

Deutsche Backs Blackstone Office Purchase

Deutsche Bank has agreed to lead more than \$800 million of debt to help finance Blackstone's acquisition of a West Coast office portfolio from a Hines affiliate.

The fund operator is buying seven properties in California and Washington, totaling 3 million square feet, for \$1.16 billion. Deutsche would originate two floating-rate mortgages — one backed by the largest property and the other by four assets. Blackstone's plans for the remaining two properties are unknown.

JLL is helping line up the debt for Blackstone, which was seeking two-year terms with three single-year extension options. Eastdil Secured is advising the seller, Hines REIT, which is liquidating its holdings.

Deutsche is now in the market looking to sell down pieces of the debt to other banks. The amount it wants to syndicate couldn't be learned.

The larger mortgage, for \$482 million, would be on the 1.4 million-sf Howard Hughes Center, at 6060-6701 Center Drive in Los Angeles. There would be a senior loan of \$372 million, including a \$17 million future-funding component, and a mezzanine note of \$110 million. The coupon on the senior portion would be 270 bp over one-month Libor. The initial debt yield is about 7.7%.

The other debt package, amounting to \$323.4 million, would be backed by the adjacent Daytona and Laguna office campuses in Redmond, Wash., totaling 712,000 sf, plus a property at 2100 Powell Street in Emeryville, Calif. (346,000 sf), and the Fifth and Bell Building, at 2301 Fifth Avenue in Seattle (197,000 sf).

That mortgage would consist of \$290.8 million of senior debt, with \$12.1 million reserved as future funding, plus a \$32.6 million mezzanine slice. The senior note is priced at 250 bp, and the debt yield is about 9.1%.

Howard Hughes Center is 82% occupied, leaving some leasing upside for Blackstone. The Seattle building and the Redmond complexes are fully occupied, and the Emeryville building is 91% leased.

Blackstone's deal with Hines REIT also includes a 267,000-sf complex at 1900 and 2000 Alameda de las Pulgas in San Mateo, Calif., and a 156,000-sf property at 2851 Junction Avenue in San Jose. Those fully leased properties aren't included in the collateral for the Deutsche loans.

Blackstone is buying the portfolio via its \$15.9 billion Blackstone Real Estate Partners 8 fund. Hines, a Houston investment shop, established Hines REIT in 2003. As of the first quarter this year, it held 27 office properties encompassing 11.3 million sf, with an estimated value of \$2.5 billion. The REIT announced in June it would sell off its holdings, and since then has reached sales agreements for a number of properties.