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Real Estate Market Update

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Deals Updates

Office

Hines, Antarctica Capital Win Bidding on 7.3 Mil-SF Calif. Office Portfolio

CoStar

California First LLC, a consortium led by Hines and international private equity firm Antarctica Capital Real Estate (ACRE), were selected as the winning bidder by the State of California to purchase and leaseback 11 of the state's office buildings following a comprehensive year-long process. There are also additional unidentified equity investors.

Over the next 20 years, the state will lease the offices back from California First at predetermined rates, and will no longer maintain, operate, or repair the buildings. All the leases with California First allow the state to buy back any or all of the buildings at anytime during the 20-year term.

As a part of its proposal, California First offered a market-premium price of $2.33 billion, far exceeding initial state projections by more than a half-billion dollars, and permits the state to reduce its bond indebtedness of $1.09 billion after paying off existing bonds. California First's proposal also allows the state to re-purchase the properties through a right of first refusal.

The all-cash offer will utilize a typical debt and equity ratio with the general partners and investors providing approximately 40% of the purchase price, and a major financial institution supplying the balance as a loan to the new owners.

The decision was made public as a part of the final state budget discussions.

The California Legislature in July 2009 authorized the state's Department of General Services (DGS) to proceed with a process to select an investor or group of investors to sell and leaseback 11 of its office buildings in order to raise revenues to help offset a multi-billion budget shortfall. More than a year later, DGS recommended California First's proposal over the more than 300 bids received.

Hines, the current landlord of more than 1 million square feet of the state of California's leases, will manage the portfolio purchased by California First.

In April, the state's broker, CB Richard Ellis received more than 300 offers to purchase the buildings. The offers included individually priced offers on each building; however, the most aggressive pricing came largely from 30 offers for the entire portfolio. Portfolio buyers were given the opportunity to submit a second round of offers on May 11. CBRE received 16 increased portfolio offers, 11 of which exceeded the state's $2 billion estimate of the value of the properties. Those 11 bidders were then invited to submit a "best and final" offer by May 21.

The Department of General Services anticipates completing all transactions in the 4th quarter of 2010.

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Building, City, SqFt, Projected Year 1 NOI

- Capitol Area East End Complex, Sacramento, 1,474,705, $35.54 million
- Franchise Tax Board Complex, Sacramento, 1,814,056, $34.31 million
- San Francisco Civic Center, San Francisco, 912,387, $22.04 million
- Elihu M. Harris Building, Oakland, 700,589, $12.61 million
- Ronald Reagan State Building, Los Angeles, 739,158, $12.2 million
- Attorney General Building, Sacramento, 376,866 SF, $9.71 million
- Junipero Serra State Building, Los Angeles, 431,856, $6.8 million
- Public Utilities Commission Building, San Francisco, 270,768, $6.1 million
- Department of Justice Building, Sacramento, 381,718, $4.94 million
- California Emergency Management Agency Building, Sacramento, 116,687, $2.92 million
- Judge Joseph A. Rattigan Building, Santa Rosa, 92,368, $1.04 million

Kilroy Purchase of Mission City Corporate Center in San Diego for $70 Million

The Daily Transcript

Los Angeles-based Kilroy Realty L.P. has completed its purchase of the 279,429-square-foot Mission City Corporate Center in Mission Valley for a reported $70.5 million. "This was a value added opportunity to purchase a high-quality asset at below replacement cost," said Kilroy spokesman Tyler Rose. Steve Scott -- a Kilroy senior vice president who oversees his firm's 5 million-plus-square-foot office and industrial portfolio in San Diego County -- said the campus marks Kilroy's first presence in Mission Valley. "And it is the only campus-style office project in the valley," Scott said.

The complex consists of four office buildings at 2355, 2365, 2375 and 2385 Northside Drive. Mission City Corporate Center offers one six-story building and three three-story buildings. The properties were built between 1988-2008.

