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Investment Strategies

Cobalt Chasing Down Industrial Properties In Gateways

Cobalt Capital Partners wants to acquire industrial properties opportunistically in major gateway cities in the United States. The Irving, Texas-based investment company has an appetite for light-industrial single- and multi-tenant buildings in primary cities in Texas such as Austin, Dallas/Fort Worth and Houston. It also looks at markets outside of the Lone Star State, including Los Angeles, Philadelphia and Tampa, said **Lewis Friedland**, managing partner. Cobalt typically acquires individual properties ranging in size from 50,000 to 150,000 square feet with no more than a 20% office component.

Most recently, the company acquired a 931,182-square-foot portfolio of 15 properties at Mid-Atlantic Corporate Center in West Deptford, N.J. The properties, which Cobalt jointly acquired with **USAA Real Estate Company**, range from 20,000 to 180,000 square feet and are currently 93% leased. "The portfolio fits within the property criteria we are targeting; the project is located in one of Southern New Jersey's strongest industrial corridors, contains a diverse portfolio of national, regional and local tenants and a variety of building sizes and configuration that allow for future leasing flexibility, " Friedland said, declining to disclose how much it paid.

Cobalt Capital spends as little as $5 million on a deal but prefers to pursue properties of $20-50 million, Friedland said, adding that the company does not have an upper pricing limit. "We like to buy solid property in strong markets where there will be a good value-added opportunity," he said. The company was formed about five years ago and funds its deals by pooling equity with institutional investors. It obtains relatively conservative leverage of about 60% when investing. Although Friedland declined to discuss the company's return expectations, many opportunistic investors work to achieve at least double-digit internal rates of return.

SCI Focuses On Tenant-In-Common Acquisitions

SCI Real Estate Investments, a Los Angeles-based 1031 exchange sponsor, has completed a $22 million tenant-in-common acquisition of the 130,219-square-foot Jada Corporate Center in Mission Hills, Calif. SCI has acquired the property with nine investors and plans to complete another $100-150 million in similar acquisitions by next year and $150-200 million the following year, said **Adam Bryan**, director of marketing. The company is about to close on a similar multifamily deal in Ft. Lauderdale, Fla., and an office deal in San Diego.

The company generally targets office, retail, industrial and medical office properties in California and Las Vegas. Last year, it acquired First Union Plaza adjacent to **Duke University** for $38 million. Bryan said that SCI looks for stable properties in markets with steady growth because they fit best with tenant-in-common programs. Tenant in common programs, a variation on traditional 1031 exchanges, allow investors who are selling a property to acquire a fractional interest in a larger property. As a sponsor, SCI typically acquires a property and then sells interests to investors. The strategy allows investors to diversify their real estate holdings and step back from the day to day property management.

SCI has specialized in 1031 exchanges since 1984. Using 70% leverage, SCI seeks 8% cash-on-cash returns on investments. The firm has an in-house brokerage, and a long-term property management partnership with **Kennedy Wilson**. SCI services about 200 small institutional and retail investors. It targets properties of $10-50 million, but prefers deals of greater than $25 million. Currently, the company has $225 million in its portfolio. "We are small enough to provide personal service, and big enough to acquire larger properties," Bryan said.