

Lenders Hover as Calif. Auction Nears End

The finalists in the auction of a giant office portfolio by the **State of California** are seeking to line up commitments for acquisition financing from securitization programs.

While a winner has not officially been selected for the 7.3 million-square-foot portfolio, multiple market players said an investor consortium that includes fund manager **Hines** appeared to have the inside track. But an **AEW Capital Management** group and others may still be in the running. The state's advisor, **CB Richard Ellis**, declined to comment.

The proposed purchase price for the 11 properties was put between \$2.3 billion and \$2.4 billion — well above the initial expectations of \$1.8 billion to \$2 billion.

That would represent a capitalization rate of roughly 7%.

The auction appeared to be nearing the finish line this week. State officials were reviewing the best offers after CB narrowed down the field to about 10 bidders, according to people familiar with the discussions.

But those sources cautioned that the situation remained fluid. There were some signs that the Hines team made the best offer, but political sensitivities could complicate the decision. For example, there was talk that the Hines consortium might include a sovereign wealth fund — an element that might make it hard for **Governor Arnold Schwarzenegger** to sign off on the deal. Because the state intends to lease back the buildings for 20 years, a foreign landlord might be unpalatable.

The lenders being approached by bidders included **Bank of America**, **Citigroup**, **Deutsche Bank**, **Goldman Sachs** and **J.P. Morgan**. The debt would likely be financed via the commercial MBS market, because the transaction would be too big for insurance companies.

The office portfolio is currently encumbered with \$1.2 billion of mortgages, market players said. Any resulting CMBS financing would likely be at least that big.

The portfolio includes the 912,000-sf San Francisco Civic Center at 350 McAllister Avenue and 455 Golden Gate Avenue in San Francisco; the 739,000-sf Ronald Reagan State Building at 300 South Spring Street in Los Angeles; and the 1.5 millionsf Capitol Area East End Complex at 1430 N Street and 1500, 1501, 1615 and 1616 Capitol Avenue in Sacramento. v