million, or \$150/sf. **CB Richard Ellis** is handling the sale for **Mitsui Real Estate**, the U.S. affiliate of Tokyo-based Mitsui Fudosan.

Washington Office Property

Penzance Partners, a local firm headed by **Victor Tolkin**, is under contract to pay \$26.5 million, or \$209/sf, for 1129 20th Street NW in Washington. Earlier, a deal with Philadelphia-based **Kevin F. Donohoe Cos.** fell apart. The 127,000-sf property is being marketed by Los Angeles-based **Lowe Enterprises**, acting on behalf of institutional clients. **Holliday Fenoglio Fowler** is the broker. ♦

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THE GRAPEVINE

A partnership involving opportunistic player **Westbrook Partners** recently accepted \$20 million less than its asking price for a Boston-area office building. The buyer, **IBUS Co.** of Washington, paid \$53.5 million, or \$242 a square foot, for the 221,000-sf Davenport Building in Cambridge — considerably less than the \$72.5 million, or \$328/sf, that the partnership had been asking. The deal followed a long period of negotiations and loss of interest from other potential buyers.

Dearth of Offerings Tied to Wariness of Sellers

The nationwide slowdown in office sales appears to be the result of sellers, not buyers, sitting out the recession.

While both conservative and high-yield investors express eagerness to move ahead with purchases, sellers are generally holding back. Though they acknowledge that prices have softened in the wake of the Sept. 11 terrorist attacks, sellers are hopeful that values will rebound in coming months along with the economy. As a result, they are wary about unloading properties during what might be a short-lived slump.

The stalemate has sapped the volume of property offerings and frustrated investors, many of which are flush with capital. "There is a tremendous amount of opportunistic money, which can't meet its hurdles," said **Jeff Baker**, a broker with **Secured Capital's** New York office. "For the right kind of product, there is a tremendous amount of core capital as well."

Opportunistic buyers, including commingled funds that have raised truckloads of cash by promising investors high returns, had hoped that the recession

See DEARTH on Page 6

Bidding Opens Again on Marriott Portfolio

A joint venture has started taking bids again on 13 Courtyard by Marriott hotels after the Sept. 11 terrorist attacks derailed the original offering. **Sarofim Realty Advisors** of Dallas and **W.P. Carey** of New York started shopping the 1,968-room portfolio in the second quarter of last year and set a Sept. 14 deadline for final bids.

As the deadline neared, offers were in line with the portfolio's estimated \$200 million value. But the terrorist attacks stifled travel and depressed the economy. That forced the hotel industry into a sharp slump, driving down property values. Some of the bidders then dropped out of the running. While the Sarofim team has continued to talk to two investors that remained interested, they have not been able to strike a deal.

Now Sarofim's broker, **Hodges Ward Elliott**, has started taking bids again, while

See BIDDING on Page 6

Group Targets Grocery-Anchored Centers

An investment partnership is looking to buy up to \$100 million of grocery-anchored shopping centers this year.

The partnership, **Laramie/Ameris Group**, already owns 17 apartment and retail properties valued at about \$175 million. It believes that grocery-anchored properties are safer than larger centers anchored by big retailers, said partner **Arti Sideris**. "We've avoided Kmart, Caldors and other 'big boxes,'" he said. "We feel that's a safe way to go."

The 17-year-old partnership, which has offices in Jericho, N.Y., and Fort Worth, Texas, has provided its investors with an average annual return of 11%. Sideris said. It has focused on properties in a handful of states — Texas, Florida, Virginia, North Carolina and Pennsylvania — but is willing to take on opportunities

See CENTERS on Page 2

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SURVEY OF PUBLIC PENSION FUNDS

Top 50 Public Pension Funds Based on Real Estate Holdings

Figures as of Dec. 31, 2002, unless otherwise noted. Excludes funds that primarily invest in mortgages or other real estate debt