The complex is about 78 percent occupied. There have been recently signed leases -- for example, InnovaSystems took 45,000 square feet in the Mission City complex earlier this year. The 88,795-square-foot building at 2385 Northside was purchased for $17.95 million last March.

The other three buildings in the complex were reportedly purchased for a total of $52.55 million, but the recorder's office documents were not yet available Tuesday. The transaction was handled by Lynn LaChapelle, Bob Prendergast and Michael Zietsman, of Jones Lang LaSalle (NYSE: JLL).

Both MPG and Kilroy had trouble filling office space during the recession. However, while Kilroy has made substantial progress and has restored its profitability, MPG has been struggling for survival. As a result, MPG, which also owns a 16 percent interest in the San Diego Tech Center in Sorrento Mesa, has embarked on a crusade to sell whatever is necessary to right its ship.

Following a year in which MPG lost nearly $870 million and reached an amassed $3.4 billion in debt, the real estate investment trust did manage to post $25.93 million in net income on $111.52 million in revenues for the quarter ended March 31. At year-end 2009, MPG had six subsidiaries with properties in default. MPG also lost the 1.7 million-square-foot Park Place I project in Irvine in a deed-in-lieu-of-foreclosure action within the past year. Still, Nelson C. Rising -- MPG president and CEO -- said he is happy with this and other conventional dispositions. "We are pleased with the timing and execution of this transaction," he said. "The company remains focused on addressing its liquidity issues, extending debt maturities and increasing the occupancy of the portfolio and I am pleased with the progress we have made thus far."

environmental, bankruptcy, creditors' rights, intellectual property and employment and labor law. More...

LaChapelle, a Jones Lang LaSalle managing director, said what was a $70.5 million transaction now, would have been a $118 million deal in 2007. "Maguire is trying to position itself as the preeminent office REIT in downtown Los Angeles. Mission City was a non-strategic asset for them," LaChapelle said. "They had the construction loan on the one building and it would have been awkward for them to sell just one building out of four." MPG, which reports it is the largest owner of Class A office buildings in the L.A. Business District, may have had its troubles but LaChapelle and Prendergast -- also a managing director -- had high praise for the property it just sold and its location. "It's adjacent to a trolley stop, and the Fenton Marketplace with its restaurants," LaChapelle said.

The campus-style complex originally developed by the H.G. Fenton Co. has a thermal energy storage system that saves energy by making ice at night for cooling during the day, showers, lockers and limited food service. "The quality and uniqueness of these assets in addition to attractive assumable financing all worked together to allow this sale to come to fruition," said Prendergast in a statement. "Kilroy's strategic purchase in this expanding submarket positions them well for the future and these properties will offer wide appeal to potential tenants."

For the quarter ended March 31, Mission City buyer Kilroy Realty posted $8.87 million in net income on $66.82 million in revenues -- compared to $11.86 million in net income on $72.51 million in revenues for the like period a year earlier.

Kilroy Realty Buys 999 Town and Country for $22M

Orange County Business Journal

Los Angeles-based landlord Kilroy Realty Corp. is starting to make a bigger name for itself in Orange County's office market after snapping up its second large building in as many months. The company recently spent $22.3 million for a 98,551-square-foot office building at 999 Town and Country Road in Orange. The $226 per-square-foot price tag is believed to be the fifth priciest office sale seen in OC so far this year, and the most expensive non-medical office transaction of 2010 in North OC. That price tag could be attributed in part to the building's steady tenant.

The entire building's leased to engineering company Aecom Technology Corp. through 2018. Aecom has two five-year options to extend the lease.The Orange buy comes a little more than a month after Kilroy was involved in OC's most expensive office deal of the year, the $103 million purchase of the 2211 Michelson office tower in Irvine. Those two acquisitions nearly doubled publicly traded Kilroy's local office space. It now owns about 650,000 square feet of office space in OC. It also owns another 3.5 million square feet of industrial space in the area.

