Silverpeak Argentic is latest PE firm to tap CRE-CLO market

By **Glen Fest** | Published **February 08 2018, 5:58am EST**

Silverpeak Argentic is the latest private equity affiliate to tap commercial mortgage bond market to finance transitional lending.

The company, which is owned by affiliates of Elliot Management Corp. and Silverpeak Partners, has launched a $480.4 million commercial real estate collateralized loan obligation, according to rating agency presale reports.

It follows on the heels of Blackstone, which issued an inaugural CRE-CLO in 2017, and TPG Capital last week.

The new deal, dubbed AREIT 2018-CRE1, is backed by an unusually concentrated portfolio of just 19 loans that were either originated or acquired by Silverpeak Argentic. They include whole loans (10 loans, or 55.3% of the pool) and participations (nine loans or 44.7% of the pool) with two- and three-year maturities.

The deal is being sponsored by Argentic Real Estate Investment, an affiliate of Silverpeak Argentic.

Nine of the loans in AREIT 2018-CRE1 Trust were used to refinance existing debt; the remainder funded property acquisitions.

The deal marks the first CRE-CLO offering since Silverpeak Argentic added a product offering in December 2016 to take on balance-sheet debt for transitional properties lacking stable cash flow – through both short-term, non-recourse floating-rate debt and fixed-rate or floating-rate subordinate debt.

The expansion also enabled for the acquisition of third-party CRE-CLO equity and subordinate debt, complementing Silverpeak Argentic’s (formerly Silverpeak Real Estate Finance) traditional activity in CMBS “B” piece investments in the most subordinate, and risky, asset class in commercial mortgage-backed portfolios.

A refinanced mortgage for Gateway Shopping Center in West Bloomfield, Mich, was included after a deed-of-postponement agreement. The Surnow Co.

Eight tranches of notes will be issued by AREIT 2018-CRE1, including two senior-note tranches: a $254.6 million Class A series with 47% subordination and a Class A-S series totaling $42 million with 38.3% subordination. Both have preliminary AAA ratings from Kroll Bond Rating Agency. Kroll also issued ratings for the $26.6 million in Class B notes (AA-); the $25.8 million Class C tranche (A-), Class D bonds totaling $36.6 million (BBB-) $16.2 million of Class E notes (BB-) and a Class F series sized at $19.8 million (B-).

The 19 loans in the AREIT 2018-1 collateral have an expected remaining life of 1.9 years, and will have a projected Kroll-issued loan to value ratio of 122.8% after upgrades or “lease-up” plans are fully ramped.

Kroll stated the weighted average LTV was higher than the average of 10 comparable CRE-CLO transactions (averaging 119.7%) rated by Kroll.

Usually, such properties have too much current cash-flow volatility to be included in standard commercial property securitizations, and have traditionally been held on balance sheets by asset management firms until stabilized. But CRE-CLOs have become a popular means of raising proceeds, and mitigating the risk, of holding underperforming or non-performing properties on an asset management company’s books.

The largest loan in the transaction, for example, is a $51.5 million whole-loan mortgage refinancing for the troubled Gateway Shopping Center in West Bloomfield, Mich. The loan for the Kohl's-anchored retail center northwest of Detroit has been in special servicing twice since 2014, with the latest application in June 2016 due to a pending maturity before a deed-of-postponement agreement was reached for a repayment through the refinancing. The property is now 99.4% occupied.

The second-largest loan is a $46.2 million mortgage for a vacant office tower in New York's Chelsea neighborhood (115 Seventh Ave.), which is undergoing a $20 million renovation. While currently unoccupied, over 75% of leasable space has a taken up by a single tenant that will take occupancy later in the year.

The pool properties include a mix of retail (27.7% of the pool), lodging (19.7%), office (19.1%) and multifamily (14.3%), with top concentrations in New York (25.5%), California (22%) and Michigan (15.4%).

Nine of the loans in the transaction are currently not earning enough to cover debt-service ratios, and only three have a debt-service reserve in place. Kroll has modeled an expected DSC ratio of only 0.94x on the deal.

Those participations all have companion pari passu equal-footing obligations totaling $30.4 million held outside of the trust. None of the loans can incur further debt.

Goldman Sachs, Morgan Stanley and Wells Fargo Securities were placement agents on the deal.

Source: https://asreport.americanbanker.com/