

December 5, 2012

## Pembroke Doubles Up on San Jose Apartment Project

By [Jon Peterson](#)

New York City-based [Pembroke Capital Management](#) LLC has made a \$16.5 million preferred-equity investment in the Meridian Apartments being developed at 1400 W. San Carlos St. in San Jose.

It is the second investment that the company has made in the project; earlier this year it provided an \$8.37 million first mortgage to cover land acquisition and site assembly for the development.

Pembroke identified Bank of the West as the construction lender. Its preferred-equity investment is being made alongside the \$42 million senior loan for the construction work, Pembroke said.



Developer [Republic Urban Properties](#) LLC, which broke ground in early November, is headquartered in Washington, D.C., with offices in San Jose. “There were two factors that we liked about the project in San Jose. One is that the developer and sponsor is a known developer than has a track record building other apartment projects. Also, the San Jose rental market is very strong from a demographics and jobs standpoint,” said John Garth, a Pembroke managing director.

The company’s equity investment does not convey an ownership interest in the complex to the investment company. Rather, the capital grants Pembroke the right to a say in the ultimate decision regarding the property’s full or partial sale. Republic retains 100 percent of the real estate ownership. Pembroke declined to provide additional detail about the terms of the transaction.

Construction is expected to take no longer than 24 months.

The complex is situated on a prominent corner facing Meridian Avenue and San Carlos Street, which connects San Jose’s downtown to the wildly popular shopping, dining and living center, [Santana Row](#). Downtown and Santana Row are about three miles apart; the Meridian apartments are roughly midway between the two. The city of San Jose’s redevelopment agency before its demise also invested in multiple improvements to the street including store façade upgrades.

The new complex also is north of the [Willow Glen](#) neighborhood in the Midtown section of San Jose, an area that has seen multiple sites re-develop in the last decade, including many new housing units. The Meridian will have 218 apartments, 15,800 square feet of retail and 455 parking stalls.

The San Jose metropolitan area remains a very tight market for apartments. According to a third-quarter report on the region by [Marcus & Millichap](#) Real Estate Investment Services, in the most recent 12 months, asking rents advanced by 5.1 percent to

\$1,560 a month. Effective rents gained 5.6 percent reaching \$1,466 a month. Vacancy on existing properties fell 0.6 percent in the last year to 2.6 percent. Vacancy in the previous year had dipped 1 percent.

Pembrook is interested in placing capital into more property types than just apartments. “Our interest in San Francisco overall would include apartments, retail and office buildings,” Garth said. “The retail would be either grocery-anchored shopping centers or properties occupied by three or four big box retailers that have long-term leases.” Apartments are likely the only development type that Pembrook would consider on a speculative basis, however.

Pembrook sees the San Francisco region as one of the strongest markets in the country. “We think it and New York City are the two areas that have recovered first from the recession,” Garth said. The company has tried to invest more in the region but has been thwarted by higher bidding competitors.

Pembrook recently extended a \$5.35 million bridge loan to fund the acquisition and repositioning of the 220-unit former Azure Park Apartments in Sacramento. The property has been renamed Lotus Landing Apartments.

Pembrook is a real estate investment company that invests in all parts of the capital structure, including first mortgages, mezzanine, bridge loans, note financings and preferred equity.