The company counts a market value of about $1.5 billion and is one of several real estate investment trusts that have been looking to add OC space to its portfolio, despite a local office market that's been struggling to recover from the economic downturn. OC's office market ended the second quarter with vacancy rates at about 18%. Rental rates in general are off some 30% from a couple years ago.

Betting on Turnaround. Kilroy's betting on a turnaround in the market, according to brokers who worked on the sale. "They like the long-term and mid-term fundamentals in Orange County," said Bob Smith, executive vice president for the Newport Beach office of CB Richard Ellis Group Inc., which helped broker the sale. Kilroy has the money to invest now because it didn't make much of an acquisition push in OC during the boom years of the local real estate market. It hasn't been shy about spending top dollar for buildings with steady rents.

In the case of the 2211 Michelson acquisition, which closed late last month, Kilroy paid $380 per square foot for the nearly full building. That's about $50 per square foot more than any high-profile office in the area's sold for in nearly two years. For the Orange deal, Kilroy was attracted to the building's predictable cash flow tied to its long-term tenant, according to Smith, who along with CB Richard Ellis' Kevin Shannon, Bob Smith, Gary Stache, Paul Jones and Karen Scholte represented both sides of the deal.

Smith said they received about a dozen offers for the Orange building, a combination of private investors, pension funds and real estate investment trusts, both public and private. Aecom, a Fortune 500 company, reportedly just completed a big renovation of its offices at the Orange building. The building has been home to Aecom's Holmes & Narver architectural unit, part of DMJM Harris. In addition to being a tenant, Aecom previously owned the building. In 2006, its Aecom Management Services Corp. division sold the building to an institutional investor for a reported $25.5 million, or about 13% more than the latest sales price. Records show the prior owner to be Boston-based Realty Associates Fund VII LP.

The Orange building comes with 6 acres of land that are entitled for future medical office development, according to brokers. The property's location is close to regional medical centers including St. Joseph Hospital-Orange and Children's Hospital of Orange County.

Kilroy Realty Corporation Purchases Irvine Office Building

Kilroy Realty Corporation (NYSE: KRC) has completed its purchase of 2211 Michelson Drive in Irvine, California for a total purchase price of approximately $103 million. The building is located in the Airport Area submarket of Orange County and encompasses approximately 271,600 rentable square feet. Completed in 2007, the building is one of the premier office properties in the region and is currently 92% leased.

The 2211 Michelson building, in the John Wayne Airport area submarket, was developed on a 1.2-acre site, that includes an adjacent six-story parking structure providing parking at the ratio of six stalls per 1,000 square feet of building space, Hines describes the building as part of a 75-acre campus with pedestrian access to amenities including a 24 Hour Fitness Ultra Sport, a Marriott Hotel, on-site restaurants and retail, and within walking distance of John Wayne Airport. Hines recently signed five new tenants to deals for 44,000 square feet at 2211 Michelson, including three relocations and two newly formed companies. The tenants included insurance advisory firm Burnham Benefits, law firm Gordon & Rees LLP, the Scotts Co. lawn and garden company, commercial real estate services firm 360 Commercial Partners and law firm Connor, Fletcher & Williams. The leases ranged from three and a half to 10 years at rental rates that were undisclosed. Asking rates for the building are $2.50 to $2.75 per square foot per month.

According to Hines, 2211 Michelson was the first office building on the West Coast (two others, also developed by Hines, are now complete) to achieve Silver LEED certification.

Hudson Pacific bags 222 Kearny for $34.9M

San Francisco Business Times

New real estate investment trust Hudson Pacific Properties has paid $34.9 million for 222 Kearny St., the company's second San Francisco purchase in two months.

The price for the 144,440-square-foot, two-building property, $242 a square foot, was about 17 percent less than the $42 million Walton Street paid for the property in 2007. The debt on the building was subsequently bought by an affiliate of Canyon Capital Realty Advisors, which gained control of the property and was the seller in the Hudson Pacific deal.

