

Normandy, Five Mile bank \$270m profit on Boston Tower

Just 18 months after buying the iconic building, the two firms stand to realise jumbo returns in an otherwise profit-starved property investment market.

Posted - 05 Oct 2010 17:53 GMT CET
updated - 05 Oct 2010 17:54 GMT CET

Normandy Real Estate Partners and Five Mile Capital Partners are expected to realise a huge profit following the sale of the John Hancock Tower for \$930 million to Boston Properties. The partnership between the two private equity real estate managers is set to reap a roughly 13.5x equity return on its investment just 18 months after acquiring the 62-story office building out of bankruptcy.

Under the terms of the deal, the Boston REIT, which is headed by Mort Zuckerman, will assume a \$640.5 million securitised senior mortgage and pay about \$289.5 million in cash. In March 2009, the Normandy-Five Mile partnership purchased the 790-foot blue glass skyscraper in a foreclosure auction for roughly \$660 million, which comprised a bid of \$20.1 million in cash and the assumption of the same \$640.5 million loan. With the debt portion just transferring over to the new owner, it effectively generated a gross profit of about \$269.4 million for an 18-month investment.

While it is uncertain why the property warranted such a premium so soon, one major improvement by the Normandy-Five Mile partnership was made to the skyscraper's occupancy rate. In May, Bain Capital signed a 15-year lease for 208,000 square feet of space at the 1.7 million-square-foot tower, with the option to expand its occupation to 270,000 square feet before it moves in next fall. As it currently stands, the lease will increase the building's occupancy rate to 95% from about 80%.

On average, Bain reportedly will pay about \$55 per square foot over the life of the lease, down from the \$65 per square foot asking rents at its current offices at 111 Huntington Avenue, which is also owned by Boston Properties. With the acquisition of John Hancock Tower, the REIT is no longer losing its high-profile tenant.

In addition to occupancy, the Normandy-Five Mile partnership is in the process of spending about \$50 million on capital improvements to restore the trophy office to its former glory. Under the terms of the acquisition, it has agreed to complete all capital projects and tenant improvements currently underway.

Calls to Normandy and Five Mile were referred to a spokesman, who confirmed the sale but deferred further comment to Boston Properties, pending the close of the transaction. Boston Properties was unavailable for comment at press time.

© PEI Media Ltd. All rights reserved. Content on this site may not be reproduced, distributed, transmitted, displayed, published or broadcast without the prior written permission of PEI Media or in the case of third party content, the owner of that content. You may not alter or remove any trademark, copyright or other notice from copies of the content. You may download material from this site (one machine readable copy and one print copy per page) for your personal, non-commercial use only.