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November 9, 2009

360,000-SF Sale Highlights Local Plays

By Amy Wolff Sorter

DALLAS-The fact that the 359,172-square-foot Heritage I & II was bought from receivership is interesting in and of itself. The fact that local player Silver Tree Partners ended up with the two-building, class B office asset over national bidders also sheds light on the trend of local and regional buyers queuing up to take on distressed assets.

John Alvarado, managing director with Jones Lang LaSalle's Dallas office tells GlobeSt.com that downturns historically end up spotlighting the local and regional folks as quality buyers. "They're uniquely qualified, they understand the market well, and typically see the bottom and understand where it is," explains Alvarado, who led the team representing special servicer KeyBank Real Estate Capital and controlling-class debt holder Guggenheim Real Estate in the Heritage Square transaction. Once that bottom is established, he continues, the national players come in.

Gary Carr, executive vice president with CB Richard Ellis' Dallas office agrees, adding that institutional sellers, in looking for investors with the lowest risk when it comes to execution, may end up doing well searching out the regional and local buyers. "This very true with value-add properties, which is what Heritage Square was," says Carr, who was not involved in the Heritage Square transaction. "It wasn't stabilized, therefore, someone with a local perspective that maybe has relationships with the tenants and a better feel for the local market was a logical choice."

Heritage Square, built between 1970 and 1980 and renovated between 2003 and 2009 had been owned by Carlyle Heritage LP before falling into receivership earlier in the year. The asset at 4835 LBJ Freeway and 5001 LBJ Freeway was 70% occupied at the time of closing. Buyer Silver Tree, located in Addison, TX, a suburb of Dallas, had a thorough understanding of the property, which included difficult ingress and egress to the buildings, something the new owner plans to change.

Knowledge of small, but important things like traffic patterns and tenant mix should give the local buyers the advantage over their national counterparts. But sellers don't always look at it that way. Sellers, especially institutional sellers and national lenders, might prefer dealing with institutional buyers with which they feel more comfortable. As a result, "the private guy might miss out when he should be taken more seriously as the buyer," Carr tells GlobeSt.com.

Alvarado explains that Silver Tree Partners was up against both national and local buyers during the bid process. The Addison, TX-based company won the day for several reasons; it had the most competitive bid in terms of price and terms and the principals weren't completely unknown to Alvarado's team. Furthermore, the seller knew the company by reputation.

Silver Tree Partners president Paul Gardner tells GlobeSt.com that the bidding process came down to three finalists; Silver Tree Partners and two national bidders. Gardner says having a discussion with the sellers helped a great deal when it came to raising the comfort level. "When we sat down with them and assured them we had the wherewithal to get the job done, that's what I think convinced them," Gardner remarks.

Alvarado says being local can only take a potential buyer so far. "Being a local investor in and of itself isn't the mark to use to win," Alvarado says. "You still have to be competitively priced, and you have to do a good job of promoting yourself through references, relationship-building and transparency about your processes if you're not as well-known