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# Carving up the Hancock

Sold off in parts, the Michigan Avenue tower is likely to top its 2007 peak in value

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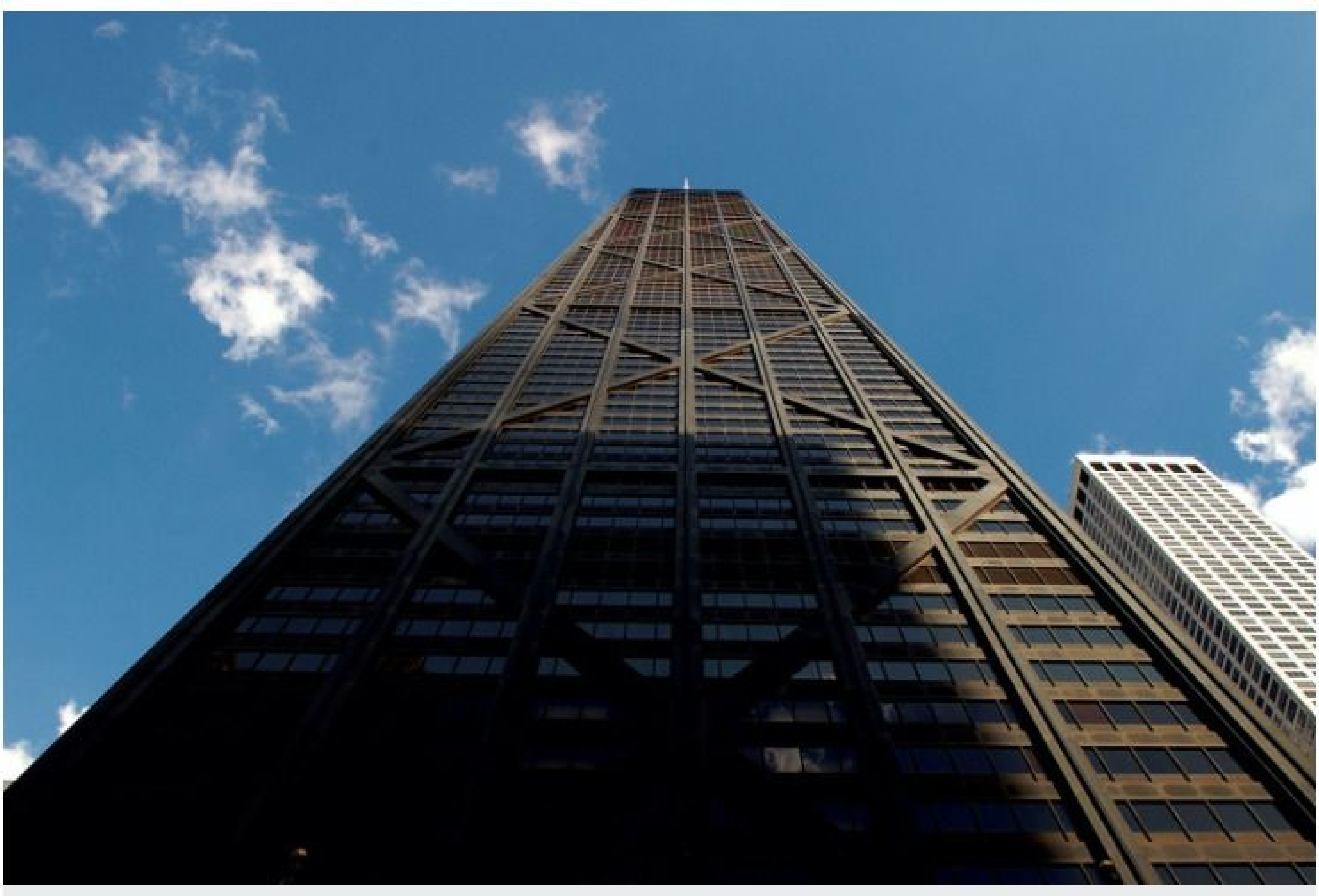

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The run-up in Hancock's value suggests real estate investors increasingly prefer buying single-type properties.

Cutting up the John Hancock Center into pieces is boosting the value of the architectural gem to roughly $410 million, topping the price paid at the peak of the commercial real estate market six years ago.

A venture led by Deutsche Bank AG gained control of the Magnificent Mile skyscraper about a year ago after the previous owner defaulted on the debt. Now the German banking giant is poised to sell off the Hancock's office space and parking deck for $145 million, according to people familiar with the transaction.

The buyer is a group that includes San Antonio-based developer Lynd Co. and New York-based investment firm Mount Kellett Capital Management L.P., those sources say.

Since June, Deutsche Bank has sold the retail and restaurant space, the observatory and broadcast antennas, in transactions totaling $256 million. The sale of the 856,000-square-foot office space and 700-car parking deck would push the total value past $383 million, which a venture led by Chicago-based developer Golub & Co. paid in 2007 for the 100-story structure.

The sales are another sign of the rebound in commercial real estate. To maximize the value of the building, Deutsche Bank is executing a strategy common in the corporate sector, where private-equity firms often break up a company after a leveraged buyout. Deutsche Bank is aiming at the large pool of buyers at lower price points, compared to the handful of heavyweights ready to fork over more than $400 million, even for one of the nation's best-known skyscrapers. An increase in potential buyers helps drive up prices.

Bidding up Hancock's value also demonstrates how real estate investors increasingly prefer buying single-type properties, rather than mixed-use conglomerations, much like their counterparts in the stock market.


Shorenstein Properties LLC considered dividing up the Hancock before selling it the Golub venture.

"When we were talking about it, people looked at us like we had two heads," says John Grassi, a former executive of the San Francisco-based firm and now president of Spear Street Capital LLC, a San Francisco-based real estate investment firm. "There were a number of elements that people didn't recognize or appreciate as a source of revenue."

Frankfurt-based Deutsche Bank and New York-based NorthStar Realty Finance Corp. paid an estimated $325 million for the debt, a steep discount from the $400 million that was owed. Now, they are in a position to make a hefty 26 percent gain. Representatives of Deutsche Bank and NorthStar did not return calls requesting comment.

An executive of Golub, which joined with a Goldman Sachs & Co. real estate fund on the Hancock purchase, did not return calls requesting comment.

Mount Kellett, which manages about $7 billion, was founded by former Goldman Sachs executives. Lynd is better known for apartment projects, such as the 29-story tower at 161 W. Kinzie St. in River North, which it sold last year for $120 million.

A Lynd executive did not return a call requesting comment. A Mount Kellett spokesman and an executive in the Chicago office of Los Angeles-based real estate firm CBRE Inc., which is brokering the sale, decline to comment.

The Hancock sale could prompt the owners of Willis Tower, 233 S. Wacker Drive, to follow a similar plan.

Willis' owners pulled the 110-story skyscraper from the market last year after bids failed to reach the $1.5 billion they sought.

"The office, observatory and antenna pieces in that building would probably be attractive to separate investors as well," says Bruce Miller, a managing director at Chicago-based Jones Lang LaSalle Inc. who is not involved in the Hancock sale.

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