

SPENCER BROWN

Real Estate Deals *of the* Year

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EMERYSTATION EAST

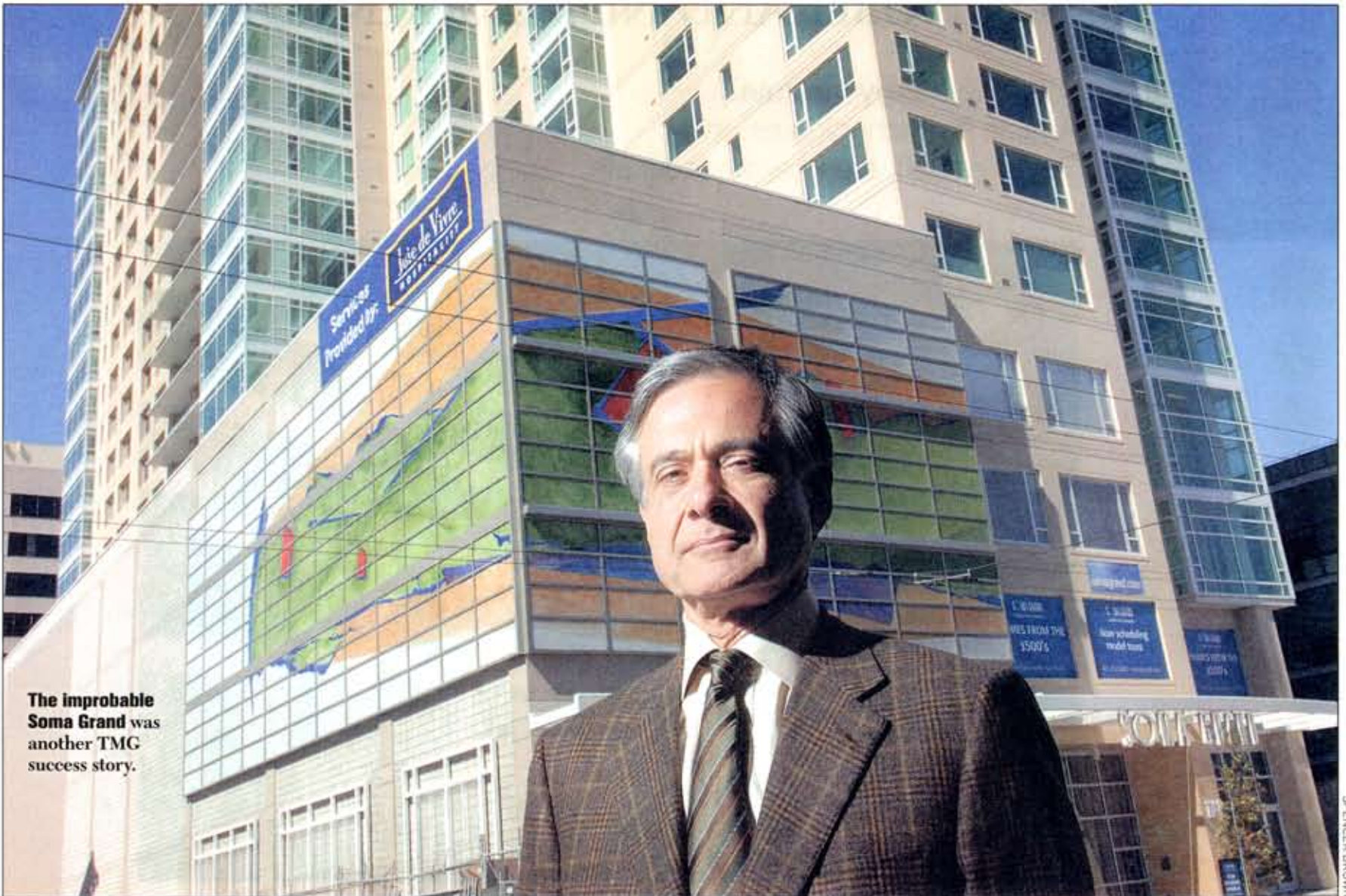
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DEALMAKER OF THE YEAR

Michael Covarrubias



The improbable Soma Grand was another TMG success story.

