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DivcoWest Raises \$2B to Buy Tech Real Estate

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By Jon Peterson

San Francisco's DivcoWest has closed its third investment fund with more than \$871 million in capital raised and more than \$2 billion available for acquisitions, including debt.

Investors include some of the country's largest pension funds such as the Massachusetts Pension Reserves Investment Management Board, or Mass PRIM, with a \$50 million commitment; Ohio Police & Fire Pension Fund with a \$35 million commitment; and Teacher Retirement System of Texas, or TRS, with a \$15 million commitment.



New York City-based Greenhill & Co.'s Real Estate Capital Advisory Group was the exclusive agent for the capital raise, according to a news release from Divco.

A document presented at the October board meeting of Mass PRIM said the fund would target a gross compounded annual internal rate of return on invested capital of 14 percent to 18 percent.

The fund manager has already completed four investments for the commingled fund with a gross value in excess of \$200 million. These deals include the 251,000 square-foot Walsh@Bowers five-building portfolio in Santa Clara, which was 70 percent occupied at closing in December, and 1275 Market St. in San Francisco, the former headquarters of the California State Compensation Insurance Fund.

The 350,000 square-foot Market Street building, constructed in 1977, is within a newly created district set aside by the City and County of San Francisco for special employment-tax benefits as part of Twitter Inc.'s relocation to the neighborhood. The incentives, which don't benefit the Divco property directly, are intended to help reinvigorate the Mid-Market Street area as it approaches Van

Ness Avenue.

Investment activities for the fund will be concentrated on office and research and development buildings in U.S. technology-driven markets with a focus on the San Francisco Bay Area and Boston, where Divco also has offices. The fund sponsor plans to target distressed assets, whether in need of repositioning, redevelopment or rehabilitation or simply suffering excess vacancy, according to the Mass PRIM documents. It may also tackle new development or existing properties that need to be recapitalized.

Divco formed its first fund, Page Mill Properties, in 2001 and raised \$289 million. The second fund was Market Street Capital Partners, raised in 2006 with commitments of \$650 million.