	Real Estate Holdings 12/02 (\$Mil.)	Real Estate Holdings 12/01 (\$Mil.)	Total Assets 12/02 (\$Mil.)	Actual Real Estate Allocation (%)	Target Real Estate Allocation (%)	Direct ownership	Commingled funds	REIT shares	Limited partnerships
1 Calpers	\$12,300	\$13,358	\$134,112	9.2	9.0	✓	✓	✓	✓
2 California State Teachers	5,100	5,222	92,800	5.5	6.0	✓	✓		✓
3 Ohio State Teachers	4,944	5,900	43,816	11.2	12.0	✓		✓	✓
4 New York Common Fund	4,800	5,240	98,000	4.9	4.0	✓	✓	✓	✓
5 Ohio Public Employees	4,645	5,209	47,430	9.8	9.0	✓		✓	
6 Florida State Board	4,140	3,840	96,300	4.3	4.0	✓		✓	✓
7 State of Michigan	4,017	4,027	40,701	9.9	9.0		✓	✓	✓
8 Washington State Board	3,800	3,959	36,900	10.3	12.0	✓	✓		✓
9 New York State Teachers	3,400	3,674	68,200	5.0	8.0	✓	✓	✓	✓
10 Los Angeles County Employees	3,101	3,384	24,084	12.9	10.0	✓	✓		
11 Pennsylvania Public School Employees	2,741	3,151	39,670	6.9	7.0	✓	✓	✓	✓
12 Colorado Public Employees	2,603	2,744	24,400	10.7	7.0	✓	✓	✓	✓
13 Pennsylvania State Employees	2,431	2,548	20,908	11.6	10.0	✓	✓	✓	✓
14 Oregon Public Employees	2,278	2,889	33,388	6.8	8.0	✓	✓	✓	✓
15 Wisconsin Investment	2,240	2,096	50,929	4.4	4.0	✓			✓
16 Illinois Teachers	2,160	2,389	21,268	10.2	14.0	✓	✓		✓
17 Alaska Permanent Fund	2,157	2,712	23,351	9.2	10.0	✓	✓	✓	
18 Virginia Retirement	1,743	1,660	31,978	5.5	(None)	✓	✓	✓	✓
19 North Carolina Public Employees	1,612	1,577	52,055	2.8	(None)		✓		
20 Massachusetts Pension Reserve	1,584	1,715	25,983	6.1	6.0	✓		✓	
21 Maryland State Retirement	1,574	1,518	24,600	6.4	5.0	✓	✓	✓	✓
22 Nevada Public Employees	1,133	1,254	12,949	8.7	10.0	✓			
23 Utah State Retirement	1,124	1,266	13,204	8.5	10.0	✓	✓	✓	✓
24 Iowa Public Employees	909	930	14,319	6.3	5.0	✓		✓	
25 Alabama Teachers (9/30)	901	751	13,933	6.5	10.0	✓			
26 San Francisco City & County Employees	848	826	9,812	8.6	12.0	✓			✓
27 Alaska Public Employees and Teachers	840	960	10,427	8.1	9.0	✓	✓		
28 Chicago Public School Teachers	784	773	8,691	9.0	7.0		✓	✓	✓
29 Ohio School Employees	746	862	6,717	11.1	10.0	✓	✓	✓	✓
30 Minnesota State Board	745	772	33,700	2.2	(None)		✓	✓	
31 Los Angeles Fire & Police	666	848	9,534	7.0	8.0	✓	✓		✓
32 Kansas Public Employees	620	657	8,200	7.6	8.0	✓	✓	✓	
33 Ohio Police & Fire	612	581	7,272	8.4	8.0	✓	✓		
34 Hawaii Employees	608	745	7,340	8.3	9.0	✓	✓		✓
35 Illinois State Board	572	378	7,315	7.8	8.0		✓		✓
36 Illinois Municipal Employees	470	581	13,486	3.5	2.0	✓	✓		
37 New Hampshire Retirement	470	420	3,840	10.7	10.0	✓			
38 Kentucky Retirement	454	459	10,279	3.7	(None)		✓	✓	
39 Alabama Employees (9/30)	432	362	6,322	6.8	10.0	✓			
40 Texas Teachers	425	519	70,568	0.6	0.0				✓
41 City of New York Teachers	407	0	21,000	1.9	3.0			✓	
42 Connecticut Trust Funds (9/30)	400	470	17,300	2.3	5.0	✓	✓		
43 Sacramento County Employees	400	380	3,009	13.3	10.0	✓	✓		
44 Louisiana Teachers (6/30)	382	384	10,509	3.6	(None)				✓
45 Arkansas Teachers	373	444	7,364	5.1	(None)	✓			
46 Tennessee Consolidated	370	360	22,606	1.6	5.0	✓			
47 Kentucky Teachers.	359	332	11,391	2.7	3.0	✓			
48 Orange County Employees	352	347	4,183	8.4	9.0	✓	✓		
49 Los Angeles City Employees	334	312	6,262	5.3	7.0	✓	✓		
50 Boston City Retirement	334	293	2,628	8.1	10.1	✓	✓		
TOTAL/WEIGHTED AVERAGE	90,440	96,078	1,405,033	6.4	6.9				

SURVEY OF PUBLIC PENSION FUNDS

Public ... From Page 1

widely used real estate consultant.

Thirty-one of the 50 funds reduced their real estate holdings last year, including 13 of the 15 largest players. **Calpers**, the nation's largest public pension fund, trimmed its holdings by \$1.1 billion, to \$12.3 billion. Large reductions were also recorded by **Ohio State Teachers** (\$956 million), **Ohio Public Employees** (\$564 million), **New York Common Fund** (\$440 million) and **Los Angeles County Employees** (\$283 million).

The reductions reflected a concerted effort to dispose of real estate assets, rather than a decline in the value of holdings. Most of the sales were driven by a desire to keep real estate holdings near allocated targets. As stock investments — which make up more than half of overall fund holdings — declined in value, the proportionate value of real estate portfolios rose. As a result, managers had to discard real estate assets.

One pension fund investment officer said that not a single one of his fund's stock investments (outside of REITs) increased in value last year. The 50 largest funds saw their aggregate assets dive by 9.5% last year, to \$1.4 trillion from \$1.55 trillion at yearend 2001.

Without taking action, many funds would have been sig-

nificantly over their target allocations for real estate. Funds reduced their real estate holdings by selling properties or REIT shares, cashing out of commingled funds or unwinding partnerships or joint ventures.

