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AVG Partners Buys Loan on UBS Center in Stamford, Conn., for $54.2Mln

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Commercial Real Estate Direct Staff Report

AVG Partners, which owns the UBS Center in Stamford, Conn., has purchased the defaulted CMBS loan against the 682,327-square-foot property.

The Beverly Hills, Calif., investor, which specializes in properties that are triple-net leased to their tenants, paid $54.2 million for the loan, which was securitized through LB-UBS Commercial Mortgage Trust, 2004-C1.

The loan's sale was orchestrated by Mission Capital Advisors, which declined to comment on the transaction.

The loan originally had a balance of $229.7 million and was provided in 2004 to facilitate Eaton Vance Management's $243 million purchase of the property at 677 Washington Blvd. The property was subject to a ground lease with UBS. It's not known whether that lease has been restructured. At the time, the complex was fully occupied by UBS Investment Bank under a triple-net lease that was to run through this December.

The property was constructed in 1997 and expanded four years later. It includes a 13-story office building, a three-story building occupied by daycare and fitness centers and an eight-story building that houses a 103,000-sf trading floor - the world's largest, and big enough to hold 22 full-sized basketball courts. Eaton Vance in recent years sold the property to AVG.

After the financial crisis, UBS decided that it no longer needed as much space as it was occupying at the property. So it gradually started reducing its footprint, all the while paying rent on the space it leased. Two years ago, it signed a lease for 120,000 sf at the nearby 600 Washington Blvd., which previously served as the U.S. headquarters for Royal Bank of Scotland.

Soon after, the loan, which had been amortizing on a 23.75-year schedule, was transferred to special servicer CWCapital Asset Management. Early this year, the collateral property was appraised at a value of only $44.4 million. Even though UBS' lease ran through the end of this year, its agreement allowed it to cease paying rent 14 months before its maturity.

So, it was surprising that the loan attracted such a high offer. And the buzz is that AVG wasn't the only bidder. Mission Capital took two rounds of offers and is said to have received interest from a number of local investors. Prodding them were the prospects for state and local incentives for businesses to locate in the state.

Nonetheless, the Stamford office market remains hobbled. Its overall vacancy rate is 27 percent, according to Reis Inc. The silver lining, however, is that no space is projected to come online in the coming years. So absorption, which has been negative for years, should turn around. Reis projects that the city's vacancy rate ought to improve to less than 22 percent within three years. And rents are expected to climb by more than 15 percent in that time.

Meanwhile, the CMBS trust that held the loan suffered a $100.4 million loss as a result of the sale. That's after taking into account $9.1 million of liquidation expenses.

Wells Fargo Securities, which highlighted the loss this morning in a CMBS Recon alert, noted that one other loan in the LBUBS 2004-C1 trust had liquidated in the most recent reporting period, resulting in losses totaling $116.5 million. That means the deal so far has suffered losses of 10.5 percent, which Wells noted was the largest loss for any 2004 CMBS deal. Transactions securitized in that year have suffered an average loss of 3.5 percent.

The $54.2 million price paid for the UBS Center loan would value the collateral property, without taking into account the price that AVG previously had paid, at just less than $80/sf. That compares with the $70/sf price that Building & Land Technology two years ago had paid for 1 Elmcroft Road, an empty 550,000-sf office property, also in Stamford, that previously was fully occupied by Pitney Bowes Inc.

Building & Land also owns 200 Elm St., with 423,291 sf that formerly housed the headquarters of General Reinsurance Corp.

It bought the property for $50/sf in 2012, when it was completely vacant. It subsequently embarked on a massive turnaround. The property, now two interconnected buildings, currently is nearly half full and will get closer to being fully occupied when Henkel Corp. takes the 155,000 sf it recently leased. The home-care products company is relocating its U.S. headquarters from Scottsdale, Ariz., and got $20 million in state aid to do so.