
New York group pays top 2012 price for downtown Chicago tower

By Ryan Ori December 31, 2012

A group of New York investors paid \$350 million, the highest price for a downtown office building in 2012, for the potential privilege of trying to fill one of the biggest vacancies in the city.

A venture that includes Joseph Mizrachi and David Werner paid \$350 million, or nearly \$315 per square foot, for the 1.1-million-square-foot tower at 540 W. Madison St. in a deal that closed Monday, people familiar with the transaction confirmed. That's the largest downtown office transaction of 2012, both in overall price and cost per foot.

The venture also includes New York-based Carlton Associates Inc., the real estate investment arm of the Cohen family, founders of the Duane Reade drugstore chain, which Deerfield-based Walgreen Co. acquired in 2010 for about \$1.1 billion, the sources said.

The 30-story building commanded a high price even though its seller and largest tenant, Bank of America Corp., is poised to vacate about 400,000 of its 750,000 square feet, the sources said. The bank has the option to vacate the space as part of the sale-leaseback deal, and it is widely expected to exercise the option.

A spokeswoman for the Charlotte, N.C.-based bank did not return a call, nor Messrs. Mizrachi or Werner. A Carlton executive declined to comment.

The tower is more than 92 percent leased, according to real estate data provider CoStar Group Inc., and would be about 56 percent leased if Bank of America vacates 400,000 square feet.

Yet prospective tenants may be willing to pay higher rents to occupy one of the most technologically advanced office towers in the city, said David Stein, managing principal at Chicago-based Steinco Inc. who represented trading firm DRW Holdings LLC in a 125,000-square-foot lease there about four years ago.

"The infrastructure is probably the best in the city," Mr. Stein said. "I think they'll do well. It will be a good fit for trading firms, technology firms and anybody who needs a ton of power or cooling."

In addition to backup generators and superior connectivity for high-speed electronic transactions, the tower includes a data center for storing large amounts of electronic records. The building was completed in 2003 by Houston-based developer Hines Interests L.P. for LaSalle Bank, which Bank of America acquired in 2007.

B of A added its first outside tenant when it **signed DRW in 2008**, followed by a lease of about 120,000 square feet with New York-based insurance broker Marsh & McLennan Cos. signed in 2011.

Messrs. Werner and Mizrachi, who teamed up to buy the 23-story tower at 300 S. Riverside Plaza for \$190 million in 2010, also obtained a development site next to 540 W. Madison St. where another 1.1-million-square-foot tower could be added. They are not believed to have any immediate plans for the parcel but could eventually entertain offers from developers looking to add a West Loop site.

Monday's purchase, which had been **expected**, was backed by \$250 million in debt from German bank Deutsche Bank A.G., sources said. The sale was brokered by Chicago-based Jones Lang LaSalle Inc.