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Headline Winner – Office Sale/San Francisco – 1275 Market Street

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TMG and DivcoWest bought 1275 Market for \$44 million and sold it for \$109 million.

Winner Location: 1275 Market St., San Francisco

Size: 354,244 rentable square feet

Price: \$109.8 million

Buyer: Dolby Laboratories. Seller: DivcoWest and TMG Partners

Brokers: Christopher Allen and Stephen Koch of Resource Real Estate Group and Gary Arabian, Bill Cumbelich and Michael Iino of the CAC Group represented the buyer. Tom Poggi of the CAC Group represented the seller

Law firms: Wilson Sonsini Goodrich & Rosati represented the buyer. Gibson Dunn represented the seller.

When DivcoWest and TMG Partners acquired the vacant 1275 Market St. in October 2011, the firms planned to do their usual — fix it up, lease it out and resell it one day.

But what the San Francisco-based real estate investment firms didn't expect was that the 16-story building would sell to [Dolby Laboratories Inc.](#) in less than one year — for \$109.8 million — more than double the \$44 million they paid for it.

The pioneering audio company was looking for new headquarters and the buy followed similar moves by [Twitter Inc.](#) and [Yammer Inc.](#) to San Francisco's bustling Mid-Market area.

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[Matt Field](#), managing director of TMG Partners, affirmed it was always the partners' goal to reposition the 354,000-square-foot property and turn it into an institutional asset. But at the time of the buy, it wasn't yet up for sale.

The 354,000-square-foot building was formerly owned and occupied by the State Compensation Insurance Fund. DivcoWest Properties/TMG closed on the property in October 2011 and was working on a lease transaction with the City of San Francisco for the building. When that transaction did not occur, it opened an opportunity for Dolby Labs to acquire the building, noted the CAC Group principal [Tom Poggi](#), who represented DivcoWest. At that point, the partners had begun the process of revamping the lobby, modernizing the elevator, and performing a seismic upgrade of the property.

Indeed, the location was so ideal that Dolby purchased the building despite not receiving financial incentives from the city. (The building lies just outside the area where companies such as Twitter are eligible for a temporary exemption from the city's payroll tax.)

[Gary Arabian](#), principal of the CAC Group, was part of a separate team including [Bill Cumbelich](#) and [Michael Iino](#) that had been working with Dolby since the end of 2009 to find a building for the company's corporate headquarters.

"They wanted a location close to public transportation with a certain size floor plate and large enough size to accommodate their long-term growth," Arabian said. "1275 started making sense because it was one of the few buildings that could meet all those criteria. That's when we approached the owners to see if they would consider a sale."

For DivcoWest and TMG, the off-market transaction was unexpected, but welcome.

"You go into these things with a plan of what you're going to do with the asset, but the things you can't control are the market and the timing," Field said. "While we had a lot of confidence in the area when we bought it, we certainly didn't know we'd have a single user that would want the whole building quite that fast."

The company plans to finish renovating the building, but is still trying to determine whether or not it will consolidate three other San Francisco locations, including its current headquarters building at 100 Potrero Ave., into the new space, according to [Chris Allen](#), principal of the Resource Real Estate Group. Allen and fellow principal [Stephen Koch](#) served as advisers to Dolby on the deal.

"That was one of the most attractive aspects of the building," he said. "It's big enough for them to be able to do that."

According to Field, the partners were optimistic all along.

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“We were pretty confident that the intrinsic of the location, access to transit, and the evolution of the Mid-Market area was going to make for a pretty attractive proposition for someone who wanted a large block of contiguous space,” he said.