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CXP Puts Dry Powder to Work with +$1 Billion in Office Purchases

By Randyl Drummer




After a quiet first half of 2017, Columbia Property Trust, Inc. (NYSE: CXP) has fired off more than $1 billion in acquisitions since the July 4 holiday including a flurry of deals for buildings in New York City and Washington, D.C. totaling $935 million, the company announced Wednesday.

In early July, Atlanta-based Columbia obtained a nearly 50% interest in an office tower at 114 Fifth Ave. in Manhattan as part of a joint venture with German insurer Allianz SE. Early Wednesday, the partnership closed a $421 million deal to buy the 10-story, 580,930-square-foot 1800 M St. NW building from PGIM in the largest office sale completed in Washington, D.C. since early 2015.

By Wednesday afternoon, Columbia had also announced the purchase of three buildings in New York City's Chelsea submarket, two adjoining office buildings totaling 281,294 square feet at 245-249 West 17th St. and the 165,670-square-foot property at 218 West 18th St., from New York REIT (NYSE: NYRT) for a combined $514 million.

The purchase of the Midtown South properties, which is not connected with the Allianz JV, increases Columbia's profile in New York City to seven properties totaling 2.6 million square feet, representing 44% of CXP's total portfolio.

Columbia President and CEO Nelson Mills said this week the purchases from New York REIT "further establish Columbia as a significant player in Manhattan's most dynamic office district."

Just a couple of weeks ago at the EisnerAmper’s Global Real Estate Leaders Summit, however, Mills characterized New York City office investment activity as slow, with tight yields and office REITs being "hammered" compared to West Coast trusts.

Mills is not alone in his assessment of the New York transaction market. At another recent conference, NYRT executives noted that the buyer pool is not as deep in recent months, particularly for larger assets, with a widening spread between asking and bidding prices.

Other analysts, however, have noted in recent days that recent transactions suggest an uptick in activity after a summer slowdown.

There's no shortage of capital seeking deals. This morning, privately held L&L Holding Co. and an institutional investor advised by J.P. Morgan Asset Management announced the formation of a $500 million partnership providing up to $4 billion in buying power to for acquisition and development in NYC. L&L is developing 425 Park Ave., the first full-block office tower to rise on the famed boulevard in half a century.

While Allianz isn't involved in the Manhattan deal, Columbia CEO Mills in late July extolled the $1.27 billion joint venture as a chance to increase CXP's market presence in core markets without the need to issue equity or raise debt.

"The value of this joint venture goes well beyond these immediate benefits," Mills said at the company's second-earnings conference call. "We now have a partner that is active in our markets, has a long-term investment focus and has a shared vision for what our strategy can deliver."

This week's purchases, rumored in local media reports for several weeks, confirm Columbia's significant capital war chest through the Allianz venture and on its own account, according to Mitch Germain, REIT analyst with JMP Securities. The deals allow the company to expand in NYC and D.C. by scooping up recently renovated properties with solid cash flows backed by long-term leases, Germain said.

Columbia's new wholly owned assets in the Big Apple have a well-regarded roster of tenants that include Red Bull, Twitter and Microsoft. The JV's acquisition of the well-leased 1800 M St. office building in the District's Golden Triangle, with the financial backing of Allianz, provides a value-add opportunity, not to mention the ability to hedge the risk of Washington's currently shaky market fundamentals, Germain added.

Moreover, the transformation of CXP's portfolio following more than $2 billion in dispositions in Houston and Cleveland since the start of 2015 is now complete, with more than 90% of the company's income now streaming from New York, D.C. and San Francisco, where the venture with Allianz owns 333 Market St. and University Circle in Palo Alto.