"It makes sense to have a corresponding decrease in the real estate portfolio with the overall decrease in fund size," said **Steve Gruber**, senior real estate investment officer for **Oregon Public Employees**. Oregon's real estate portfolio dropped 21.1% in 2002, to \$2.3 billion.

Gruber said, however, that with the stock markets relatively flat so far in 2003, he does not expect the largest pension funds to undertake another massive reduction in real estate portfolios this year.

On a weighted-average basis, the Top 50 funds had an actual real estate allocation of 6.4%, and a target allocation of 6.9%. By comparison, the funds had actual and target allocations of 6.2% at yearend 2001. That suggests that while the funds were reducing their real estate holdings, the effort barely kept pace with the shrinking size of their overall investment portfolios.

While most of the funds reduced their holdings last year, a few players bucked the trend. **City of New York Teachers** made its first real estate investments, buying \$407 million of REIT stock. It has a target allocation of \$630 million. **Alabama's** two retirement systems, serving teachers and public employees, each increased their actual and target allocations for real estate. Among funds with lesser real estate holdings, the \$58 billion-asset **New Jersey Division of Investments** made its first foray into real estate, buying \$188 million of REIT stock.

Several other funds are expected to start making real estate investments this year, including the \$14 billion-asset **Mississippi Public Employees**, which has a 5% target allocation, or \$700 million, and the \$6 billion-asset **Indiana State**

See PUBLIC on Page 14

Top Real Estate Advisors

	Clients 2002	Clients 2001
Lend Lease Real Estate, Atlanta	19	20
RREEF Funds, San Francisco	17	18
Heitman Capital Management, Chicago	16	18
ING Clarion, New York	14	13
Sentinel Real Estate, New York	14	14
Invesco Realty Advisors, Dallas	13	13
AEW Capital Management, Boston	12	11
LaSalle Investment Management, Chicago	12	12
UBS Realty Advisors, Hartford	11	13
CB Richard Ellis Investors, Los Angeles	10	9
Westbrook Partners, New York	9	9
J.P. Morgan Fleming, New York	8	7
SSR Realty Advisors, White Plains, N.Y.	8	8
Credit Suisse First Boston, New York	7	7
Lowe Enterprises Investment, Los Angeles	7	7
Prudential Real Estate, Parsippany, N.J.	7	8
TA Associates, Boston	7	7
KBS Realty Advisors, Newport Beach, Calif.	6	6
L&B Realty Advisors, Dallas	6	9
Olympus Real Estate, Dallas	6	7

Real Estate Consultants

	Clients 2002	Clients 2001
Townsend Group, Cleveland	14	14
Callan Associates, San Francisco	6	5
Pension Consulting Alliance, Portland	6	5
Frank Russell Co., Tacoma, Wash.	5	5
Chadwick Saylor, Atlanta	1	1
Courtland Partners, Cleveland	1	1
CRA RogersCasey, Darien, Conn.	1	0
Ronald A. Karp Associates, Summit, N.J.	1	1
NONE	15	18

