

Debut Fund May Ax Incentive Fees

A New York investment shop is likely to bypass incentive fees in an effort to attract investors to its debut fund, a planned \$250 million vehicle that would originate mezzanine loans.

The firm, **Summit Real Estate Advisors**, is headed by **Gregory Porter**, formerly an underwriter in **Eurohypo's** commercial MBS group, and **John Christen**, a former managing director at **LEM Mezzanine** of Philadelphia. Summit, which started in April, also offers advisory services to borrowers.

The fund, SREA Specialty Finance Vehicle 1, will shoot for an 11% return, although that could rise to as much as 16% if Summit secures leverage. Investors have been told the firm wants to hold a first equity close of \$100 million this year — a tall task for a debut vehicle given the extremely constrained environment for fund raising.

Summit still hasn't determined the vehicle's fee structure, but is likely to forego incentive fees — at least initially — as a "loss leader" to attract capital, according to investors. If successful, the strategy would help Summit start to build a track record as an investment manager, paving the way for follow-up funds. Under the plan, Summit would charge a 1% management fee, and possibly a 1% origination fee and a 1% exit fee. With no incentive fee, all of the profits would go to investors.

The absence of an incentive fee would be unusual but not unique: **Wilshire Finance Partners** of Los Angeles bypassed incentive fees on two planned debt funds last year. And some funds have long had provisions for incentive fee "clawbacks," or rebates, if returns diminish after payments are made.

Summit, which declined to comment, is soliciting capital from pension systems, foreign banks and sovereign wealth funds.

Investors are being told Summit would work with senior lenders to create blended-rate coupons of 8-9%. For example, a senior lender might provide a 6% loan equal to 45% of the property value, and Summit would charge 11-12% for a mezzanine loan that increases the loan-to-value ratio up to 70%.

Marketing materials have set a \$30 million limit for loans with terms of 2-5 years. The fund expects to make roughly a dozen investments.

Porter and Christen will oversee the vehicle. **Coley O'Brien**, an underwriter who reported to Porter at Eurohypo and when the two previously worked at **Deutsche Bank**, will handle due diligence.

All three are also involved in Summit's advisory platform, which helps borrowers restructure mortgages and sell loans in the secondary market. In particular, the firm touts its ability to help hotel owners. ♦