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California accepts \$2.33-billion bid for 24 office buildings

The state will lease back the buildings, two of which are in downtown Los Angeles, for at least 20 years. Hines and Antarctica Capital Real Estate are the buyers.

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California officials accepted a winning bid Monday of \$2.33 billion to sell 24 state office buildings to a consortium of three U.S. investment companies.

The state will lease back the buildings, including two in downtown Los Angeles, from the new owners for at least 20 years. The sale will generate \$1.2 billion for the state general fund and \$1.09 billion to pay off bonds on the buildings.

"This offer presents the best value for the state and achieves the goals set forth by the Legislature and governor," said Ron Diedrich, acting director of the state Department of General Services. "This sale will allow us to bring in desperately needed revenues and free the state from the ongoing costs and risks of owning real estate."

As reported last month by The Times, the new owners are Hines and Antarctica Capital Real Estate, a partnership of Antarctica Capital and Spyglass Realty Partners Inc.

Hines, a Houston-based developer, will manage the properties. Antarctica Capital — which has offices in New York and Irvine — and Spyglass Realty of Irvine make investments on behalf of clients such as pension funds and institutions.

"We think the opportunity to acquire this large of a portfolio all at one time with a solid tenant like the state of California makes good sense," said Richard Mayo, managing partner of Spyglass and Antarctica Capital Real Estate.

The state's broker, CB Richard Ellis, received more than 300 offers to purchase the buildings.

But the proposal to sell the properties also generated criticism that the sale and lease-back of public buildings was shortsighted.

Dan Rosenfeld, the state's deputy director for real estate and buildings under Gov. Pete Wilson, said the decision was poor long-term financial policy, calling it "a quiet victim of the budget impasse" in Sacramento.

"It's like selling your garage to your neighbor to pay your mortgage," he said. "Given the choice between selling strategic assets and taxing gas guzzlers, I would have selected a different outcome."

Most of the 300 bids were individually priced offers on specific buildings. The most aggressive bids, however, were offers for the entire portfolio.

That prompted state officials to consider only offers for the full portfolio, the state said. In May, the brokerage received 16 increased 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; officials evaluated the bids by price and the bidders' ability to follow through with payment and property management.

The state was able to get high bids because investors can borrow money at low rates. The state could also lock in favorable rental rates because the overall office market is soft, broker Kevin Shannon of CB Richard Ellis said.

"The proceeds at the sale price of \$2.33 billion will far exceed the \$660 million originally estimated," Shannon said. "Far from a fire sale, this was a stiff, multiple-offer competition that generated favorable pricing for the state."

The all-cash offer says the buyers will put down 40% of the purchase price, with a major financial institution supplying the balance as a loan to the new owners.

The portfolio includes 24 buildings on 11 sites in Los Angeles, San Francisco, Sacramento, Oakland and Santa Rosa. The buildings in Los Angeles are the Ronald Reagan State Building on Spring Street and the Junipero Serra Building on Broadway. The sale is expected to close in 30 days.

The buildings will not be allowed to decay, buyer Mayo said.

"We are putting a substantial amount of real cash equity into this deal," he said. "We have all the incentive in the world to make sure these buildings are maintained."

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