

## L.A. Developers Making Big Splash Across the State

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By Murray Coleman

Fresh off completing what was probably the most successful turnaround story in Los Angeles real estate last year, Thomas McCarthy and Edward Cook are after a new challenge: turning one of the biggest pieces of undeveloped land in Costa Mesa into a giant retail and office project.

**McCarthy Cook & Co.** bought 50 acres on a ground lease last year for \$95 million, and recently secured entitlements for a planned 1.4 million square feet of office campus-style development.

Bordered by Anton Boulevard and the Avenue of the Arts, 20 acres of the site is undeveloped farmland. "We were surprised to find such a large contiguous piece of undeveloped land in the middle of such a densely packed area," says Cook. "We had been scouring Orange County looking for properties and this jumped out at us."

Sporting a \$600 million commercial real estate portfolio, McCarthy Cook & Co. had plenty of resources to buy development rights. It also had the financial backing of Blackstone Real Estate Advisors, a \$6.8 billion New York-based property investment group.

Since going into business for themselves nearly four years ago, McCarthy and Cook have worked several deals with Blackstone, which typically takes a lead equity position but lets local partners plan and supervise projects in Southern California.

"They are young, aggressive and very disciplined," says John Kukral, senior managing director at Blackstone. "And they like to put their own money on the line to keep their level of commitment high."

A little more than a year ago, the trio joined forces. With plans to spend another \$140 million for a combined \$235 million investment, they are working to build a new mixed-use low-rise campus development, Metro Center at South Coast.

"This is an opportunity to redevelop, re-entitle and create a new master plan," says Cook. "We see this as a redevelopment project that can be tied to South Coast Plaza and a wealth of other amenities sitting right next door."

Cook, 35 and McCarthy, 44, began their careers as entrepreneurs after deciding in 1995 to leave positions with **Maguire Thomas Partners**, a Los Angeles-based development company.

Cook was a vice president overseeing large projects while McCarthy was senior vice president of finance. Confident that the Southern California real estate market was on the verge of recovery from a severe recession, they decided to break away and form their own investment company.

"It's never been about building an empire with us," says McCarthy. "It's about enjoying what you do and whom you work with."

Last year, the developers made headlines by completing a reorganization of Wilshire Courtyard at 5700 and 5750 Wilshire Blvd. in Los Angeles. The property, consisting of two mid-rise buildings and a total of 1 million square feet, had accumulated \$365 million in mortgage debt.

"It was the largest single asset bankruptcy in Los Angeles County history and it took us 15 months to battle through the (U.S.) Bankruptcy Court to wind up with ownership," says McCarthy.

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W. Toliver Morris, leasing manager for McCarthy Cook & Co. at Metro Center at South Coast, recalls listening to brokers and developers in the area wondering what was going to happen. He believes the trouble started when California Federal Bank negotiated a lease from the building's previous owners of 500,000 square feet at below-market prices.

"CalFed wound up going through a series of layoffs, which put them in a position of having to vacate quite a bit of space." Says Morris. "That left a lot of negative absorption in the building." Although some of it was subleased, CalFed was filling Wilshire Courtyard with tenants paying low rates.

With almost half the space vacant, McCarthy and Cook saw an opportunity to cut deals that would benefit all involved.

"They basically bought the debt at a discount and made a deal with J.H. Snyder Co. the original developer, and the pension fund advisor that was also involved in the buildings," says Anton Natsis, a friend of both and an attorney with **Allen, Matkins, Leck Gamble & Mallory**.

McCarthy and Cook also worked out an agreement with CalFed to terminate its lease.

Today, Wilshire Courtyard is 96% occupied and stands as one of McCarthy Cook & Co.'s biggest success stories.

"It's probably worth twice as much as the day they closed on the property," says Natsis. "That deal brought them a lot of recognition."

Another high-profile development has been China Basin Landing in San Francisco. The 728,000 square feet of converted warehouse space was purchased in late 1997.

McCarthy and Cook say they saw signs the area surrounding the property was becoming a hotbed for technology companies. So they set about redeveloping the buildings, outfitting the remodeled space with equipment and floor plans catering to a specific segment of the high-tech market – telecommunications providers.

"Their timing was impeccable," says Frank Wheeler, senior vice president of **Colliers International** in San Francisco who brokers deals near China Basin Landing. "They bought into the buildings just as the market was declining. Since then, rents in that submarket have almost tripled." Tenants now leasing major portions of China Basin Landing include **MCI, Microsoft, Sprint** and **Quest**.

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