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Somera Road Keeps Chasing Opportunities as Defaults in CMBS Dwindle

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Somera Road Inc., a New York investor widely known for buying distressed loans, particularly from CMBS deals, has diversified its business substantially.

While it's still highly opportunistic, it no longer relies solely on the CMBS market for its business leads. It'll pursue opportunities that might not be widely marketed or those that arise from a corporate bankruptcy.

An example of the former was its purchase earlier this year of Kansas City's City Center Square, a 657,070-square-foot office building in Kansas City, Mo., that it bought from a venture led by David Werner and Nightingale Properties. The 30-story building is roughly half full and sits in a market whose vacancy rate is pegged at 16.4 percent, according to [Reis Inc.](#)

Somera Road's plan is to upgrade the 42-year-old building, adding a fitness center and exterior spaces. To fund its effort, it lined up [\\$60.2 million of financing from TPG Real Estate Finance Trust.](#)

An example of the latter is its recent purchase of the Gibson Guitars factory at 1117 Church St. in the Gulch neighborhood of Nashville, Tenn. It plans to convert the property into a mix of creative office space and retail. Its purchase of the property came roughly a year after it had paid \$6.4 million for 1102 Grundy St., a former piano warehouse in the city's North Gulch area that Gibson had used as a warehouse. It's converting that property into an entertainment venue that will be operated by Pins Mechanical Co. and will offer bowling, an arcade with pinball machines and bars.

Somera Road, led by Ian Ross, who had founded it in 2014, also has purchased a property in Memphis, Tenn., from the iconic guitar maker: the Gibson Guitar Building off Beale Street that it's redeveloping into creative office space at a cost of \$12.2 million, and has leased it to a subsidiary of FedEx. It also acquired a parcel across from the building that it will develop into the Clipper, an eight-story mixed-use building with offices, a 250-room hotel and 50,000 sf of retail and restaurant space. Financing for the two properties came from LoanCore Capital and Amherst Capital.

The guitar factory was constructed well before Memphis' downtown became a commercial hub. So, it's best use likely isn't as an industrial manufacturing facility. It sits opposite the Westin Memphis Beale Street hotel and across from the Fedex Forum, the sports arena in which the Memphis Grizzlies professional basketball team plays its home games.

Somera Road had been introduced to Gibson by Blackstone Group, whose GSO Capital Partners unit had been among its creditors during its bankruptcy, from which it emerged late last year. KKR & Co. took a majority stake in the company to allow it to reorganize.

"We track distressed debt and bankruptcies," explained Ross, who previously was in charge of acquisitions and asset management at Triangle Capital Group. "We're turning over stones, looking for unique stuff," he added.

While Somera Road is a value-add and opportunistic investor, it's still solely focused on real estate. Put simply, "We're in the business of leasing space," Ross said. That means putting "heads on beds, butts on desks or stuff on shelves, and providing tenants with a good value proposition."

He emphasized that Somera Road isn't a fund, so it's not under pressure to put capital out. "We focus on doing good deals," he said.

It's a private-equity firm with 15 professionals in New York that since its founding three years ago has made some \$1 billion of investments, capitalizing them through a network of what Ross called ultra high net-worth investors. The company "disintermediates the fund model" by raising capital for specific deals from its network of investors.

The company also often partners with other investors. For instance, it bought the \$75.2 million of distressed debt against Pittsburgh's [Southside Works retail complex in partnership with Taconic Capital Advisors and Axonic Capital](#). It bought the debt from a pair of CMBS trusts. The collateral property, which was developed at a cost of some \$450 million, is owned by Soffer Organization. While it's relatively well occupied, it evidently was overleveraged, hamstringing Soffer's ability to plow additional capital into it.

While a resolution of the \$75.2 million of debt isn't clear yet, if Soffer is able to negotiate some sort of workout where it retains at least a stake, it could reset its basis in the property.

Somera Road continues to pursue opportunities in the CMBS world, even as the so-called legacy universe, comprised of loans securitized before the Great Financial Crisis, gets whittled away. "We're not worried about the end of that," Ross said, adding that the company also finds opportunities from overleveraged tenant-in-common groups and other owners.

Meanwhile, loans sometimes default. So, even though the CMBS 2.0 universe, comprised of loans securitized after the crisis, is considered extremely healthy, with a 0.63 percent delinquency rate, it still includes \$2.8 billion of loans that are more than 30-days late.

"We're willing to buy all asset types and in all geographic locations," Ross said. "That's assuming we like our basis and we have tailwinds." The markets in which it's most interested: Austin, Texas, Nashville, Pittsburgh, Charlotte, N.C., and Minneapolis.

Comments? E-mail [Orest Mandzy](#), or call him at (267) 327-4281.