

Real estate deals

Oakland/Inner East Bay Office sale: Kaiser Center

Summit spruces up office complex to reveal hidden gem

San Francisco Business Times - March 24, 2006 by [Ryan Tate](#)

Sometimes you have to spend money to make money.

Summit Commercial Properties illustrated that point perfectly with its strategy at Kaiser Center.

The scrappy El Segundo-based company first starting shelling out big bucks when it spent \$100 million to acquire the 900,000-square-foot Lake Merritt office complex in 2003. The price looked like a bargain -- except for the fact that Kaiser Center was 40 percent empty and tied up in the messy bankruptcy proceedings of Kaiser Aluminum Corp.

Summit president Jack Mahoney saw an obvious gem, a slender flagship building whose glass facade arches out toward the waterfront. The complex also includes an acclaimed rooftop garden. The company invested in a renovation that installed sprinklers, deep-cleaned the outside of the structure and replaced the boilers.

It also invested in attracting the right tenants. Immediately after acquiring Kaiser Center, Summit signed the Bay Area Rapid Transit District to a 10-year lease at \$22 per square foot, below prevailing rents -- with 18 months of free rent and \$2 million in moving costs.

Summit also cut a large deal with Kaiser Foundation Health Plan. Other blue-chip tenants in the building include the University of California Office of the President and California Bank and Trust.

Summit offered such tenants 25 to 30 percent discounts off prevailing rents, according to Mahoney. It did so on the gamble that big investment funds like pensions and publicly traded real estate trusts would keep jacking up the price they were willing to pay for office buildings like Kaiser Center -- as long as they were full.

The big funds did just that, regularly upping the price they paid for commercial real estate throughout 2004. They did so because they could not get much income buying traditional investments like U.S. treasury bonds or stocks. Instead, the funds sought out income-producing property, including commercial real estate.

In March 2005, Kaiser Center was 95 percent occupied -- as full as the downtown Oakland market that surrounds the complex -- and put up for sale. By the following month, Summit had the makings of a deal with San Francisco-based Swig Co. to sell the building for close to twice what it paid, around \$200 million.

Swig Co., a 70-year-old veteran of commercial real estate, was looking to refocus its holdings on office real estate in key markets like the Bay Area.

Swig edged out a crowd of other bidders, partly by asking the right questions.

"One reason why we did so well with the Kaiser Center property is we understand building operations," Swig CEO Jeanne Myerson said. "We spent a lot of time talking to the sellers, and they realized we knew what the hell we were looking at."

Myerson said when Summit received the offer, they realized "these are buyers who can perform."

However high Swig's \$220-per-square foot purchase price may have seemed at the time, it was

quickly forgotten when neighbor Lake Merritt Plaza went for close to \$310 per square foot just eight months later.

Ryan Tate covers East Bay real estate for the San Francisco Business Times.

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Best Office Lease/Oakland

Winner: BART relocation to Kaiser Center

BART arrives at Kaiser Center after grueling search for the right space

San Francisco Business Times - March 26, 2004 by [Ryan Tate](#)

Three years ago, the Bay Area Rapid Transit District offices were spread over half a dozen locations, where frustrated employees tried to run one of the nation's most sophisticated urban rail systems without the benefit of modern computer networks.

Now, BART administrators are in the process of consolidating five of those offices into newly renovated digs on eight floors of the Kaiser Center, where they will enjoy a year and a half of free rent, \$2 million in moving costs, free IT infrastructure and a two-block commute to the 19th Street BART station in downtown Oakland.

And all it took to make it happen were months of the equivalent of grinding, block-by-block guerrilla warfare.

"'Hell' would be a nice word for it," said Bruce Wilson of CAC Group, BART's broker on the deal. "It was one of the longest, most drawn-out processes I have been involved in."

Wilson emphasized that his dealings with BART were "wonderful." But the road to the deal was paved with programmatic studies, public meetings and political pressure from what Wilson describes as "a lot of big-name people." To placate the bigwigs, BART and Wilson ended up touring every single building or proposed building offered up to meet their needs -- a lengthy roll call that seemed to Wilson include nearly every structure in the city.

"It was getting comical almost," Wilson said.

Looking at the Kaiser building was especially complicated, as it was not available when the process began. The owner, Kaiser Aluminum Corp., was bankrupt and trying to retain the structure. Then, in early 2003, Summit Commercial acquired the structure from Kaiser and its co-owners. BART reviewed its programmatic studies and decided to pursue a deal.

