
OPPORTUNITY/CHALLENGE

Lincoln Square is a 406,000-square-foot trophy-class office building in the heart of Washington, D.C. In 2013, building ownership included one minority partner, which had a right of first offer. At this time, the building was 97% leased, with an anchor tenant occupying 57% of that space.

The anchor tenant's lease was due to mature in two years, and it would only agree to sign the lease renewal if the building ownership agreed to pay \$50 million in tenant and base building improvements.

The owner decided to sell the building to free up capital and invest in other buildings. However, the anchor tenant's potential to leave the building and create a massive vacancy made Lincoln Square a risky investment for prospective buyers.

The ownership was caught in a very complex "catch 22." To market the building as an attractive investment, ownership needed to get the anchor tenant to sign its lease renewal. But the anchor tenant would not sign the lease renewal without a buyer who would agree to provide the tenant and base building improvements.

Furthermore, the debt on the property had a prepayment penalty of \$45 million, which needed to be waived by the lender in order to complete a sale. At the same time these negotiations were beginning, the building's mortgage was transferred to a new lender that was very slow to approve changes to the building demanded by the anchor tenant, and the waiver of the prepayment penalty—further complicating the process.

To make matters worse, the minority partner and building ownership encountered great difficulty coming to an agreement during the sales process.

SOLUTION

The sales broker was able to find the appropriate buyer willing to accept the anchor tenant's renewal terms and the responsibilities of tenant improvement, leasing and capital improvement requirements. Furthermore, the broker was able to negotiate a minority interest in the new deal for the majority partner, thereby preserving its tax basis and saving the majority partner a substantial tax burden. Additionally, the broker was able to negotiate a full waiver of the prepayment penalty from the special servicer of the loan, while the partnership's legal proceedings were settled out of court after the broker provided court testimony as to what the impact of the anchor tenant's renewal would have been on the property.

VALUE ADDED BY TRANSWESTERN

This multi-faceted and complex sale process was accomplished within the timeframe of the tenant's renewal date and as a result, the tenant executed a 15-year extension of its lease.

