

**REAL ESTATE
ASSET ENHANCEMENT PROGRAM
*OFFICE***



*A CASE STUDY FROM
AMERICAN REALTY ADVISORSSM*



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PASADENA, CA

In 2003, American Realty Advisors, as manager of the Building for America High Yield Union Investment Fund, LLC ("BFAF-II") was approached to make a mezzanine debt investment in a to-be-constructed 257,006 rentable square foot mixed-use office and retail development located in Pasadena, CA. At the time the loan was negotiated, the project was fully entitled and a total of 155,820 square feet, or 61% of the property had already been leased to a major institutional asset management firm for a primary term of ten years, with the lease to be fully guaranteed by the firm's parent company. Thus, the major risks of a development transaction were eliminated.

Pasadena
A Historic
Location

The property is well-situated in downtown Pasadena on the north side of Colorado Boulevard, the world famous route of the city's annual New Year's Rose Parade. The site comprises 2 1/2 prime acres in the Central District at the heart of residential, commercial and industrial development and within walking distance to historic Old Town Pasadena.

The use of this site dates back to over one hundred years. The famous Hotel Maryland occupied much of the site until 1937, when it was replaced by a Broadway Department store until the late 1980's. The elegant mixed-use project developed on this site extends the City of Pasadena's master plan and enhances the historic Civic Center with its Spanish Mediterranean architecture. With a total development cost of \$82 million, the property offers premier office space and adjoins a 350-room Westin Hotel, an eight-story office building, and several popular restaurant attractions.

A Unique
Value Added
Opportunity

American, on behalf of the BFAF-II, provided mezzanine debt to the borrower, Maguire Partners, a significant developer with strong local

credentials. Because of its strong reputation as a provider of capital, American was approached directly by the developer's broker to provide the additional capital to fund this high-profile project. The total project cost was \$79.1 million, the construction loan and other financing was \$66.5 million and the initial funding for the equity transaction was \$9.3 million with the total investment by American to equal \$12.6 million at a fixed rate of 14%. To enhance the attractiveness of the loan to the borrower,



American structured the loan with an earn-up provision that provided additional dollars to the developer contingent on certain pre-determined leasing success benchmarks. With significant pre-leasing, the strength of the underlying market, property fundamentals and a total loan-to-value ratio of less than 85%, the investment represented an excellent source of income and added value for the BFAF-II, a value-added/enhanced yield closed-end commingled fund.

Expert
Due Diligence

During the commitment process, American's due diligence team immediately went to work analyzing the underlying investment as part of its detailed underwriting process. This due diligence process results in a deep understanding of all phases of the project and drives a comprehensive analysis of all market, property-level and borrower risks to be identified and mitigated prior to funding. A sophisticated system of checks and balances was implemented to ensure that the investment met the BFAF-II's investment guidelines and objectives.

Following this process, American closed the loan on August 1, 2002 and began funding, approving monthly construction draws, as well as all leasing activity to assure compliance with the pre-negotiated covenants. The entire development was built using union labor.

Outstanding Performance

The project was completed in the first quarter of 2004. On December 27, 2004, the mezzanine loan was paid off in full by the borrower through refinancing.

“We are very pleased with the success of the project,” commented Stanley L. Iezman, American’s President and CEO. “An investment like this demonstrates American’s proven ability to capitalize on opportunities for customized financing solutions that can generate outstanding returns for our clients. The property’s prime location in the heart of Old Town Pasadena and its strong underlying fundamentals made this transaction an excellent fit with the BFAF II’s yield-enhanced/value-added investment strategy.”



American Realty Advisors

American Realty Advisors, a California corporation, is an SEC-registered investment advisor under the Investment Advisers Act of 1940 and a leading provider of real estate investment management services to institutional investors. With more than \$3.4 billion in gross assets under management (excluding partners’ share of equity and partners’ share of debt on partnership investments) as of September 30, 2009, American has provided real estate investment management services to institutional investors for over 21 years utilizing core and value-added commingled funds and separate accounts.

The Firm’s portfolios include office, industrial, multi-family, and retail properties nationwide. Additional

information regarding American can be found online at www.americanreal.com.

In addition, American is a significant originator of debt financing for real estate investments utilizing various structures from senior debt to highly structured mezzanine or preferred equity formats, secured by mortgages or other interests in real estate. We believe there is substantial market opportunity for structured financing lending due to a fragmented and underserved market. Our conservative cash flow underwriting, proactive investment management and ability to structure transactions has produced superior risk-adjusted returns on behalf of our clients.



Institutional Real Estate Investment Management

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This case study is presented as an illustration of the methodologies utilized by American in connection with a property enhancement program. Some of the information included in this case study involves present or former clients of American. Such material has not been selected based on performance and it is not known whether the clients approved or disapproved of American or the advisory services provided.

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If you would like information regarding this project, including returns, or for any other information regarding American Realty Advisors, please contact Jay Butterfield at 818-409-3243 or at butterfield@americanreal.com