SURVEY OF PUBLIC PENSION FUNDS

Other Real Estate Advisors

	Clients 2002	Clients 2001		Clients 2002	Clients 2001
Alex. Brown Realty, Baltimore	1	0	Hudson Advisors, Dallas	2	4
AMB Investment Management, San Francisco	1	1	J.E. Robert Cos., Alexandria, Va.	4	3
American Realty Advisors, Glendale, Calif.	1	1	John Hancock Real Estate, Boston	2	3
AMLI Institutional Advisors, Chicago	1	1	John McStay Investment, Dallas	1	1
Angelo, Gordon & Co., New York	1	0	John W. Bristol & Co., New York	2	0
Apollo Real Estate Advisors, New York	5	4	Kennedy Associates, Seattle	2	3
Barlow Nielsen Associates, Salt Lake City	1	1	Kensington Realty Advisors, Chicago	2	2
Bay Isle Financial, San Francisco	1	0	Keystone Property, West Conshohocken, Pa.	1	1
Bear Stearns, New York	1	1	Landmark Partners, Simsbury, Conn.	1	0
Berwind Property, Philadelphia	1	1	Laureate Capital, Charlotte	1	0
BlackRock, New York	1	0	Lazard Asset Management, New York	5	5
Blackstone Group, New York	3	3	Legg Mason Real Estate, Philadelphia	5	4
Cabot Partners, Boston	1	1	Lincoln Properties, Chicago	2	2
Capital Trust, New York	1	0	Lone Star Partners, Dallas	1	0
Capri Capital, Chicago	3	2	Lubert-Adler Real Estate, Philadelphia	3	3
Charter Oak Advisors, King of Prussia, Pa.	1	1	Mezzanine Capital Property Investors, New York	1	1
Cherokee Group, Englewood, Colo.	1	1	MGA Development, Oxnard, Calif.	1	0
Cinven, London	1	0	Miller Global, Denver	2	3
Cliffwood Partners, Los Angeles	1	1	Morgan Stanley, New York	4	3
Cohen & Steers, New York	2	3	National Retail Partners, San Diego	1	1
Colonnade Properties, New York	1	0	Oaktree Development, Los Angeles	2	3
Colony Capital, Los Angeles	2	2	Olympia Properties, Boston	1	1
CommonWealth Partners, Los Angeles	2	2	Pacific Real Estate, Portland, Ore.	1	1
Cornerstone Real Estate Advisors, Hartford	1	1	Peabody Group, New York	1	1
Corporate Properties of the Americas, Monterrey, Mexico	1	0	Praedium Fund, New York	1	1
Cottonwood Partners, Salt Lake City	1	1	Pricoa Property, London	1	2
Cozad Asset Management, Champaign, Ill.	2	1	Principal Global Investors, Des Moines	3	2
Devon Institutional Real Estate, Emoryville, Calif.	1	1	Public Storage, Glendale, Calif.	1	1
DivcoWest Properties, San Jose	1	1	Regency Centers, Jacksonville	1	1
Doughty Hanson, London	2	2	Rockwood Capital, Greenwich, Conn.	2	2
DRA Advisors, New York	1	1	Rothschild Asset Management, New York	1	1
Emmes & Co., New York	1	0	Sarofim Realty Advisors, Dallas	1	2
Essex Property Trust, Palo Alto, Calif.	1	0	Starwood Capital, Greenwich, Conn.	2	2
EuroInvest, London	1	0	Stone-Levy, Northbrook, Ill.	1	1
Faison Associates, Charlotte	1	1	TCW Group, Los Angeles	3	3
Fortress Investment, New York	1	1	TGM Associates, New York	1	1
GE Capital, San Francisco	3	0	Thomas Properties, Los Angeles	1	1
General Investment & Development, Boston	1	1	TimesSquare Real Estate, Hartford	5	5
GF Management, Philadelphia	1	1	Tishman Hotel, New York	1	1
GMAC Institutional Advisors, Alpharetta, Ga.	1	1	Transwestern Investment, Chicago	2	2
Goldman Sachs, New York	1	2	UrbanAmerica, New York	1	1
Great Point Investors, Boston	1	1	Urdang & Associates, Plymouth Meeting, Pa.	3	1
Greenfield Capital, New York	1	1	US Realty Consultants, Columbus, Ohio	1	0
Greystar Management, Charlotte	1	1	USAA Realty, San Antonio	1	1
Hart Advisors, Simsbury, Conn.	1	1	Wachovia Asset Mgmt., Winston-Salem, N.C.	2	2
Hearthstone Advisors, San Francisco	2	2	Walton Street Capital, Chicago	4	4
Henderson Global Investors, Chicago	4	4	Washington Real Estate Holdings, Seattle	1	0
Hicks Muse Tate, Dallas	1	0	Wellington Management, Boston	1	0
Hines, Houston	3	3	Westport Investment, Palm Beach Gardens, Fla.	1	1
Hometown America, Chicago	1	1	Whitehall Street Real Estate Funds, New York	1	0
			Xylem Advisors, Boston	1	0

SURVEY OF PUBLIC PENSION FUNDS

Alabama Employees

Consultant: (None)

Advisors: (None)

Alabama Teachers

Consultant: (None)

Advisors: (None)

Alaska Permanent Fund

Consultant: Callan Associates

Advisors:

AEW Capital Management
CB Richard Ellis Investors
Heitman Capital Management
Henderson Global Investors
Kennedy Associates
L&B Realty Advisors
LaSalle Investment Management
Sentinel Real Estate
Wellington Management

Alaska Public Employees and Teachers

Consultant: Townsend Group

Advisors:

Invesco Realty Advisors
J.P. Morgan Fleming
Lowe Enterprises Investment
Sentinel Real Estate
UBS Realty Advisors

Arkansas Teachers

Consultant: (None)

Advisors:

Cinven
Credit Suisse First Boston
Doughty Hanson
Hicks Muse Tate
Olympus Real Estate
Westbrook Partners

Boston City Retirement

Consultant: Callan Associates

Advisors:

Hearthstone Advisors
Heitman Capital Management
Invesco Realty Advisors
LaSalle Investment Management
Lend Lease Real Estate
Urdang & Associates

California State Teachers

Consultant: Pension Consulting Alliance

Advisors:

CommonWealth Partners
General Investment & Development
Hines
LaSalle Investment Management
National Retail Partners
RREEF Funds
SSR Realty Advisors

Calpers

Consultant: Pension Consulting Alliance

Advisors:

CB Richard Ellis Investors
Heitman Capital Management
ING Clarion
Lend Lease Real Estate
Lowe Enterprises Investment
Principal Global Investors
Sentinel Real Estate
SSR Realty Advisors
Thomas Properties

Chicago Public School Teachers

Consultant: Townsend Group

Advisors:

Blackstone Group
Capri Capital
J.P. Morgan Fleming
LaSalle Investment Management
Lend Lease Real Estate
Morgan Stanley
Olympus Real Estate
Prudential Real Estate
RREEF Funds
TimesSquare Real Estate
UBS Realty Advisors
Walton Street Capital

City of New York Teachers

Consultant: CRA RogersCasey

Advisors:

AEW Capital Management
Lend Lease Real Estate
Morgan Stanley

Colorado Public Employees

Consultant: (None)

