

LaSalle Investment pays \$115M for Montague Park campus

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Defying the prevailing credit crunch, another large low-rise office/R&D campus along the Golden Triangle's North First Street spine has sold at a hefty price.

Chicago's **LaSalle Investment Management**, an institutional investment fund, bought the five two-story buildings at Montague Park complex for an estimated \$115 million.

It's the third time the 417,500-square-foot business park has traded hands in 30 months -- with the price appreciating substantially at each sale.

The complex, completed in the late 1980s, is bounded by the Montague Expressway and Junction Avenue to the east-west and Zanker Road and E. Plumeria Drive to the north and south.

Overall, the park is 76 percent leased, with **Ultratech Inc.** and **Pillar Data Systems** among the larger tenants. One 86,600-square-foot building at 411 Plumeria is vacant.

Slowed leasing activity here and elsewhere, and concerns about a generally receding economy, haven't stopped well-heeled investment groups from ponying up for strategically located Silicon Valley commercial properties. Cash-flush buyers such as institutional investment funds remain active, oftentimes tapping the debt markets for modest leverage.

LaSalle Investment Management has more than \$50 billion worth of real estate-related assets under management. In acquiring Montague Park its fund borrowed \$77 million, or two-thirds of the purchase price, from Union Labor Life Insurance Co (ULLICO). The capital markets group at affiliated property services firm **Jones Lang LaSalle** arranged the five-year financing from ULLICO. Jones Lang LaSalle is now managing the property and **CB Richard Ellis** has the leasing assignment.

Eastdil Secured brokered the sale on behalf of the seller group, a venture between San Francisco's Four Corners Properties and its capital partner Westbrook Partners. That group purchased Montague Park in the fall of 2006 for \$94 million. The previous owner, Denver-

based Amstar Group, had purchased the business park from local noteworthy Menlo Equities for \$75 million in the summer of 2005.

The city's efforts to cluster higher-density residential, retail and commercial development in the area via its Vision North San Jose plan appears to be attracting real estate investment dollars.

Publicly traded real estate investment trust Boston Properties, another deep-pocketed institutional-type buyer, recently paid \$71.5 million, or \$195 per square foot, for the nearby 367,000-square-foot complex known as North First Business Park. The REIT plans to substantially expand and improve the park as market conditions warrant.

New York investment tracker Real Capital Analytics calculates the average price paid for Silicon Valley office properties in 2007 at just over \$300 per foot. That's about 28 percent higher than the previous year's average.

The average 2007 going-in investment yield to buyers, or capitalization rate, was 6.0 percent. San Francisco, New York and Washington, DC, were the only major U.S. markets to see average cap rates drop, according to RCA's data.

However, it's also clear Silicon Valley commercial leasing activity has slowed in recent months from its previous brisk pace. The valley's overall office vacancy rate reversed course and actually rose a full percentage point to 9.7 percent in the fourth quarter, CB Richard Ellis reports. The overall amount of occupied offices declined by more than 450,000 feet during the quarter.

Landlords can be pretty confident the slowed leasing activity won't end up anything like what the valley experienced with the dot-com bust early in the decade, says John Moe, managing director with local office owner Equity Office Properties in San Mateo.

"We're not naïve about the caution flags we're seeing in the economy generally, but we're still seeing plenty of activity at quality properties," Moe says. "Fundamentally, we have a very strong market in Silicon Valley."

Brad Berton is a freelance writer based in Oregon.