Howard Stern, president of Hudson Pacific, said the deal was the result of a long-term relationship with the seller. Grubb & Ellis represented the buyer.

“This is a good fit with our investment strategy, an attractive office property at a premier location in the heart of San Francisco for good value,” said Stern. “San Francisco is one of our company’s top targets for expansion. We will continue to grow our presence here through the acquisition of other well-located-office properties.”

The building has 40,000 square feet of vacancy, according to market research, with floors 3, 4, 5 and 8 available to lease. The last significant tenant to lease space at 222 Kearny was InfoGroup, which took 7,400 square feet in April of this year at an average rent of $30 a square foot. The complex, with straddles greater Union Square and the north financial district comprises two buildings: a 10-story glass and steel office tower built in 1986 and the five-story, 180 Sutter St. building built in 1915.

The deal comes as the traditional financial district north of Market Street has struggled to attract tenants while the tech-rich South of Market is experiencing rapidly declining vacancies and climbing rents. But 222 Kearny St. features high ceilings and open floor plans that could attract technology firms squeezed out of SoMa, according to Jones Lang LaSalle Research Director Colin Yasukochi.

“I think this building is somewhat unique — it’s more creative space than your typical central business district building,” said Yasukochi. “Buildings that possess creative space are positioned to take advantage of the growing tech company trend. In this case vacancy could be turned into an opportunity.”

The deal comes two months after Hudson Pacific acquired 875 Howard St., a 286,000-square-foot office property South of Market across from the Moscone Convention Center.

Kilroy Purchases SoMa building for $237M

San Francisco Business Times

Real estate investment trust Kilroy Realty Corp. has agreed to pay $237 million in cash to acquire 303 Second St. in San Francisco, a transaction that will set the bar for what non-distressed multi-tenant office buildings are worth in San Francisco as the economy starts to rebound.

The price, about $326 a square foot, is 10 to 15 percent higher than many market observers thought the building would fetch. It is also almost exactly the same price that seller Multi-Employer Property Trust and adviser Kennedy Associates bought the property for in 2005.

Kilroy declined to comment on the transaction because it is not complete, but disclosed that the deal was pending in a Securities and Exchange Commission filing dated April 14. In that filing, Kilroy states that it has entered into a purchase and sales agreement on 303 Second St., and expects the transaction to close this quarter.

The acquisition will be funded through a 8 million share stock offering at $34 million a share and borrowings under the company’s current $550 million revolving credit facility. Over the past two months, Kilroy’s stock has been trading between $30 and $36 a share.

The two-tower complex at 303 Second St. is 90 percent leased with a roster that includes credit tenants like advertising giants, Young & Rubicam, Wells Fargo, engineering firm Parsons Brinckerhoff, and major tech firms like Symantec Corp. and Hewlett-Packard Co.

The transaction has been closely watched in San Francisco real estate circles because it represents the first true multi-tenant Class A building to change hands since the economic collapse of 2008.

The purchase represents Kilroy's first acquisition in Northern California. The Los Angeles-based REIT owns 134 properties with 12 million square feet in Los Angeles, Orange County, San Diego, and Ventura, according to the company web site.

Tyler Rose, executive VP at Kilroy, declined to comment. In an article when the building was placed on the market earlier this year Kennedy Associates Vice President of Acquisitions Justin Hildebrandt and "there is an opportunity" for sellers of quality office buildings.

"There is core capital in the market and there is a lack of quality core properties for sale," said Hildebrandt.

Highridge Partners Makes All Cash Acquisition Of Architectural Gem--255 California Office Building In San Francisco

Forbes.com

Highridge Partners has completed an all cash $42 million acquisition of 255 California, a 173,747-square-foot Class A office building in San Francisco's North Financial District, from Lexington Realty Trust (NYSE:LXP).