Advisors:

Heitman Capital Management
Invesco Realty Advisors
LaSalle Investment Management
RREEF Funds

Connecticut Trust Funds

Consultant: Pension Consulting Alliance

Advisors:

AEW Capital Management
Apollo Real Estate Advisors
TimesSquare Real Estate
Tishman Hotel
Wachovia Asset Management
Walton Street Capital
Westport Investment

Florida State Board

Consultant: (None)

Advisors:

Heitman Capital Management
John Hancock Real Estate
L&B Realty Advisors
Lend Lease Real Estate
Prudential Real Estate

Hawaii Employees

Consultant: Callan Associates

Advisors:

CB Richard Ellis Investors
Heitman Capital Management
ING Clarion
Invesco Realty Advisors

Illinois Municipal

Consultant: (None)

Advisors:

CB Richard Ellis Investors
GE Capital
LaSalle Investment Management
Lazard Asset Management
Lend Lease Real Estate
Olympus Real Estate
Prudential Real Estate
RREEF Funds
Sentinel Real Estate

Illinois State Board

Consultant: Townsend Group

Advisors:

AMLI Institutional Advisors
Apollo Real Estate Advisors
Cozad Asset Management
Credit Suisse First Boston
Heitman Capital Management
KBS Realty Advisors
Lazard Asset Management
Miller Global
Olympus Real Estate
RREEF Funds
TA Associates
Transwestern Investment
Walton Street Capital

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SURVEY OF PUBLIC PENSION FUNDS

Illinois Teachers

Consultant: Callan Associates

Advisors:

Bear Stearns
Capri Capital
CommonWealth Partners
Cozad Asset Management
Credit Suisse First Boston
Heitman Capital Management
KBS Realty Advisors
Lincoln Properties
RREEF Funds
Stone-Levy

Iowa Public Employees

Consultant: Townsend Group

Advisors:

AEW Capital Management
Heitman Capital Management
Invesco Realty Advisors
RREEF Funds
TA Associates
UBS Realty Advisors

Kansas Public Employees

Consultant: Pension Consulting Alliance

Advisors:

CB Richard Ellis Investors
Greenfield Capital
J.E. Robert Cos.
Lend Lease Real Estate
Rockwood Capital
RREEF Funds

Kentucky Retirement

Consultant: Chadwick Saylor

Advisors:

Heitman Capital Management
Legg Mason Real Estate
Lend Lease Real Estate
TCW Group

Kentucky Teachers

Consultant: (None)

Advisors: (None)

Los Angeles City Employees

Consultant: Townsend Group

Advisors:

Heitman Capital Management
Lend Lease Real Estate
Lowe Enterprises Investment
Public Storage
Sentinel Real Estate
Urdang & Associates
US Realty Consultants

Los Angeles County Employees

Consultant: Townsend Group

Advisors:

AEW Capital Management
CB Richard Ellis Investors
Credit Suisse First Boston
ING Clarion
Invesco Realty Advisors
KBS Realty Advisors
L&B Realty Advisors
MGA Development
RREEF Funds
SSR Realty Advisors
TA Associates
Transwestern Investment
UBS Realty Advisors
Westbrook Partners

Los Angeles Fire & Police

Consultant: Ronald A. Karp Associates

Advisors:

Capri Capital
Emmes & Co.
Heitman Capital Management
Henderson Global Investors
Invesco Realty Advisors
Lend Lease Real Estate
RREEF Funds
TA Associates
UrbanAmerica

Louisiana Teachers

Consultant: (None)

Advisors:

Credit Suisse First Boston
Doughty Hanson
ING Clarion
Olympus Real Estate
Westbrook Partners

Maryland State Retirement

Consultant: (None)

Advisors:

Alex. Brown Realty
J.P. Morgan Fleming
LaSalle Investment Management
Lubert-Adler Real Estate
TimesSquare Real Estate

Massachusetts Pension Reserve

Consultant: Townsend Group

Advisors:

Invesco Realty Advisors
J.P. Morgan Fleming
John McStay Investment
LaSalle Investment Management
RREEF Funds
TA Associates

Minnesota State Board

Consultant: (None)

Advisors:

AEW Capital Management
Colony Capital
Heitman Capital Management
LaSalle Investment Management
Lend Lease Real Estate
RREEF Funds
TA Associates
TCW Group
UBS Realty Advisors

Nevada Public Employees

Consultant: Callan Associates

Advisors:

Invesco Realty Advisors
L&B Realty Advisors
SSR Realty Advisors

New Hampshire Retirement

Consultant: Townsend Group

Advisors:

Hart Advisors
UBS Realty Advisors

New York Common Fund

Consultant: Frank Russell Co.

Advisors:

Credit Suisse First Boston
DRA Advisors
J.P. Morgan Fleming
Lend Lease Real Estate
Sentinel Real Estate
TimesSquare Real Estate
UBS Realty Advisors
Wachovia Asset Management
Westbrook Partners

New York State Teachers

Consultant: Frank Russell Co.

