

## Paine Group Taps Hypo for \$450 Million Loan

From a Commercial Mortgage Alert Staff Writer  
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October 2, 2000 - HypoVereinsbank has agreed to provide \$450 million of financing to a Paine Webber partnership that is buying three large California office complexes.

The 2.4-million-square-foot portfolio is currently owned by the team of Blackstone Real Estate Advisors of New York and McCarthy Cook of Los Angeles. Blackstone wanted to sell its majority stake, so McCarthy Cook arranged for Paine Webber Real Estate Fund I to replace Blackstone in the ownership team.

Technically, the Paine Webber fund and McCarthy are forming a partnership that will buy the properties from the Blackstone-McCarthy group. As part of the transaction, McCarthy's minority stake in the properties will increase slightly.

The transaction values the assets – which include the China Basin complex in San Francisco – at about \$550 million, although the purchase price was not disclosed. Hypo's floating-rate loan, which has a term of about five years, will help finance the transaction. Most of the loan will be funded up front, while a portion is earmarked to be released for renovations and additions to two of the complexes.

Commercial banks were the most-active competitors for the financing assignment, although a few securitization programs also took a look. Hypo won the contest by offering an extremely tight spread. Because German banks have a low cost of funding, they often are able to outbid U.S. banks. Holiday Fenoglio Fowler's Los Angeles office arranged the financing.

China Basin is a bay-front complex that consists of two buildings that encompass 727,000 sf. The properties are located at 185 Berry Street, adjacent to Pac Bell Park. The larger of the buildings, the 502,000-sf Wharfside Building, was constructed in 1986, while the 225,000-sf Berry Street Building went up in 1992.

Blackstone and McCarthy Cook bought the complex in 1997 for \$89 million. Its value is now estimated to be close to \$250 million. The frenzied demand for office space in San Francisco has enabled the owners to substantially hike rents in the last couple of years. New leases are now going for \$70-\$75/sf.

Also in the portfolio is the 1 million-sf Wilshire Courtyard, a two-building complex in the Miracle Mile district of Los Angeles. The Blackstone team bought the property in May 1998 through a bankruptcy settlement involving Los Angeles developer Jerry Snyder, who built the complex in 1987 for \$300 million and at one time had \$365 million of debt on the asset.

The property was 45% leased when the Blackstone partnership took over, but now the building is fully occupied. The Los Angeles office market was in a rut for most of the 1990s, but it has recently started to bounce back as entertainment and technology firms have moved in from higher rent areas nearby, like Beverly Hills.

Rounding out the portfolio is the 500,000-sf Metro Center at South Coast in Costa Mesa. Blackstone and McCarthy Cook bought the complex in 1998 for \$91 million. The seller was a client of AEW Capital Management of Boston. The complex consists of two 12-story buildings. There are plans to build additional office, retail and hotel space at the site.

McCarthy Cook is headed by Tom McCarthy and Edward Cook. Through partnerships with Blackstone and other acquisitions and developments, the firm has assembled a stake in a 4 million-sf portfolio. The firm will continue to partner with Blackstone in two San Francisco office buildings.

Paine Webber's opportunity fund is run by managing director Terry Fancher.