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State of California Selects Buyer for State Buildings

\$2.33 billion Sale-Leaseback Bid Delivers \$1 billion to the General Fund; Makes Future Costs for State Office Space Predictable and Controllable

SACRAMENTO, Calif. – Today, the Department of General Services announced it has selected California First, LLC, a partnership led by Hines and Antarctica Capital Real Estate LLC, as the buyer for 11 state office properties [authorized by the legislature and Governor last year](#). The winning offer was \$2.33 billion — resulting in more than \$1.2 billion for the state general fund, and \$1.09 billion to pay off bonds on the buildings. Over the next 20 years, the state will lease the offices back from the new owner 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.

“After an extensive review of the more than 300 bids that were received, I have determined that this offer presents the best value for the state and achieves the goals set forth by the Legislature and Governor,” said Acting DGS Director Ron Diedrich. “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.”

Hines, a privately owned real estate firm headquartered in Houston, Texas, is involved in real estate investment, development and property management worldwide. The firm’s historical and current portfolio of projects that are underway, completed, acquired and managed for third parties includes 1,119 properties representing more than 457 million square feet of office, residential, mixed-use, industrial, hotel, medical and sports facilities, as well as large, master-planned communities and land developments. Antarctica Capital Real Estate, LLC; a venture led by California real estate veteran Rich Mayo of Spyglass Realty Partners, along with Chandra Patel of Antarctica Capital headquartered in Irvine, California and New York, NY, is a private equity firm specializing in real estate. There are also additional equity investors. The all cash offer will utilize a typical debt and equity ratio with the general partners and investors providing approximately 40 percent of the purchase price, and a major financial institution supplying the balance as a loan to the new owners.

Director Diedrich today notified the state legislature of the department’s intent to sell the properties – a notification called for under the authorizing legislation. The offices are:

- Attorney General Building, Sacramento
- California Emergency Management Agency Building, Sacramento

- Capitol Area East End Complex, Sacramento
- Elihu M. Harris Building, Oakland
- Franchise Tax Board Complex, Sacramento
- San Francisco Civic Center, San Francisco
- Junipero Serra State Building, Los Angeles
- Department of Justice Building, Sacramento
- Public Utilities Commission Building, San Francisco
- Judge Joseph A. Rattigan Building, Santa Rosa
- Ronald Reagan State Building, Los Angeles

*[Sales brochure for the properties.](#)

In his letter to the legislature, Diedrich shared the [department's economic analysis summary of the sale](#) comparing the status quo of ownership of the buildings to the sale and leaseback transaction. Using a series of reasonable and prudent assumptions the analysis shows that the sale allows California to retire \$1.09 billion in bond debt, leaving over \$1.2 billion in new revenues to shore up the state budget, as a result eliminating the need for more program cuts statewide or tax increases. By no longer owning the properties, the state eliminates annual lease payments and interest, as well as operating expenses. The state also sheds the responsibility for deferred and major capital improvements, as well as the obligation to pay for unforeseen and unpredictable repairs that cannot be anticipated but are increasingly likely as the buildings age.

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.

Since May 21, DGS, in conjunction with its broker, has been evaluating the top offers. This evaluation included a comprehensive analysis of each of the 11 best and final offers which included separate interviews with each finalist. Buyers were evaluated based on a reconciliation of two primary factors – price and certainty of execution. CB Richard Ellis investigated with DGS the bidder's track record; and how much due diligence the bidder had done on the state properties prior to making a buyer selection. Evaluation criteria included whether due diligence reports were reviewed; due diligence inspections were completed; the extent of property tours; the nature of contract and lease comments; the financial backing the buyer had in place and finally, the buyer's ability to both remove contingencies and close the transaction quickly.

"The State of California received significant portfolio interest, and the proceeds at the sale price of \$2.33 billion will far exceed the \$660 million originally estimated. Far from a fire sale, this was a stiff, multiple offer competition that generated favorable pricing for the state," said Kevin Shannon with CBRE, who handled the sale on behalf of the state. "Current historically low interest rates have allowed the state to obtain extraordinary pricing comparable with peak level capitalization rates with leaseback rents well below peak market levels. An additional benefit is that the state will be getting out of the commercial real estate management business, and transferring asset management to Hines, a globally recognized leader."

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

The [Department of General Services](#) acts as the business manager for the State of California, with more than 4,000 employees and a budget in excess of \$1 billion. DGS helps state government better serve the public by providing services to state agencies including innovative procurement and acquisition solutions, creative real estate management, leasing and design services, environmentally friendly transportation, and architectural oversight and innovative funding for the construction of safe schools.

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