"This is an irreplaceable asset in a premier location in the heart of the financial district. It is an ideal fit with our investment program that we launched last year that focuses on Class A office properties in California's top-tier markets," said Jack Mahoney, executive vice president, Highridge Partners. "San Francisco's financial district is a solid office market that has maintained its appeal over decades as a preferred business address."

Located at the corner of California and Battery, 255 California is easily accessed by all of the area's public transportation and is on the California Street Cable Car Line. Set in a thriving center for business it also is within a district that offers exceptional shopping and dining options. Currently, the building is approximately 64 percent leased to a variety of companies including professional service and financial firms.

Designed by Skidmore Owings & Merrill in 1959 as the headquarters for John Hancock insurance, the 14-story building is a leading example of Modern Architecture from that period. The polished granite exterior and patterned bronze-trimmed windows soar above the sculpted reinforced concrete arches that are a prominent building feature. The building's design was showcased as part of an exhibition on the intersection of buildings and art at the San Francisco Museum of Art, now known as San Francisco Museum of Modern Art.

"The design was so forward-thinking that even by today's standards it is a highly-efficient building," noted Mahoney. "With column-free floors of more than 12,000 square feet, it allows for a variety of configurations to suit most businesses."

255 California's architectural prominence is further enhanced by the Lawrence Halperin-designed second floor garden and patio. Accessed from the wrap-around balcony, renowned landscape architect Halperin created the outdoor terrace to capture breezes and city views framed by the arches. Plazas and pathways of stone pavers, water features, seating areas and colorful landscaping complement the building's design and materials. "The terrace is a peaceful oasis above the bustle of the street. It is a popular gathering spot that is exclusive to the building's tenants," noted Mahoney.

Over the years 255 California has undergone numerous interior renovations and system modernizations. A complete seismic retrofit is currently underway and should be completed in the next few months.

Highridge Partners has previously invested in commercial real estate in the Bay Area, including another classic building, Kaiser Center in Oakland, which it renovated and repositioned, selling it in 2005; and the development of the mixed-use Pacific Plaza in Daly City, which it sold in 2004. Earlier the company invested in a portfolio of office properties with buildings on Pine Street and Sansome as well as the 150 California Street site which was later developed by Equity Office. Highridge Partners successfully sold most of it's portfolio in 2006 and 2007 at the peak of the commercial real estate market, which positioned Highridge as an all cash purchaser of established Class A office properties in mature destination markets.

In October 2009 Highridge Partners acquired the 3MacArthur office building in Orange County, California in a $31 million all cash transaction which equates to approximately 30 percent of its cost to build. This was the first acquisition for the company's current $500 million office investment program which is led by founder John Long, his partner of 30 years, Jack Mahoney and their long-time office strategic partner, Jim Clifford. To meet the goals of this acquisition program, Mahoney and Clifford assembled a team of seasoned consultants and professionals that they had worked with for many years to allow them to fully underwrite and purchase a major property in less than 10 days.

Lexington Realty Trust was represented by The CAC Group in the transaction. Highridge Partners drew on its experienced in-house team led by Jim Clifford to assess and complete the acquisition.

Highridge Partners is a privately held, international real estate investment company founded in 1978 by Long, who applies economics principles to spot undiscovered opportunities and turn them into high value properties. Often called a "contrarian" investor, Highridge Partners has acquired, developed or financed over $7.7 billion of assets. The company's investments have spanned the entire range of real estate including single family housing, apartments, retail, office, industrial, hotels, and entertainment venues.

Swift Realty Partners LLC Purchases Fremont Tech Center

Swift Fremont Tech Investors LLP has recently purchased the remaining REO commercial condominium units at the Fremont Tech Center, a premiere bayside technology park that consists ofcommercial condominiums offering flexible office and R&D space ranging in size from 2,500 sq feet to 12,580 sq feet per unit. With its tremendous proximity and exposure to Interstate 880, Fremont Tech Center provides access to unparalleled amenities in the City of Fremont to the north and the City of Milpitas to the south.