Advisors:

AEW Capital Management
Apollo Real Estate Advisors
Blackstone Group
Colony Capital
Heitman Capital Management
ING Clarion
J.P. Morgan Fleming
Keystone Property
Lazard Asset Management
Lend Lease Real Estate
Morgan Stanley
Olympus Real Estate
RREEF Funds
Sentinel Real Estate
TCW Group
Westbrook Partners

SURVEY OF PUBLIC PENSION FUNDS

North Carolina Public Employees

Consultant: (None)

Advisors:

Angelo, Gordon & Co.
Apollo Real Estate Advisors
BlackRock
Cabot Partners
Capital Trust
CB Richard Ellis Investors
Cohen & Steers
Cornerstone Real Estate Advisors
Essex Property Trust
Hines
Hudson Advisors
ING Clarion
Invesco Realty Advisors
J.P. Morgan Fleming
Kennedy Associates
Landmark Partners
Legg Mason Real Estate
Lend Lease Real Estate
Peabody Group
Prudential Real Estate
Rockwood Capital
RREEF Funds
Sentinel Real Estate
SSR Realty Advisors
Starwood Capital
UBS Realty Advisors
Westbrook Partners
Xylem Advisors

Ohio Police & Fire

Consultant: Townsend Group

Advisors:

AEW Capital Management
Credit Suisse First Boston
Lend Lease Real Estate
Lowe Enterprises Investment
Lubert-Adler Real Estate
RREEF Funds
UBS Realty Advisors
Walton Street Capital
Westbrook Partners

Ohio Public Employees

Consultant: Townsend Group

Advisors:

John W. Bristol & Co.
Faison Associates
Great Point Investors
Legg Mason Real Estate
Lowe Enterprises Investment
Rothschild Asset Management
Sentinel Real Estate
TGM Associates

Ohio School Employees

Consultant: Frank Russell Co.

Advisors:

AEW Capital Management
CB Richard Ellis Investors
ING Clarion
Invesco Realty Advisors
J.P. Morgan Fleming
KBS Realty Advisors
Lend Lease Real Estate
Sentinel Real Estate
TimesSquare Real Estate
UBS Realty Advisors

Ohio State Teachers

Consultant: (None)

Advisors: (None)

Orange County Employees

Consultant: Townsend Group

Advisors:

American Realty Advisors
CB Richard Ellis Investors
Pricoa Property
Sentinel Real Estate
SSR Realty Advisors

Oregon Public Employees

Consultant: Pension Consulting Alliance

Advisors:

Cohen & Steers
DivcoWest Properties
Fortress Investment
Greystar Management
ING Clarion
J.E. Robert Cos.
Lincoln Properties
Lone Star Partners
Regency Centers
Westbrook Partners

Pennsylvania Public School Employees

Consultant: Frank Russell Co.

Advisors:

Charter Oak Advisors
GF Management
L&B Realty Advisors
LaSalle Investment Management
Laureate Capital
Legg Mason Real Estate
Prudential Real Estate
RREEF Funds
UBS Realty Advisors

Pennsylvania State Employees

Consultant: Townsend Group

Advisors:

AEW Capital Management
Apollo Real Estate Advisors
Berwind Property
Blackstone Group
Cliffwood Partners
Heitman Capital Management
ING Clarion
LaSalle Investment Management
Legg Mason Real Estate
Lowe Enterprises Investment
Lubert-Adler Real Estate
Miller Global
Oaktree Development
Prudential Real Estate
Sentinel Real Estate
SSR Real Estate
Starwood Capital
Urdang & Associates
Westbrook Partners
Whitehall Street Real Estate Funds

Sacramento County Employees

Consultant: (None)

Advisors:

SSR Realty Advisors

San Francisco City & County Employees

Consultant: Townsend Group

Advisors:

AMB Investment Management
GMAC Institutional Advisors
Invesco Realty Advisors
RREEF Funds

State of Michigan

Consultant: (None)

Advisors:

AEW Capital Management
Devon Institutional Real Estate
ING Clarion
Kensington Realty Advisors
KBS Realty Advisors
L&B Realty Advisors
Lend Lease Real Estate
Principal Global Investors
Sarafim Realty Advisors

Tennessee Consolidated

Consultant: Townsend Group

Advisors:

Henderson Global Investors
ING Clarion
Lend Lease Real Estate

Continued on Page 14

SURVEY OF PUBLIC PENSION FUNDS

Texas Teachers

Consultant: (None)

Advisors:

LaSalle Investment Management

Utah State Retirement

Consultant: Callan Associates

Advisors:

AEW Capital Management
Barlow Nielsen Associates
Bay Isle Financial
CB Richard Ellis Investors
Cottonwood Partners
Goldman Sachs
Henderson Global Investors
John Hancock Real Estate
Lazard Asset Management
Praedium Fund
USAA Realty

Virginia Retirement

Consultant: Pension Consulting Alliance

Advisors:

Colonnade Properties
GE Capital
Hines
ING Clarion
J.E. Robert Cos.
KBS Realty Advisors
Lazard Asset Management
Oaktree Development
Prudential Real Estate
TA Associates

Washington State Investment

Consultant: Courtland Partners

Advisors:

Cherokee Group
Corporate Properties of the Americas
EuroInvest
GE Capital
Hearthstone Advisors
Hometown America

Hudson Advisors

ING Clarion

J.E. Robert Cos.

