# THE ECONOMOS GROUP

## COMMERCIAL REAL ESTATE

***The Economos Group is the Largest Seller of Office Buildings in Orange County***

## Wall Street Journal Article

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# Blackstone Makes Quick Cash

## *Firm Sells Chunk Of Assets Acquired With Equity Office*

By JENNIFER S. FORSYTH And HENNY SENDER

The **Blackstone Group** has wasted no time selling a big chunk of the portfolio it acquired from Equity Office Properties Trust less than two weeks ago.

The New York private-equity firm has raised $18.5 billion in asset sales, including eight buildings that were sold in New York for $7 billion to **Macklowe Properties** simultaneously with the merger closing Feb 9.

Blackstone has also sold or agreed to sell Equity Office properties in Los Angeles and Orange County, Calif.; Portland, Ore.; San Diego; Seattle; and Washington. Competition is expected to be fierce for the buildings in Boston and Austin, Texas, as well as Chicago.

Blackstone bought Equity Office, previously the nation's largest office landlord, for $39 billion, including debt, in the second-largest leveraged buyout in U.S. history. The transaction put an exclamation point on the continued demand for office real estate among private investors based on the belief that there is room for improvement in the office market.

This week, Blackstone is expected to announce another $3.5 billion in sales, according to one person familiar with the matter. Such swift sales are a reflection of Blackstone's determination to reduce the debt load on its prize as quickly as possible, especially given the relatively low yields on many properties. Blackstone's strategy is to sell a cross section of its new portfolio, which includes the highest-quality properties as well as those that are less desirable.

Blackstone is expected to hold properties in Northern California and Silicon Valley.

Blackstone—and private-equity firms like it that invest heavily in real estate—traditionally have sold off some holdings in the real-estate companies they have bought to help finance the deals. Blackstone is selling even more than executives there originally intended after being forced to raise their price for Equity Office by 14% in a bidding war with **Vornado Realty Trust**, a New York real-estate investment trust. Yet, Blackstone executives knew they could make money on the deal after finding that bids for some buildings were coming in higher than they had estimated.

**Maguire Properties** Inc., a Los Angeles REIT, announced yesterday it would be buying two buildings in Los Angeles from Blackstone's newly acquired Equity Office properties, as well as its Orange County properties, for $2.88 billion. Merrill Lynch analysts estimate the first-year yield at 4.1%—well below the company's first-year cost of capital.

Maguire is the only REIT to have emerged as a winning bidder in the skirmishes for the Equity Office properties. The remaining properties have gone to private real-estate investors, who can increase their debt loads more easily than REITs.

Merrill Lynch expressed concern about Maguire's proposed transaction for that reason in a note published yesterday: "We question how the company, which already has an overleveraged balance sheet, can swallow another $3 billion of assets with no clear funding plan in place," wrote research analyst Steve Sakwa. Maguire's debt-to-market capitalization ratio is about 56%, compared with an average of just below 30% for the office-REIT sector, which has low debt loads, according to BMO Capital Markets.

Maguire Properties CEO Robert Maguire III says his company is likely to only keep about one-fourth of the acquisitions in its portfolio and venture with institutional investors on the other properties. He says each building will be evaluated independently, and Maguire may sell any that don't meet the company's profile.

All of the Equity Office dispositions are coming in at higher-than-expected prices that suggest low capitalization rates—or cap rate, the rate of return in the first year of ownership—and, in at least some cases, negative cash flow for the next several years. That shows that many real-estate investors believe that there is room for improvement in the office market and that rents will continue to rise.

For example, 17 buildings in Portland and its suburbs are to be sold to **Shorenstein Properties** LLC, of San Francisco, for about $1.1 billion—a cap rate of about 4.6%. That is lower than the 5.75% cap rate that UBS Investment Research had predicted for the Portland portfolio.

UBS also had predicted a 4.25% cap rate for the New York buildings. But Macklowe Properties, of New York, bought the Equity Office portfolio (minus 1095 Avenue of the Americas) for a cap rate that UBS places at 3.6%.

"Macklowe just paid $1,100 per square foot—and this is not to say every buy is a great one—but I really don't think he overpaid. He paid what's a fair price today," says Jim Corl, a representative of Cohen & Steers, a real-estate investment firm that was one of Equity Office's biggest shareholders. William Macklowe, president of Macklowe Properties, declined to comment.

### Speedy Selling

The private-equity firm Blackstone Group has agreements to sell—or has sold—about $18.5 billion in assets it acquired from Equity Office Properties Trust, including:

| Location | Buildings | Price | Buyer |
|---|---|---|---|
| New York | 8 | $7.00 billion | Macklowe Properties |
| Seattle/Washington, D.C. | 36 | 6.35 billion | Beacon Capital Partners |
| Los Angeles/ Orange County, Calif. | 24 | 2.88 billion | Maguire Properties |
| Portland, Ore. | 17 | 1.10 billion | Shorenstein Properties |

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