

## TRANSACTIONS

# In this market, any big purchase stands out

Frozen lending has left many in the cold, but some deals are occurring

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When Dallas' TriGate Capital went hunting for a good real estate buy, the investment firm's search led to the courthouse steps.

TriGate execs admit that their purchase of a Richardson office tower at this month's foreclosure auction was out of the ordinary.

But then, in the current real estate market, any large commercial property transaction stands out.

"To buy something off the courthouse steps requires acting quickly, and you buy the asset as it is with all its warts," TriGate partner Jeff Yarckin said.

Fortunately for TriGate, the 2350 Lakeside tower in the Telecom Corridor doesn't have any blemishes. Indeed, the previous owner just spent almost \$6 million on upgrades.

"We have raised a fund to take advantage of opportunities in today's real estate market resulting from the changes under way," Yarckin said. "We are looking at opportunities around the country."

So far, there are a lot more lookers than buyers when it comes to North Texas commercial real estate.

As of the third quarter, commercial property sales in the D-FW area were down more than 80 percent from the previous year, according to data from commercial real estate online marketing firm LoopNet Inc.

## Using more equity

Frozen lending markets



LARA SOLT/Staff Photographer

**Providence Towers** in Farmers Branch, with 527,000 square feet of space, was bought by KBS Realty.

## Major office purchases in 2009

Sales of selected office projects in the Dallas area:

Property	City	Square footage	Buyer
2350 Lakeside	Richardson	200,000	TriGate Capital
Heritage Square	Farmers Branch	360,000	Silver Tree Partners
Addison II	Addison	182,154	Luzzatto Real Estate
5151 Regent	Irving	108,000	Universal Technical Institute
Gateway Office Center	Coppell	102,000	Pacific Coast Capital Partners
Providence Towers	Farmers Branch	527,000	KBS Realty

SOURCE: Dallas Morning News files

have left most property buyers out in the cold. But a few deals are getting done.

Silver Tree Partners' recent acquisition of the two Heritage Square office towers near Galleria Dallas is one of the largest commercial building buys this year. The complex contains about 360,000 square feet of office space.

To buy the project, Silver Tree had to agree to put a large amount of equity to finance the deal.

"The days of being able to put down 5 or 10 percent are long gone," said Silver Tree partner Paul Gardner.

California-based investor Luzzatto Real Estate was able

to finance its October purchase of an Addison office and industrial building with an insurance company lender. But the buyer got a mortgage on less than 60 percent of the purchase price.

"We saw the deal a few months ago and made an offer," said investor Marc Luzzatto. "The seller got a significantly higher offer at the time and went with it."

After that first purchase offer fell through, Luzzatto was able to negotiate a lower purchase price.

Holliday Fenoglio Fowler arranged \$4.5 million with 6.75 percent financing for the Addison II building with Aetna

Health & Life Insurance.

"I don't think that debt is as tough to find as people think," Luzzatto said. "The trick is to accept the new reality — which in my mind is what the reality should have been all along — that leverage will be modest, and the asset has to have very real cash flow."

Luzzatto is looking for more building acquisitions.

"I learned a long time ago that the time to buy is when no one else can or wants to and when lenders won't lend," he said. "And the time to avoid buying is when everyone else is buying and lenders are falling all over themselves to lend."

## Less debt being offered

After several years of plentiful lending for commercial properties, very little debt is being offered now.

The volume of commercial property loans made during the third quarter of 2009 was 54 percent lower than a year earlier, the Mortgage Bankers Association recently reported. Loans made by life insurance companies fell 58 percent from a year earlier, and loans from commercial banks were off 52 percent.

Cross Equities, a local commercial real estate investment firm, recently paid cash for two area apartment projects.

The La Acienda Gardens apartments in Fort Worth were purchased out of foreclosure from lender Credit Suisse.

And Cross Equities paid \$1.45 million for the Spanish Villas apartments in Grand Prairie. That project was acquired from J.E. Robert Cos., which represented the commercial mortgage backed debt holders on the property.

"We've been working with

the lenders going through all their REO [foreclosed] properties," said Cross Equities partner Cory Emerson. "I think we will see a little of a bottom in

the market.

"I think there is going to be a lot of opportunities to make good buys in the next two or three years."