Lowe Enterprises Investment

Mezzanine Capital Property Investors

Morgan Stanley

Olympia Properties

Pacific Real Estate

Principal Global Investors

Sentinel Real Estate

Washington Real Estate Holdings

Wisconsin Investment

Consultant: Frank Russell Co.

Advisors:

John W. Bristol & Co.
Heitman Capital Management
ING Clarion
Invesco Realty Advisors
Kensington Realty Advisors
Lend Lease Real Estate
Sentinel Real Estate

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Teachers, which has a 2.5% target allocation, or \$150 million.

The survey ranked the Top 50 public pension funds — which oversee the retirement benefits of state and municipal employees — based on real estate investments at yearend 2002. It focused on funds whose real estate holdings consist primarily of equity investments — properties or ownership stakes in entities that own properties. The survey excluded funds whose holdings consist mostly of mortgages and mortgage securities. It also excluded pension funds operated for federal workers or private-sector employees. Among the four options for real estate investment, direct property ownership is the most popular, used by 41 of the Top 50 funds. Thirty-three invest in commingled funds, while 25 invest in partnerships and 23 in REIT stocks. Those numbers were little changed from a year earlier.

Atlanta-based Lend Lease won the advisory crown for the fifth consecutive year. It advised 18 of the Top 50 funds at yearend, down from 20 a year earlier. RREEF, a San Francisco unit of **Deutsche Bank**, came next, with 17 clients, down one from 2001. Chicago-based Heitman followed at 16, down two from 2001.

ING Clarion Partners, the New York unit of Dutch financial

conglomerate ING Group, ranked fourth in the survey with 14 advisory assignments, up from a combined 11 in 2001, when ING Real Estate and Clarion Partners operated as separate companies.

All told, the 50 funds with the largest real estate portfolios used a total of 372 advisors, unchanged from 2001. **North Carolina Public Employees** led the way with 28 advisory assignments, while four funds had no advisors.

Cleveland-based Townsend was the consultant to 14 funds, unchanged from 2001. **Callan Associates** of San Francisco and **Pension Consulting Alliance** of Portland each worked with six funds. Only 15 of the Top 50 funds rely entirely on in-house staff rather than outside real estate consultants.

Advisory contracts, which typically last about three years, can be discretionary (which means advisors are empowered to make investments without prior approval) or nondiscretionary. When funds use multiple advisors, each one is responsible for overseeing investments in specified accounts. Some advisors specialize in only one of the four main types of investment options.

Consultants typically determine real estate investment goals. They also hire and supervise real estate advisors, which implement investment strategies. Consultant contracts generally run three to five years. ♦

Two NJ Office Properties on Block

Two New Jersey office buildings that have hit the market are likely to appeal to different types of investors.

A partnership headed by **Advance Group** of Bedminster, N.J., has set a \$50 million asking price for the 300,000-square-foot Riverview Executive Park in Trenton. The complex, net-leased to the **State of New Jersey**, should attract bids from conservative players.

Meanwhile, institutional advisor **SSR Realty Advisors** is seeking about \$42 million for the 225,000-sf Mount Kemble Corporate Center in Morris Township. The complex, which is 79% leased, is likely to attract value-added investors.

The Trenton property, which consists of three four-story buildings, was developed in 1989 and acquired in 1998 by the Advance partnership, known as **Bed Cap Opportunity Investors**. The site includes a 30,000-sf office/retail building, as well as a parcel zoned for a 100,000-sf office building — neither of which is part of the offering.

Two state agencies — the **Department of Education** and the **Treasury Department's Office of Information and Technology** — occupy the offered buildings under leases that run through 2027. The rents, which currently average \$21.68/sf, are scheduled to rise to \$23.74/sf in 2008. The State of New Jersey has a double-A rating from **S&P**.

The listing is being shared by the New York office of **GVA Williams** and **CB Richard Ellis'** National Net Leased Property Group, which is based in Phoenix. James Murphy, who left CB in November to join GVA, is heading the marketing effort.

CB's Metropolitan New York team, headed by **Jeff Dunne**, is handling the Morris Township property for SSR, which is based in White Plains, N.Y.

The three-year-old property is located at 350-360 Mount Kemble Avenue, near the intersection of Interstate 287 and Route 202. It consists of two three-story buildings made of concrete, granite and reflective glass.

When space available for sublease is factored in, the occupancy rate is only 60%. Asking rents range up to \$31.50/sf. Tenants include **Morgan Stanley**, **Watson Pharmaceuticals** and **Taisho Pharmaceutical**.

SSR built the property with local developers **Murray Kushner** and **Eugene Schenkman**. It's unclear whether Kushner and Schenkman still hold nominal equity stakes. ♦

Baltimore Funds to Lift Investments

Baltimore's two pension funds for city employees could be on the verge of becoming active real estate buyers.

Baltimore Employees and **Baltimore Police & Fire**, which are administered jointly, are \$220 million under their target real estate allocations. While the funds have been below their targets for some time, there are signs that they are now preparing to gear up to make new investments, specifically in commingled funds.

