

NET LEASE forum

From the editors of *Real Estate Forum* and *GlobeSt.com*

March 1, 2005 | Vol. 03 No. 1

INSIDER: Cyburt Hall Partners' Phil Cyburt

By Michelle Napoli

The current **Cyburt Hall Partners** is the evolution of a company started two years ago this month. While one of its original founders, Chris Ludeman, recently returned to **CB Richard Ellis** as president of its US brokerage operations, Cyburt Hall co-founders and principals Phil Cyburt and Brad Hall continue the Los Angeles-based investment firm's business. Cyburt, of course, is well-known as the former president of **Boeing Realty Corp.**, and Hall is no slacker as a former managing director with **Ernst & Young's** real estate advisory practice. Together they are looking for a variety of real estate investment opportunities, with a particular focus on user-owned real estate. A perfect example is the Motorola Diablo Campus that Cyburt Hall purchased last September with JV partner **Wilshire Capital Partners LLC** for \$32 million.

So how does a former corporate real estate executive like Phil Cyburt—with 18 years on the institutional side, including his stints at **McDonnell Douglas** and **Tishman**—make the switch to real estate investor? Talking about that as well as the company's plans for 2005, **NET LEASE forum** editor Michelle Napoli recently spoke with Cyburt:

Q: You were regarded as one of the pre-eminent corporate real estate executives during your time at Boeing. What has it been like switching from the CRE role to an entrepreneurial investor point of view?

A: Sitting down and actually doing it on your own with another partner, going out to raise capital, finding deals, closing a transaction and actually putting everything together yourself is a whole different way of doing business. Boeing afforded me the luxury to work on a lot of different projects and transactions and understand the real estate world from a much higher level—all the way from the pension fund side, to the lending side, to the development side, and the corporate real estate side and the philosophy of a big user/owner of real estate. Taking that and all the relationships I've gathered, along with the knowledge from being involved in a lot of complex



"We pay special attention to corporate or large user sales," says Cyburt Hall Partners principal Phil Cyburt

Acquisition Criteria

Geography: Focus is on Western US, though the company has been looking at some opportunities in Chicago

Returns: Opportunistic with leveraged returns in excess of 20%

Types of Transactions:

Land development, redevelopment for reuse, repositioning in tenancy

Property Sectors: All

What's new: This year the firm will add a core-plus focus to acquisitions—high-quality commercial buildings that are well located with some lease-up requirements and moderate capital expenditures.—MN

transitions, and trying to filter that down to the entrepreneurial world has been a real big transition. But in doing so, we've done very well; this past year we closed \$60 million with \$15 million equity in three major transactions in three different markets: Phoenix, Las Vegas and Denver.

Q: So what has Cyburt Hall Partners' mission been and what is your acquisition strategy and goal for 2005?

A: One of our big transitions was, we had all these great institutional relationships and people who wanted to do business with us, but the tough thing was not yet having a track record on the entrepreneurial side of buying on your own account. So we had to uncouple from our institutional flow and really get out there and make some deals. And that's what we've focused on doing: finding value-add, opportunistic-type transactions that we could buy and partner to close. At minimum there's a three-year hurdle of being out on your own, and right now we're transitioning to that hurdle by getting some deals closed, building that track record and then leveraging on it. We're at the pivotal point now where we've closed deals, we're building the track record and now we're back to where we can leverage our institutional relationships.

We're finding that we are truly players in the core-plus all the way through to opportunistic. We're seeing a lot of opportunities in the Southwest market, where we've been focused; our focus is looking at investments where we can leverage our relationships from a capital standpoint, leverage our legacy network through the brokerage industry to find deals, and be able to act as an operator in operating those properties. We've already done about 700,000 sf of transactions, and we're in the process of going under contract on a couple of additional deals—a \$15 million deal in Los Angeles, and we'll soon find out on something we're looking at in Phoenix.

Our goal in the coming year is to continue to play on the type of opportunities we've been playing—the value-add, opportunistic type properties—but also taking it to the next level. Hopefully, doing what we do best, we'll do \$100 million this year. We are also trying get in the way of some large portfolios. Having run a \$1 billion-plus development portfolio, one of the largest corporate real estate portfolios out there, and having been on the corporate real estate side, we've got a chance of doing it the right way from a real estate point of view. If you talk to most corporate real estate guys, they understand real estate but they can't quite get their corporation in the mindset of acting like an institutional portfolio manager. We were afforded the luxury at Boeing to act as institutional portfolio managers in managing risk, in managing the corporate portfolio based on their criteria. Our first three deals happened to be with large corporate or private owners that are shedding surplus properties, the first being Motorola.

Q: Tell us about that deal, a sale and partial leaseback. How was it a good fit for your company?

