

Real Estate: Filling Tower May Prove Tall Order

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Philadelphia; the suburbs of Washington D.C.; and Los Angeles. It closed its first \$250 million fund in 2015 through Austin, Texas-based private equity firm **Hawkeye Partners** and plans to kick off one targeting \$500 million this year.

The goal is eventually to own major assets in central business districts nationwide.

Claudia Faust, Hawkeye's managing partner, said she appreciates the depth of experience behind Coretrust.

"They're so creative and so bright," she said. "A lot of people who invest in real estate don't have a methodical way of looking at opportunity and risk. These guys already have it."

Major test

Turning around Citigroup Center might be a major test. The blue and silver 48-story tower that appeared on the "L.A. Law" TV show in the 1980s and '90s has not had comprehensive renovations in years. It will compete with every other Bunker Hill skyscraper for tenants to fill its quarter-million square feet of empty space.

That 25 percent vacancy rate is well above downtown's average of 16.4 percent last quarter, according to data from **Jones Lang LaSalle**.

But the building isn't alone in struggling to find office tenants.

The 72-story U.S. Bank Tower next door, which sold in 2013 for \$367.5 million, is 72 percent occupied, according to **CoStar**. The nearby One Cal Plaza is doing better, at 90 percent full, and its neighbor Two Cal Plaza is 80 percent leased.

"To move the needle on that building's value, you're going to have to do a lot of leasing," **Todd Doney**, a **CBRE** vice chairman, said of Citigroup Center.

The Coretrust co-founders say they are well aware of that challenge.

"The entire net worth of this building leaves at the end of each day," Ricci said, standing by the lobby doors. "And there's no guarantee they're going to come back."

Still, Coretrust has staged turnarounds before. The three co-founders were top executives at Thomas Properties in 2003 when it purchased downtown's long-neglected City National Plaza, which was less than a quarter occupied. Thomas launched a makeover and pumped occupancy to 90 percent by the time it sold its stake a decade later.

Over the years, Ricci, Sischo, and Scott had been preparing to take over for **Jim Thomas**, the company's chief executive, who previously built downtown's Gas Co. Tower and U.S. Bank Tower with longtime partner **Robert Maguire**. But Thomas Properties took a beating in the 2008 financial crisis.

Thomas decided in 2013 that it would benefit shareholders to sell – even though the stock had lost half its value since the company went public in 2004. The \$1.2 billion sale to Parkway left the Coretrust co-founders out of a job.

"That's when the three of us decided, you know what, we do truly trust each other," said Ricci, 59.

Equipped with proceeds from the sale but prevented from buying property under a one-year noncompete agreement with Parkway, Ricci, Scott, and Sischo set about putting Coretrust in place.

Capital plan

One of their first moves was to connect with Hawkeye, which aims to connect institutional investors such as state pension funds with up-and-coming real estate companies. In 2015, Hawkeye decided to allocate \$200 million to Coretrust for deployment in real estate assets, drawing on investments from five large U.S. pension funds, one sovereign wealth fund, and one overseas investor. The Coretrust fund size is now \$250 million, with the ability to raise up to \$350 million of equity.

Coretrust went on to purchase a pair of office buildings in Reston, Va.; an office complex in

Fairfax, Va.; the office portion of the prestigious Two Liberty Square tower in Philadelphia; and Citigroup Center downtown. It also purchased a Philadelphia office building on behalf of **Korea Investment Management**.

With \$100 million of the fund still available, Sischo said Coretrust can buy an additional \$300 million worth of assets – probably one or two buildings.

The \$50 million facelift plan for Citigroup Center is to renovate the common areas; outfit terraces at different levels of the building; and tear away the cubicles, corner offices, and carpets of the '80s-era suites.

"There's much more interest now in collaborative workspace," said Scott, 61.

The aim is eventually to raise monthly rents from about \$2.08 a square foot to \$2.50 a square foot, exclusive of taxes, insurance, and maintenance.



Scott

Coretrust also will move its office there next month, and will soon begin outfitting the sixth floor as a showroom for various types of office design. Ricci, in a bid to enhance the tenant experience, might infuse the lobbies with fragrances such as "white tea thyme" and

"fig essence."

CBRE broker Doney recalled that the team also implemented a showroom floor at City National Plaza, contributing to that building's success.

"It's money well spent," he said. "You still have to compete with everybody else in that Class A market for every tenant."



RINGO H.W. CHIU/LABJ

Time for Makeover: Coretrust Capital Partners' Thomas Ricci, left, and John Sischo are updating Citibank Center downtown.

cost of what (satellite operators) are trying to accomplish?"

De Mos' father, **Marius de Mos**, is the company's vice president of technical affairs and development. He previously helped develop the world's first wireless airborne public telephone.

Moving target?

The inventor of the airliner-based wireless network, **Joseph Lai**, was granted a patent for the technology on Sept. 4, 2001. But the Sept. 11 attacks halted all of the concept's momentum.

"The timing wasn't right," said Jason de Mos.

In August, Airborne Wireless, which launched in its current incarnation last year, purchased the patent from Simi Valley's **Apceptive Inc.** in exchange for \$40,000 worth of the

company's shares, according to filings with the Securities and Exchange Commission. Airborne Wireless shares were trading at \$2.49 over the counter on Feb. 9.

While it carried only \$2,000 in debt as of Nov. 30, the seven-employee company has not yet generated any revenue. Airborne Wireless has raised about \$2 million by selling stock, according to de Mos. It had about \$1.3 million in cash on hand as of Nov. 30. The business is led by Chief Executive **J. Edward Daniels**, who also serves as a managing director at real estate investment firm **Cal West Partners** of Agoura Hills, according to regulatory filings.

Air Lease Chairman **Steven Udvar-Hazy** ranked No. 11 on the Business Journal's 2016 list of Wealthiest Angelinos with a net worth of \$4.7 billion. The aircraft firm agreed to take an

undisclosed equity stake in Airborne Wireless as part of the partnership. Airborne Wireless has struck several similar agreements, according to financial filings, in an apparent attempt to keep overhead costs low.

But building a broadband transmission network of such magnitude won't stay cheap for long. Airborne Wireless projected in a 10-K filing on Aug. 30 that it would need \$10.5 million to sustain its operations for the following 12 months, and additional funding beyond that, said de Mos in an email.

"We will either raise the funds through partnerships with larger companies or we are contemplating a secondary IPO," he said.

Airborne Wireless has noted in its SEC filings that it faces competition from low-Earth satellite operators such as **Iridium Commu-**

nications Inc. of Washington, D.C. Its satellite constellation, consisting of 66 spacecraft, is the largest such broadcast system circling the planet.

Andrew DeGaspero, an analyst with **Macquarie Group** of New York, said Iridium already has a huge head start in the sector.

"I don't see why (Airborne Wireless) would want to compete with that," he said. "It's tough for me to say why this is a huge opportunity."

De Mos said an aircraft-based broadband network holds a number of advantages over rival satellite operators, including the ability to swap in upgraded transmitters in about six hours.

"You have companies out there that are trying to launch these satellite networks that have quite a few issues, including cost. And once you launch a satellite you can't service it," said de Mos. "Our network is already flying."