The funds' consultants, **Callan Associates** of San Francisco and **Summit Strategies** of St. Louis, are each reviewing their real estate holdings. Once those reviews are finished, the funds will likely begin issuing requests for proposals from commingled-fund advisors, said the funds' administrator, **Thomas Taneyhill**. While the funds are unlikely to rush out and make \$220 million of investments at once, they clearly plan to step up their activity.

The funds, which have \$2.9 billion of total assets, have raised their target allocations steadily over the past few years — to 10% in 2001 from 7.1% the year before and 6.2% the year before that.

Nonetheless, for reasons that are not clear, the funds never proceeded to build up their real estate holdings. As of the end of last year, the funds' real estate investments totaled \$67 million, or only 2.3% of total assets.

The funds currently invest in seven commingled vehicles. There are scheduled liquidations planned, either this year or early next year, for a relatively small portion of their holdings, which are in funds managed by **Heitman Capital Management** of Chicago, **TimesSquare Real Estate Investors** of Hartford, **RREEF Funds** of San Francisco and **Lend Lease Real Estate Investments** of Atlanta, Taneyhill said.

The funds will continue to invest in a second Lend Lease fund, as well as funds managed by **LaSalle Investment Management** of Chicago and **SSR Realty Advisors** of White Plains, N.Y. ♦

Alex. Brown Fund Lines Up Investor

Maryland State Retirement has agreed to provide \$26.5 million of equity to an opportunity fund that **Alex. Brown Realty** launched last year.

The investment lifted the equity size of **ABR Chesapeake Fund** to \$106 million. The vehicle, which is targeting all property types around the country, is the fifth fund raised by Baltimore-based Alex. Brown.

The Maryland fund has \$24.6 billion of assets, including \$1.6 billion invested in real estate. It is now the largest investor in ABR Chesapeake. Alex. Brown and its shareholders co-invested \$22 million in the fund. Other investors include foundations and school endowments. Maryland is the only public pension fund in the vehicle. **LaSalle Investment Management** of Chicago advised it on the commitment.

ABR Chesapeake has already invested \$41 million of equity in 13 transactions. Its purchases include a portfolio of apartments in Maryland, North Carolina and South Carolina, a suburban Atlanta office park, a Los Angeles retail center and a suburban Phoenix technology center.

Although it got off to a quick start, Alex. Brown expects to take another two years to invest the remaining capital. The fund is targeting average annual returns of about 17%. It will use 65% leverage, giving it total buying power of about \$300 million. ♦

THE GRAPEVINE

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president in charge of real estate acquisitions and asset management in the Midwest and parts of the South. He spent the last nine years at Citigroup, last serving as a vice president in the real estate group. Acting through its fifth commingled fund, Praedium is currently investing \$465 million of equity in opportunistic and value-added transactions around the county.

Anne Arundel County (Md.) Retirement is liquidating \$22 million of REIT shares managed by **LaSalle Investment Management** of Chicago. It will reinvest the money in non-real estate assets, said budget officer **John R. Hammond**. The shift will leave the \$847 million retirement fund with \$56 million of real estate investments, all in commingled funds managed by **TimesSquare Real Estate Investors** of Hartford, Conn.

Somera Investment Partners says its deal to buy a 628,000-sf mall in Monterey, Calif., is on track. Los Angeles-based Somera has agreed to buy Del Monte Center from a **Divco**

West Properties partnership for \$83.5 million. An item in The Grapevine on April 2 reported that Somera had tried to reduce the price by \$5 million during the due-diligence phase and that broker **Secured Capital** appeared to be talking to other bidders. But Somera chief executive **Steve Plenge** denied that, saying that Somera is proceeding with its \$83.5 million acquisition and shooting for a June close.

Gregory Greenfield & Associates of Atlanta and **Blackstone Group** of New York are among four bidders vying for Westland Center, a 1 million-sf mall in the Detroit suburb of Westland. Owner **Lend Lease Real Estate Investments** is shopping the property via **Holliday Fenoglio Fowler**. Bids for the Class-B asset are believed to have topped \$80 million. The mall's 80 in-line stores are 93% occupied, generating sales of \$350/sf.

Veteran Chicago broker **John Simon** has left **Holliday Fenoglio Fowler** to join **Cohen Financial**, where he's heading a new real estate sales team. Cohen plans to add two more brokers to the venture this week. The operation represents the mortgage broker's first significant foray into the investment-

sales business. Simon spent the last two years at Holliday, following a 20-year tenure at **CB Richard Ellis**. Simon's move to Cohen separates him from **Matt Lawton**, a broker with whom he had been working for the past 10 years.

CALENDAR

June 30-July 1: World Research Group presents a Boston conference titled, "Distressed Corporate & Commercial Real Estate Forum 2003."

800-647-7600
worldrg.com

July 13-15: Strategic Research Institute conducts a New York forum titled, "Institutional Real Estate Investment."

888-666-8514
srinstitute.com

July 14-15: Information Management Network holds "Endowment and Foundation Real Estate Investing," in New York.

212-768-2800
imn.org

To view the full conference calendar, visit **The Marketplace** section of **REALert.com**

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