Commercial Real Estate

Real Estate Deals: Debt deal catapults Brookfield and Ballast to top of S.F.'s residential market

Ballast Investments, led by co-founders Ryan Brewer, left, and Greg MacDonald, teamed up with Brookfield Properties to acquire debt linked to nearly 2,150 apartments in San Francisco.

BALLAST INVESTMENTS

By Sarah Klearman – Staff Reporter, San Francisco Business Times
Mar 28, 2024 **Updated** Mar 29, 2024 12:17pm PDT

Year's end is a famously busy time for dealmakers, and the close of 2023 was no different for Brookfield and Ballast Investments, which finalized their $615 million acquisition of nonperforming loans tied to a mammoth San Francisco multifamily portfolio with four days left in the year.

The deal, which closed Dec. 28, positioned Brookfield and Ballast to take control of 2,149 apartments previously owned by San Francisco residential giant Veritas Investments.

Because they'd effectively stepped in as Veritas' lenders, the pair would be able to foreclose on the 76 apartment buildings that made up the portfolio and become their new owner — a step they ultimately took a few weeks later, when Brookfield placed the sole bid at public auction.

It was the debt buy that set the whole thing in motion, the culmination of a deal closely watched not just for its relative complexity, but for its scale.

Brookfield is now one of the largest residential landlords in San Francisco, and Ballast, an owner-operator with an existing portfolio of around 2,500 units in the city, becomes one of the largest, if not the largest, operator of multifamily units in the city.

Veritas first offered up a piece of its portfolio at the beginning of 2020. It defaulted on a $674.8 million loan tied to 62 buildings at the end of November 2022, and subsequently defaulted on a second, $130 million loan tied to 14 more buildings in the spring of 2023; Eastdil Secured began marketing the loans for sale.

Brookfield and Ballast emerged as buyers later that year. Ballast had been following the portfolio since it first hit the market years earlier, CEO Gregory MacDonald told the Business Times in an emailed statement.

Brookfield had been, too: It was "on the radar of any investor and owner" that remained bullish on the Bay Area, said Ben Brown, a managing partner with Brookfield's Real Estate Group.

"This portfolio in particular is composed of very strong real estate," he wrote in an emailed statement.

Brookfield and Ballast have declined to comment on the financial details of the debt acquisition, but a source familiar with the deal who was not authorized to speak about it publicly told the Business Times the pair had paid around $615 million total for the nonperforming loans, suggesting they'd paid less than $300,000 per unit.

The 62 buildings linked to the $674.8 million loan were appraised at a value of $1.05 billion in October 2020, according to CMBS data, or roughly $600,000 per unit.

That is a notable discount to replacement costs, which have skyrocketed in recent years as the cost of construction continues to climb.

The pair plan to invest additional capital in "maintenance that has been deferred for some time" on the properties that make up the portfolio, MacDonald said.

"That is naturally impacting many residents," he wrote. "Our aim is to operate these assets at a high level, and ultimately earn their trust."

About the deal

Buyer: Brookfield Properties and Ballast Investments

Previous owner: Veritas Investments

Price: Around $615 million

Size: 2,149 apartments across 76 buildings in San Francisco

Deal structure: Brookfield and Ballast acquired $915 million in loans defaulted on by Veritas Investments