BART was in a strong negotiating position. Office rents were off from their 2000 peak, which was part of the reason the transit agency had gone shopping for space in the first place. Also, BART is a "credit," or reliable, tenant. Finally, it was looking for a long-term deal.

The Kaiser deal ended up stretching for 10 years and being worth more than \$40 million. BART retains its headquarters at 800 Madison St. in Oakland for operations and some other functions but will move about 400 workers into the new offices over the next few months, BART spokesman Mike Healy said.

Ryan Tate covers East Bay real estate and economic development.

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Best Office Sale/East Bay

Winner: Kaiser Center, Oakland

Summit revives 1960s dream with \$100M buy

San Francisco Business Times - March 26, 2004 by [Steve Ginsberg](#)

In 1960, industrialist Henry Kaiser's office project was state-of-the-art. In 2003, it was at the center of an artfully complex deal.

Southern California-based Summit Commercial Properties Inc. rescued Kaiser's once-futuristic dream from bankruptcy with a \$100 million acquisition -- a mere \$100 a square foot. The low price attests to how high a risk the project near Oakland's Lake Merritt had become.

Just one other bidder, Alameda's SRM Associates, went after Kaiser Center, whose vacancy was around 40 percent at the time of the negotiations and court proceedings. It will likely take another five years to truly assess how good or bad a deal Summit made, but the scope of it was audacious, considering how much effort went into the deal and how much effort is needed to recapture the building's prestige.

Summit was willing to invest the time and money to sift through Kaiser Center's complicated ownership structure and convince a bankruptcy court it could buy out its various interests, including Kaiser Aluminum Corp. and Newkirk Kalan L.P.

Kaiser received around \$65 million in the deal. The remaining \$35 million of the deal's \$100 million went to other ownership entities, allowing Summit complete ownership.

Summit's gamble reflects confidence in Oakland's eventual renaissance. The city's real estate rebirth has been in start-stop mode the last five years, reflecting Mayor Jerry Brown's positive impact as well as the commercial real estate market's rise and fall.

During Summit's negotiations, the Bay Area Rapid Transit District was considering space in Kaiser Center. Only after Summit closed the deal did it sign a lease for 10 years, absorbing 203,000 square feet. That lease, at \$22 per square foot, is considered below market by Oakland brokers. But it reduced the vacancy to a manageable 15 percent, giving Summit's leasing team momentum. Cushman and Wakefield is managing and leasing the property.

The 1-million-square-foot development also needed an extensive remodel, which is now underway. The acquisition encompassed the 28-story, 766,000-square-foot office tower, a 1,500-space parking garage and 130,000 square feet of retail space. Summit also bought 1.5 million square feet of entitlements and has the potential to add another office tower.

Summit's President, Jack Mahoney, considers Kaiser Center a "timeless classic." It has features that a new downtown office building would not include: Atop the structure sits what at one time was the world's largest rooftop garden. From a technology standpoint, Kaiser Center was avant garde for its day. Instead of asbestos, the building is lined with a crushed oyster shell conglomerate.

Still, it's partially a monument to what might have been. Henry Kaiser originally hoped to build 6 million square feet but never was able to phase in his grandiose plans.

Steve Ginsberg is a contributor to the San Francisco Business Times.

EAST BAY BUSINESS TIMES

BUSINESS PULSE SURVEY: [How many baseball games will you attend in the coming season, and why?](#)

Complex sale just the start for Kaiser Center

East Bay Business Times - April 11, 2003 by [Katherine Conrad](#)

Walking into the Kaiser Center after engineering the purchase of the Oakland skyscraper, Jack Mahoney was amazed to find the fountain in the lobby was dry.

"It's this phenomenal fountain and it's not working," said Mahoney, president of Summit Commercial Properties, the new owner of the 28-floor, 1-million-square-foot center on Lake Merritt.

It's working now - the first step of what's in store for the modern structure designed by architect Welton Becket and built in 1960 for industrial and health care tycoon Henry J. Kaise to serve as both his home - a penthouse once graced the 28th floor - and the headquarters for Kaiser Aluminum Corp.

In one of the biggest and easily most complicated deals in the East Bay's recent history, Summit Commercial Properties of El Segundo bought the landmark structure last month for \$100 million after spending a year unraveling the intricate ownership structure.

Now that the building has been secured, Summit plans to spend another \$30 million sprucing up the place while developing a master plan to determine how to handle the 1.5 million square feet of entitlements that came with the property.