TMG Partners exec's earlier shopping sprees pay off big in 2007

BY J.K. DINEEN

San Francisco Business Times

When the commercial real estate market was wallowing in the doldrums in 2002 and 2003, TMG Partners CEO Michael Covarrubias was a busy man, snapping up undervalued development sites and worn out half-vacant office buildings in need of love and tenants.

At the time, with the Bay Area's economy suffering from a historic downturn in the wake of the dot-com crash, TMG's shopping spree may have seemed like a big gamble. But in 2007, those investments paid off in a big way.

TMG Partners sold five prominent properties in 2007, generating some \$564 million in revenue from 180 Montgomery St., Hawthorne Plaza and 1 South Van Ness, as well as the Bay Center Offices and Emery Bay Apartments in Emeryville. With development partner AGI Capital, it also opened the Soma Grand, an improbable 246-unit project at Seventh and Mission streets in the gritty Mid-Market, the land for which was acquired in 1999. Despite a weak housing market, half of the condo units have been sold with an average price of just under \$700 a square foot, according to research from the Mark Co.

Covarrubias, who has directed TMG since 1995, said company executives had long set their sights on

2006 and 2007 as a golden opportunity to "monetize a few transactions" — and the first half of the year proved them right.

"It was the culmination of several years of planting seeds," he said.

All in all, 2007 was a historic year for San Francisco real estate. And no single real estate executive was at the center of the action more than Covarrubias, this year's San Francisco Business Times Dealmaker of the Year.

"It was the end of the greatest boom real estate market in a long time," said Covarrubias. "It really came to an exciting, crashing halt. It was a great ride for a while."

A time of transition

But with once free-flowing credit drying up and the national housing market plummeting, the second half of 2007 was also a chance for a value-add player like TMG to tie up land in anticipation of the next upswing.

In East Palo Alto, TMG and MacFarlane Partners gobbled up five acres of land in the so-called Whiskey Gulch, which will be developed into 24,000 square feet of retail and 180,000 square feet of office space.

In addition, TMP and AGI joined forces to launch Avant Housing, a CalPERS-backed private investment company with \$100 million in equity to leverage \$400 million to invest in mixed-use housing projects. The startup has already snagged its first site, 240-260 Fifth St., a two-story concrete structure between Howard and Folsom streets.

And on Folsom Street, TMG joined forces with RREEF to buy 666 Folsom, the 450,000-square-foot former telephone company building. The building has been renamed 680 Folsom St. and TMG has tapped Skidmore Owings & Merrill to rehabilitate the 1960s-

era structure with a new glass skin, seismic upgrade, public plaza and new building systems. The building is being improved from Class B to Class A office, with asking rates over \$60 a square foot.

In addition, TMG and partner Flynn Properties bought SoMa Square from the California Academy of Sciences, a deal that included the 147,600-square-foot Burlington Coat Factory building at 899 Howard St. and the 153,100-square-foot building at 875 Howard, which the California Academy of Sciences is set to vacate completely in the fall.

Opportunities on the horizon

Covarrubias said that while the peak in 2006 and 2007 was fun, the current market, defined by uncertainty and fear, "gets the juices flowing" at TMG. Between 875 Howard St. and 680 Folsom, TMG will have a rare challenge of simultaneously leasing two empty office buildings.

"It's similar to 2002 and 2003 when you can see some value-add opportunities," he said. "We may sell one or two smaller assets this year, but for the most part we're looking forward to buying."

Land use attorney Mary Murphy said TMG benefited in 2007 from excellent leadership, strong partnerships and a willingness to consistently do things "others people would be skittish about."

"As a dealmaker, Mike can do it all and do it in a way that makes other people involved in the agreement feel good," said Murphy.

Real Estate consultant Lynn Sedway of the Sedway Group, an affiliate of CB Richard Ellis, said "TMG and Mike Covarrubias have been extremely smart at buying buildings not on everybody else's radar screen and really adding value to them."

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