THE RECORDER
ESSENTIAL CALIFORNIA LEGAL CONTENT

Back to Article

'Trophy Deals' Are a Bright Spot in Real Estate Sector

Petra Pasternak
2010-11-12 03:33:20 PM

SAN FRANCISCO — Following a woeful 2009, big real estate deals are back from the dead.

Attorneys up and down the state say property worth more than $50 million is selling at a faster clip this year, fueled by pressure on investors to put money to work, and the much-improved ability of buyers and sellers to agree on prices, especially at the high end.

"2010 is so much better than anybody had predicted in 2009," said Anton Natsis, the Century City-based head of real estate at Allen Matkins Leck Gamble Mallory & Natsis. "There's still not the amount of supply necessary for all the people who like to be optimistic to be totally optimistic, but there's a huge demand."

Sanford Presant, who leads the global real estate funds practice at Greenberg Traurig, said increased demand has pushed high-end property prices back to highs last seen in 2007. Real estate investment trusts (REITs), which Presant says tend to invest in properties worth more than $50 million, have specifically been behind some of that increase in demand.

REITs amassed about $30 billion in 2009 alone — the most in 12 years, according to the National Association of Real Estate Investment Trusts in Washington, D.C. As a result, REITs have shown a healthy appetite to spend over the past year.

But most of the activity is happening at what San Francisco DLA Piper partner Stephen Cowan calls the "trophy deal" level. These are the fanciest, most sought-after buildings that "people want to put on the cover of their annual reports." These buildings are trading because buyers have money to put to work and sellers don't have to take as much loss on them, he said.

Natsis, who's been working with REITs for many years, is handling the biggest office building sale of the year in California, representing Houston-based Hines and its partner, Antarctica Capital Real Estate of Irvine, in their purchase of 11 state office buildings for $2.3 billion. Sacramento is selling the properties to create cash flow through long-term lease arrangements with Hines/Antarctica. Natsis said that deal is slated to close in December.

The activity in the REITs sphere is attracting some relative newcomers, too. Luce, Forward, Hamilton & Scripps, best known for representing residential developers, has refocused its real estate funding work to include REITs over the past two years. Luce Chairman Kurt Kicklighter said it's a backdoor into the commercial real estate market. "If we get [REITs] at the front end, when they're raising money, the hope is to take those relationships and expand them to do the commercial real estate transactions, land use and other work that is related," he said. It's a long-term bet, Kicklighter emphasized, since there's little indication that general commercial real estate work is picking up anytime soon.

Though private equity and other investment firms have joined REITs in acquisition mode, demand in other areas — including land use, new construction and development — are still down.

Still, a handful of big deals is better than no deals. So far this year, Allen Matkins has closed about $1.5 billion in deals, Natsis said. Among them were three in San Francisco, one in San Diego, three in Orange County and one in L.A. County. That's compared to a near-dry 2009, when the firm handled only about three or four deals worth $50 million or more, Natsis said. "No one was healthy enough to spend that kind of money."

Just last month, Allen Matkins closed two non-REITs deals: A team of lawyers represented Lowe Enterprises, a national real estate organization that invests in industrial, office and residential properties, in a $100 million recapitalization of Terranea, a Palos Verdes resort. The firm also advised Joint Treasure, a Hong Kong-based private equity firm in its purchase of 9900 Wilshire, a residential development site in Beverly Hills, for $148 million.

In California DLA Piper lawyers have been representing sellers, buyers and lenders on office and retail assets in eight to 10 deals this year valued at a total of more than $1.3 billion, Cowan said. The firm's California real estate deals in 2009, in contrast, clocked in at less than half that amount. So far this year DLA handled a $270 million purchase of two office towers in San Francisco for client John Hancock/Manulife. In a Southern California deal, DLA lawyers advised Layton Belling Associates, a real estate investment and management company, in its $98 million purchase of a retail complex in Irvine from MPG Office Trust Inc. "There has been so much pent-up-demand and the gap between bid and ask on major transactions has diminished, so we are seeing more deals," Cowan said.

Greenberg Traurig's Presant sees the beginnings of recovery in the real estate practice and the firm is in hiring mode as a result. At the end of October, the Irvine office added five real estate lawyers from Morgan, Lewis & Bockius, including L. Bruce Fischer and Scott Morehouse as partners. The group focuses on real estate finance, REITs and fund transactions, among other things. "On the West Coast, there are fewer of these superstars around," Presant said of Fischer and Morehouse. "When they become available we try to go after them, especially in this market where the major transactions are increasing at such a fast pace."

But DLA's Cowan strikes a sobering note. While high-end deals might be on an uptick, they are a small percentage of overall work, he noted. "There are lots of lawyers and lots of people wanting to do deals at the smaller level — and that's not happening," he said. "The run-of-the-mill deals and the small deals are still challenged and we don't know when they're coming back."