

Five properties, two states lays of Centerline work

Centerline Capital Group, a provider of real estate financial management services for affordable and conventional rental housing, and a subsidiary of Centerline Holding Company, completed a complex financing transaction totaling \$100 million for the acquisition of nine multifamily properties.

The proceeds include \$35.8 million of Fannie Mae financing for the acquisition of five multifamily properties in Florida and two in Orlando, Florida.

The transaction also included bridge financing in the amount of \$10 million for two multifamily facilities in Pasadena, California. The bridge loan was provided by Centerline's affiliate, Centerline Partners LLC.

Centerline is one of the nation's leading Mortgage Banking Companies in the multifamily sector.

The sponsor is a Southern California-based full-service investment and development firm that specializes in buying and acquiring multifamily, office and retail properties nationwide.

The borrower needed to close quickly and the sale was completed on all properties closing at the same time," commented Steven Cox, senior vice president, Commercial Real Estate at Centerline. "With the help of Fannie Mae and C-III, we delighted we could turn the facility around rapidly and the deal completed."

The acquisition of the seven properties located throughout the Orlando area comprise a combined 1,271-unit multifamily portfolio. The loan terms include a 10-year fixed rate, with a six-month interest-only period, and with a 25-year amortization period.

The \$2.8MM bridge loan for the two Pasadena, TX assets has a term of 14 months, through December 31, 2012. The financing is for the two multifamily properties in

The borrower has an exemplary track record and reputation in the industry, and has completed more than 81 transactions worth over 10 million square feet. These factors made this an ideal deal for Centerline," added Cox.

The deal was brought to Centerline by Neil Bane of Johnson & Johnson who provided the equity on the transaction.

The entire transaction took 60 days for the team to complete.

Centerline Mortgage Banking Group at Centerline provides financing for conventional multifamily properties throughout the United States. Centerline is a Fannie Mae DUS Seller-Servicer, FHA-approved mortgage servicer and source for other forms of alternative capital.

FASB impact on investment property entities

By MICHAEL LAMANTIA, AND BRIAN NAM, MANAGER, WEISERMAZARS LLP

On October 21, 2011, the Financial Accounting Standards Board (FASB) issued Proposed Accounting Standards Update (ASU) Topic 973 Real Estate – Investment Property Entities.

The purpose of the proposed investment property entity (IPE) Exposure Draft (ED) was twofold — to address the diversity in practice regarding real estate property fair value accounting by real estate entities and to align the scope of entities that would apply the proposed lessor accounting model under U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).

Some real estate entities are already accounting for their real estate investments at fair value because:

Entities are determined to be investment companies under Accounting Standards Codification (ASC) Topic 946.

Entities are controlled by pension plans that are required to report their investments at fair value.

The development of industry accounting practices allows them to measure real estate investments at fair value without regard to investment company attributes or pension plan ownership.

However, under the proposed ASU, all entities that meet the requirements of an IPE would be required

to report their real estate investments at fair value. This would increase the comparability of financial statements and establish consistency in applying fair value measurement of investment property entities.

In aligning the scope of entities that would apply the proposed lessor accounting model under U.S. GAAP and IFRS, a lessor of an investment property would be required to apply the proposed lessor accounting requirements if the lessor measures its investment properties at fair value under International Accounting Standards. However, the current U.S. accounting standards do not provide a basis for excluding investment properties from the proposed lessor accounting. With the implementation of Topic 973, this exclusion would exist.

Who will be affected?

Any entity whose operations are substantially investing in real estate properties for total return, including intent to realize capital appreciation needs, will need to be examined to determine whether the entity falls under the scope of this proposed ASU. An entity that invests in real estate properties but does not qualify as an IPE may fall under the scope of another proposed ASU on Financial Services-Investment Companies (Topic 946). In such a case, the entity should review the investment company criteria and if the entity does not fall under either ASU Topic 973 or 946, its real estate assets may need to be accounted for in a fashion similar to property, plant, and equipment assets under U.S. GAAP.

It is important to note that this proposed ASU would not apply to an entity whose purpose, upon completion of development, is to use real estate holdings for its own production or to use the holdings for supply of goods, services, for the entity's administrative purposes, or for sales in the ordinary course of business. In addition, if a parent entity that would otherwise be considered an IPE has a substantial investment in any of these types of entities, the parent could potentially be excluded from being classified as an IPE. Therefore, an entity with this investment strategy would need to carefully evaluate whether it



falls under the scope of ASU Topic 973, 946 or neither.

When does an entity qualify as an IPE?

An entity that meets all of the following criteria qualifies as an IPE:

Nature of the business activities

Any entity whose operations are substantially investing in real estate properties would qualify. The entity should not hold significant assets or liabilities other than those relating to its investments in real estate properties. However, if an entity provides (or holds an investment in an entity which provides) services that relate only to the IPE's own investment activities, even if those activities are significant, the entity is not excluded from qualifying as an IPE. An IPE can hold investments in other assets as long as the investments are not significant to the entity. When assessing this criterion, investments in mortgage receivables and mortgage-backed securities are not considered investments in real estate properties.

Express business purpose

The express business purpose of the entity is to invest in real estate properties for total return including an objective to realize capital appreciation (through disposal of its real estate properties, for example). Such a business purpose should ordinarily include an exit strategy for an entity to dispose of its properties to realize capital appreciation to maximize total returns. Disposal of real estate properties only during liquidation or to satisfy investor redemptions is not considered an exit strategy. Therefore an entity that markets itself to investors as having a business purpose which focuses on the

development of real estate properties for sale or an entity that holds real estate investments for its own use will not qualify as an IPE.

Unit ownership

To be considered as an IPE, investors are required to acquire ownership units in the form of equity or partnership interests. Each unit of ownership represents a specifically identifiable portion of the net assets of the IPE. This criterion helps to ensure that an IPE has investors who enter and exit their investments in an IPE and rely on the fair value of the entity's investment properties to make their investment decisions.

Pooling of funds

The funds of the entity's investors are pooled to avail the investors of professional investment management. An IPE should have one or more investors that are not related to the entity's parent (if applicable) and those investors, in total, must hold significant ownership interests. Investors related to the parent would be considered as a single investor for the purposes of evaluating this criterion.

Reporting entity

The entity provides financial results about its investing activities to its investors. The entity can be, but is not required to be, a legal entity.

It is important to note that a subsidiary whose parent is required to account for its investments at fair value or whose parent is a not-for-profit entity that measures its investments at fair value, is not subject to the unit ownership and pooling of funds criteria.

* Watch for part two of this article, appearing next month in Real Estate Weekly.

The Real Estate Board of New York



One Hundred-Sixteenth Annual Banquet

A Great Night to Honor Six Great New Yorkers

EBNY

The Bernard H. Mendik Lifetime

The Harry B. Helmsley

The Louis Smadbeck Broker