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Davis targets debt with new $230 million fund

Just about anyone who has worked in Boston's commercial real estate world over the past three decades knows **Jonathan Davis**. With his partners, he has done about $2 billion of acquisitions and development.

But the CEO of **The Davis Cos.** has been up to something new over the past 18 months — raising a real estate investment fund with a mandate to buy properties and debt at a time when most commercial real estate was taking a beating.

The initial target for **Davis Investment Ventures'** Value Opportunity Fund I was $200 million, Davis said in a recent interview. Instead, the fund raised about $230 million for discretionary deals — with another $100 million available should the right opportunities arise.

REAL ESTATE ROUNDUP

Eric Convey

Real estate funds in the quarter-billion-dollar range are not exactly rare. But in the case of Davis' fund, he said, "We're devoting a lot of our attention to the acquisition of debt."

In the right cases, he said, that debt can be had at "significant discounts."

Some of the debt is in the form of traditional loans. Other debt is part of commercial mortgage-backed securities.

Among transactions, the fund bought debt on a pair of office properties with a face value of $60 million for $33 million, Davis said.

While the fund's building acquisitions are in the Northeast, Davis said, it's buying debt from around the country. For instance, the fund bought loans on an office park outside Chicago and light industrial space in Colorado.

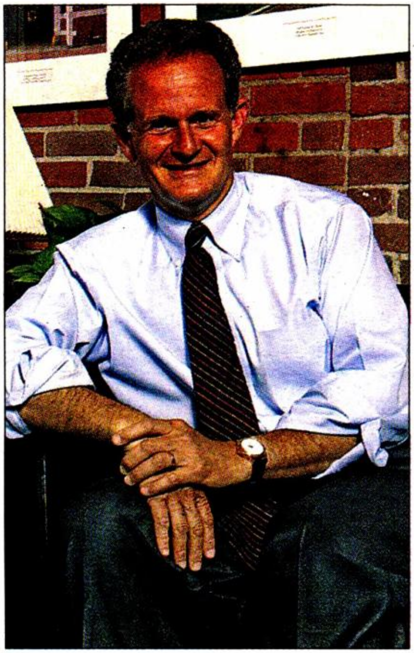
An obvious question emerges: Would Davis prefer to hold on to the debt and reap its cash flow or take back properties at what will prove to be significant discounts?

"We have a strong preference for trying to work things out with existing borrowers ... that's our goal," he said. "But the fact of the matter is, there were so many excesses."

The fund will invest over a period of about four years rather than try to pounce at one point to time the nadir of the market, Davis said. "We don't think we're smart enough to try to predict exactly where the bottom is."

Money for the fund came from Davis and other principals at the firm, wealthy individuals, and institutional investors.

The success of the new fund also has produced a nice side effect for the real estate sector — hiring. Davis said the staffing of the investment group and



W. MARC BERNSAU | BUSINESS JOURNAL

Jonathan Davis' new fund is buying commercial real estate debt from all over the country.

company overall is at about 40 people — 25 percent higher than 18 months ago.

Davis described raising a large fund and planning how to use the money, after 35 years in the real estate world, as "a tremendous adventure" and "very stimulating."

If he has a colleague in the spotlight on this project, it's **Jon Frey**, who helped to sell investors on the deal and now is moving into a role in which he'll be responsible for making good on those promises.

KPMG deal update

More details are emerging related to the lease that **KPMG** has at Two Financial, which you first read about in this column last week.

The deal with **Lincoln Property Co.** may not be as sweet as KPMG initially suggested. For example, rather than having an option on floors seven through 12 in Two Financial, KPMG has a hard option only on floors seven and eight. (KPMG is leasing floors two through six.)

And, despite statements during an interview that KPMG is paying less per square foot on for its space in Two Financial, the firm actually is paying more per square foot than it now pays for the 120,000 square feet it leases at 99 High Street. The firm is leasing less space, paying more for it, but "using the space more efficiently," according to the firm's spokesman.

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