"The first stage will be very quick where we get everything cleaned up, polished up and painted. The next step is developing the retail," he said. "I think this is a great project; it will amaze people how quickly we'll lease it up."

Ken White, senior vice president of Summit, believes the entitlements - whether they become housing, office, retail or a mixture of all three - offer a great opportunity for development because of the location.

"We have 1 million square feet of entitlements. We can bring downtown to life," he said.

While Mahoney is thrilled to finally own Kaiser Center, there were periods during the past year when he almost walked away. At first attracted to the deal because of Kaiser's bankruptcy filing last year, he began to regret his initial interest as he watched his company risk hundreds of thousands of dollars just for the right to bid on the property.

"Many, many times, I thought, 'This is not worth it.' It's a very scary adventure, it costs so much to get to the point to where you have an agreement with Kaiser," he said. "You had every chance to lose several million dollars and have nothing to show for it just because Kaiser is in bankruptcy."

Summit stuck with the property because even though more than 30 percent of its space is vacant, or will be when IBM Corp. leaves later this spring, "very big tenants" are touring the building, Mahoney said.

"Oakland is an opportunistic environment for an investor," Mahoney said. "You've got a recovering market in a big sense."

Bankruptcy was only one issue that complicated the transaction. The other issue involved ownership and it took a year, a roomful of lawyers and a pile of documents 2 feet thick to determine who owned what and how much. Of the total paid for the building, \$65 million went to Kaiser, or its creditors, and \$35 million went to the other owners.

"You had to buy what Kaiser owned and be able to finance it for \$65 million. It's not everybody who can come up with that financing to buy something you can barely describe to someone," Mahoney said.

Timothy Williams, a lawyer with Wendel, Rosen, Black & Dean LLP of Oakland, said this transaction was one of the most unique he has seen in his 20 years of working in real estate.

"I don't know how we would have done it five or 10 years ago without e-mail," said Williams, who represented Summit. "Kaiser had been trying to market the property for some time before Summit became involved. Because of the unusual nature and complexity of the transaction, it was difficult for a potential buyer to understand and get comfortable with."

To put it as simply as possible: Kaiser owned the ground on which 300 Lakeside Drive sits and Newkirk-Kallan, a business partnership created in 1983, owned the building and 1,500-space garage. Newkirk-Kallan leased the property back to Kaiser through Alwis Leasing LLC. So Kaiser sublet some of the space and was the sublessor for the remainder of the building.

"It was designed to be complicated, because it was designed to maximize the tax shelter for the people investing on the Kallan side," Mahoney said. "When Kaiser Aluminum declared bankruptcy in February 2002, it created an opportunity to disassemble the whole thing."

Not to mention the opportunity to spend \$700,000 to determine whether Summit should buy the property at all. Another indication of the difficulty of the deal occurred when Summit was the sole bidder for the property in a market that has plenty of buyers and too few properties for sale.

"When we first looked at this structure in spring of 2002, we thought it was too complicated," Mahoney said. "We never thought we'd buy it. It became a challenge for John Long and Ken White and me just to understand it and see if it we could value it."

The way Mahoney explains it, Summit, a 25-year-old company, enjoys the challenge.

"I use the analogy of the intensive care unit. This has to do with who we are. We specialize and focus on very complex, difficult challenging transactions," he said. "We fix the problem - cure the patient so to speak. And when it's cured, we don't own it anymore. We give it to somebody else."

Before the deal was signed, however, another issue arose - the war in Iraq.

"When the World Trade Center occurred, the market stopped for week or two, and everybody wondered whether the war would have the same effect," Mahoney said.

It did not and Summit was able to buy the property.

Mahoney happily touts the building's many advantages including proximity to BART and Lake Merritt; a curved, sleek facade and an astounding 19 elevators to serve the 28 floors (because Kaiser didn't want anyone to wait for an elevator). The building also features floor-to-ceiling windows that offer panoramic views.

One of the views is of the 3.5-acre rooftop garden on top of the parking garage that was created for Kaiser because he couldn't bear to look out his window and see the parking structure. "He said, 'I can't look at that,' and the garden was built with a pond in the shape of Lake Merritt," Mahoney said.

For marketing, Summit hired Cushman & Wakefield, led by broker Sam Swan, to provide leasing and management services.

"I love the market and I really think the building is a masterpiece. It's been owned by an aluminum and chemical company for a long time. They can't even see what it is," Mahoney said. "What we see is a masterpiece that Becket created."

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