A: Motorola was selling a 29-acre, 400,000-sf, four-building campus in Tempe, AZ; we bought it in August of last year. Our focus is the value-add plays available in the marketplace, but we pay special attention to corporate or large-user sales. We feel that [they] benefit from our attention to their wanting a relationship, probably knowing someone at the companies that we're buying from, and having an understanding of the corporate mentality and thinking. They tend to be a little more complex. In the Motorola deal, three of the buildings were long-term leasebacks; the fourth building was a transition leaseback for one-year; and then there was surplus land. So you had core

investment, value-add with a building that we were going to get back vacant, and then land and opportunistic-type of investment. Going out to raise capital for that, to play the spectrum and then be competitive, was a little more narrowed. So we raised private equity with a few high-net worth individuals, found the debt and were able to be competitive and win that project.

We're aligned now with capital, but really the game is us being able to invest our own money, operate our company self-capitalized going forward and being to match the right capital source with the right investment opportunity. If you become captive with one of the funds or one of the players, a lot of the time their capital is not always the most efficient or competitive for the property you're trying to acquire, and you lose out on opportunities.

Q: Any other deals you can tell us about?

A: Right now we have two other deals that we're chasing; one is an income-producing property, the other is a large piece of land. The same capital source is not going to play on both of those investments. When you go into a market and close on a deal, you see other opportunities in the same market. We're trying to leverage on those opportunities as we see fit. We think Phoenix is definitely on the radar screen as a market showing a lot more stability and starting to become constrained as far as development and land. The infrastructure is pretty much completed, the demographics over the past five years have been increasing, and the market conditions are exceeding what people have expected there, so we like that market.

In Las Vegas, we bought a 200,000-sf industrial building from a large wine and alcoholic beverage distributor [along with a couple of adjacent acres]. It was completely vacant and we'll have it completely leased and sold within a 12-month period. With both the land and building, we hope to almost double our acquisition price. Las Vegas is a market where there are fewer institutional players, but you still have some big players there; it's a more difficult market to get your hands around demographically. The demographics, job growth, population and how it works is a little bit more eclectic from a much more industry-driven market like Phoenix or Denver.

We're looking to buy some additional land in the Las Vegas market and do some development. And now that we have earned our wings, so to speak, with capital sources, we're coming back to the Southern California market. It's much more competitive here, and the pricing is tighter. It's at historical highs, so you have to be very focused and very much understand where you can make your profit. Here, having the right capital source means being able to act quickly when there are opportunities. We missed out at the end of the year when we came in second on a large portfolio in Chadsworth with **Washington Mutual**. We don't lack for stretching ourselves and going after the larger, more complex properties or portfolios, but always with the understanding that we have to look day to day for properties we're going to be able to trade in and out of as we build a portfolio.

Q: What do you see ultimately being your exit strategy?

A: We take our development expertise and our financial expertise and engineer our way through these deals. You're really taking the complexities out of these deals either by way of title issues or subdivision parcel maps and then leasing up the properties or preparing them for user sales. So for the end buyer—whether it's an exchange buyer, a

user or straight-up investor buying stabilized properties—we're taking a lot of the risk out of the equation. A lot of capital out there is chasing core, core-plus properties, but as you get into the value-add there's some disparity in the pricing, and having the ability to get in and formulate a business plan and strategy and execute that strategy and then sell it at the exit before the market changes from interest rates. We understand the buyers on the other side, where we can exit these properties, and now we're formulating the business plan to get there.

Q: Do you see any new trends within the sale-leaseback market itself or more generally the corporate real estate world?

A: On the corporate real estate side, Brad and I both were transitioning out when Sarbanes-Oxley was becoming the trend, where the audit practices in corporate America have created a much tighter protocol on their accounting and financial aspects of it on their audits. I don't see corporations changing their leverage strategies; their focus is truly shedding surplus properties much more quickly. Corporations [are] more transparent in their financial structures and where things fit on their balance sheet, and disclosures are much greater on those assets. You're having to account for it in a much greater fashion. If it truly is surplus and there's maybe a contingent liability, it's having a greater impact and greater drag on corporations, so the velocity with which they have to get rid of these assets is greater. So again on the entrepreneurial side, if you're watching and trying to basically capitalize on those opportunities, there's a great business plan that runs parallel. That's one thing driving corporations today.

Secondly, there's some leverage going on in regards to corporations understanding how they're actually financing out their risk and business obsolescence. They're looking forward and asking, 'is this something we're going to be in long term, maybe not this size but half this size, can we change the risk profile of this asset going forward?' The sale-leasebacks, for the people who do them, will continue, more for the tech and new economy type corporations. The trend of surety of close versus the highest price is definitely much more talked about these days. The spreads are narrowing with regards to interest rates and cap rates; that compression continues and will continue this year, so it's a tough year to buy more stabilized properties. From our standpoint, though, looking to the value-add is where we're looking to harvest opportunities. As interest rates change and the pricing starts to change, there will be opportunities. I'm seeing much more property go under contract and then fall out. Hanging around the hoop is one of the philosophies that we're playing by.