Industrial

Major Bay Area Industrial Portfolio Trades

Daily Journal

In what real estate brokers are calling the Bay Area's largest industrial investment of the year, a 721,204-square-foot industrial portfolio traded hands recently. A joint venture between Sares-Regis Group and J.P. Morgan Investment Management Inc. sold the property to Industrial Income Trust for an undisclosed price.

One of the four buildings is 246,450 square feet in the Bayside Business Park in Fremont. The single-tenant property is leased to Supermicro Computer. The remaining properties are in the Pinole Point Business Park in Richmond. Sares-Regis Group acquired the park's industrial component in May 2008 along with 43 acres of adjacent raw land, which it will retain for future development.

Portfolio sales have inherent challenges and unique characteristics when the properties are marketed as a package and this deal was no exception, according to Stuart Graiwer, of Stroock & Stroock & Lavan's Los Angeles office, who represented J.P. Morgan. Pamela L. Andes, of Allen Matkins Leck Gamble Mallory & Natsis, represented Sares-Regis Group.

Most of the legal work behind the sale was generated by the Pinole Point properties because they have multiple tenants and had environmental remediation work completed since the property last traded hands. Still, the process of obtaining estoppel certificates from tenants and explaining environmental issues to potential buyers was relatively smooth, Graiwer said.

"In this market one of the key factors in determining the right buyer, beyond price, is making sure your buyers are not relying on financing to close the asset because there is still quite a bit of nervousness about the credit markets," he said.

The buyer was represented by Robert Kaufmann, Ana Tenzer and Noelle Riccardella of Brownstein Hyatt Farber Schreck's Denver office.

Residential

High Profile Beverly Hills Site, 9900 Wilshire, Acquired by Trophy Property Investors from Hong Kong and Singapore for US$148.3 Million

Forbes.com

One of the highest profile real estate properties in the U.S. -- 9900 Wilshire Boulevard in Beverly Hills -- has been acquired by Hong Kong and Singapore investors for US$148.3 million. The investors plan to create a landmark development on the eight-acre site which sits at the prominent intersection of Wilshire and Santa Monica Boulevards.

Purchased for a record breaking $500 million in 2007 by jet-setting British developers Nicholas and Christian Candy, the property fell into foreclosure early this year and was acquired by Carlos Slim's Banco Inbursa, one of the lenders. Banco Inbursa set up a private bidding auction administered by Eastdil Secured and law firm Skadden Arps that was won by Joint Treasure International Ltd., a Hong Kong-based private equity firm specializing in global real estate that represents major family investors. Law firm Allen Matkins Leck Gamble Mallory & Natsis advised Joint Treasure in the transaction.

"This is an incomparable site that cannot be replicated and we intend to build a superb project offering world class luxury residences," said Daniel Yiu, Senior Advisor to Joint Treasure. He noted that the investor group is familiar with the city because of its investment in The Regent Beverly Hills Hotel in 1995 still under ownership. "Our investor group is interested only in premier properties in premier locations," he emphasized.

In this transaction, Joint Treasure was acting on behalf of three of its consortium partners: Chow Tai Fook Group of Hong Kong, the holding company for publicly held New World Group, a well known company with investments ranging from transportation to hotels and department stores; Wee Cho Yaw Family Group of Singapore that invests in banks, commercial properties and hotels; and David Chiu of Far East Consortium International Limited, a commercial property and hotel developer listed on the Hong Kong Stock Exchange.

The 9900 Wilshire plan by Architect Richard Meier, who designed the world famous Getty Center in Los Angeles, was approved by the City of Beverly Hills in 2008 for 235 condominiums and 17,000 square feet of retail and restaurant space set amidst extensive gardens.

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None to report

Government Action & Analysis Updates

None to report

Special Features

None to report