

Commercial RE investors eye what breaks off from Rreef

January 6, 2012

By Mary Ann Azevedo



Rreef sold Walsh@Bowers to Divco-West for about \$38.4 million.

Rreef Real Estate unloaded seven Silicon Valley properties totaling more than 1.09 million square feet in 2011.

Those sales from the behemoth real estate investment trust signaled opportunity, and a number of developers including San Francisco-based DivcoWest and Palo Alto-based Menlo Equities capitalized on Rreef's decision.

Whether Rreef continues its selling spree in 2012 is up in the air, but no doubt developers and investors alike are paying close attention to what's next considering Rreef still owns more than 5 million square feet of commercial property in Santa Clara County and about 14 million square feet of commercial and residential property in the Bay Area as a whole.

Some of that attention will be on parent company Deutsche Bank, which announced in the fourth quarter of 2011 that it was conducting a "strategic review" of its global asset management portfolio. This includes its \$60 billion Rreef business.

John Sobrato, chairman of The Sobrato Organization, believes Rreef's flurry of sales could have been motivated by external forces. "I imagine that Deutsche Bank is being told by German banking authorities to increase its cash reserves because of the need to prop up the other Euro countries that can't repay their debt," he said.

But Mayura Hooper, a spokeswoman for Deutsche Bank, said the Rreef asset divestiture in 2011 is not related to the bank's decision to reevaluate its global asset management division.

"One has nothing to do with the other," she said.

The company insists the decision to potentially sell the unit is being driven by "how recent regulatory changes and associated costs and changes in the competitive landscape are impacting the business and its growth prospects on a bank platform."

"We don't know what the outcome is going to be or when a decision will be made," Hooper said. "It's too early in the process."

Hooper also emphasized that Rreef is bullish on Silicon Valley. She points out that Rreef earlier this year demonstrated its commitment to the region in its reported \$200 million purchase of the former Sun Microsystems 1-million-square-foot campus in Menlo Park from Oracle Corp. The property was ultimately leased to social network giant Facebook Inc. for \$12 a square foot with Facebook responsible for tenant improvements and all operational expenses such as taxes, insurance, maintenance, repairs and utilities.

Rebalancing the books

Industry observers speculate that Rreef may just be rebalancing its portfolio to take some assets off its books. The money manager in 2006 paid \$1.1 billion to acquire a 5.3-million-square-foot portfolio from Peery-

Arrillaga. The deal was described at the time as the largest collection of commercial properties ever to change hands in the region.

The 119-building portfolio consisted of properties throughout Mountain View, Sunnyvale, Santa Clara, Milpitas and San Jose.

Some industry insiders suggest Rreef might see it as a good time to take some money off the table in the face of growing uncertainty as to whether Silicon Valley can continue to buck larger economic trends.

In December 2011 alone, Rreef shed two major pieces of that portfolio--: 251,000 square feet of low-rise office and R&D buildings near the corner of Walsh and Bowers avenues in Santa Clara to DivcoWest for \$38.4 million, and 135,000 square feet of office buildings at 3250, 3260 and 3270 Jay St. in Santa Clara to Minnesota-based Eagle Ridge Development Corp. for a reported \$20.5 million.

At that time, DivCo said it planned to sell two of the five buildings that make up the property, which was about 68 percent leased at the time of closing. It also is planning extensive tenant improvements on the unleashed property.

Cassidy Turley's Eric Fox, who co-represented Rreef in both transactions, said both buyers appear to be "trying to capitalize on the momentum in the Silicon Valley leasing market."

"They will probably do capital upgrades in an effort to capture some higher rents," Fox said.

Silicon Valley properties sold off by Rreef in 2011

The company sold a total of seven properties totaling more than 1.09 million square feet.

Walsh@Bowers

2424 Walsh Ave., Santa Clara

Square feet: 251,061

Price: About \$38.4M, or \$153/sq ft

Buyer: DivcoWest Properties

3101 Scott Blvd., Santa Clara

Square feet: 371,106 – Office

Price: About \$26.4M, or \$71/sq ft

Buyer: Applied Materials

3250 Jay St., Santa Clara

Square feet: 135,000 – Office

Price: About \$20.5M, or \$152/sq ft

Buyer: Eagle Ridge Partners

Great America Parkway A-C

5150 Great America Pkwy, Santa Clara

Square feet: 98,290 – Office

Price: \$16.3M, or \$165/sq ft

Buyer: Menlo Equities

640 Clyde Court, Mountain View

Square feet: 39,703 - Industrial

Price: \$6.6M, or \$165/sq ft

Buyer: Huettig & Schromm Inc.

435 Indio Way, Sunnyvale

Square feet: 173,697 - Industrial

Price: About \$4.6M, or \$145/sq ft

Buyer: Huettig & Schromm Inc.

285 N. Wolfe Road, Sunnyvale

Square feet: 19,515 - Industrial

Price: About \$2.5M, or \$128/sq ft

Buyer: Pacific View Investments LLC

Source: Real Capital Analytics