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San Francisco Business Times

1/27/06

### **Recharged Swig maneuvering more swiftly**

More deals planned after 2005 near \$1B

By Ryan Tate

Once a slow-moving behemoth, San Francisco's family-owned [Swig Co.](#) completed nearly \$1 billion in real estate transactions last year and plans 2006 acquisitions worth hundreds of millions on top of that.

The aggressive dealmaking leaves the company tightly focused on office space in coastal urban markets and, along those lines, looking to expand into Southern California and Washington, D.C. It also bears the imprint of CEO Jeanne Myerson, a family outsider brought in to lead the company nine years ago.

Myerson has guided the company with a philosophy of disciplined growth, moving faster and with more focus than Swig had before her arrival.

But Swig is still aiming to remain more restrained and far-sighted than the opportunity funds that have become major players in the real estate market -- firms including [Beacon Capital Partners](#) and [Centurion Real Estate Partners](#). By holding property for periods longer than the three to five years typical of private funds, Swig hopes to earn superior returns.

The company is also banking on its 70 years of experience buying and managing real estate to help it better identify and more quickly close on appropriate deals.

"Being a strong operator and close to property management, we know what we're doing," Myerson said. "We're not saying, 'It's a pretty building, let's buy it.' "

Swig put its experience to plenty of use over the past year. It spent \$200 million acquiring [Kaiser Center](#), a landmark office complex on Oakland's Lake Merritt; bought a seven-story office building at 510 Second St. in San Francisco; and added Mountain Bay Plaza, a 12-story office building in downtown Mountain View. The latter two transactions were worth between \$120 million and \$150 million combined.

Swig is able to add property in part because it has shed property. Over the past year, the company sold the Esperson Buildings, two long-held office assets in the Houston market, which Myerson considers overbuilt, as well as the [Chicago Fairmont hotel](#). It also refinanced two towers it co-owns in midtown Manhattan.

But the company has watched as property valuations escalated to nosebleed territory in some of its target markets, egged on by low interest rates. As investors competed for property, the typical annual return on investment, or "cap rate," for a

Bay Area office tower with good tenants fell below 6 percent. After tying up Kaiser Center for close to \$220 per square foot early in the year, Swig watched as Beacon Capital Partners spent between \$300 and \$310 per square foot for neighboring Lake Merritt Plaza in the fall.

Meanwhile, Bay Area vacancies declined, with Class A space in San Francisco 13.5 percent vacant in the third quarter of 2005, a remarkable fall from 19.7 percent vacancy in the third quarter of 2004, according to [CB Richard Ellis](#). Rents in those buildings climbed 16 percent. Office vacancy among Class A properties in downtown Oakland remained close to 6 percent.

The trends have Myerson scratching her head. It is unclear what economic forces will drive rents higher. If rents do not continue to rise and do not get closer to dot-com-era peaks, it is unclear how the current high sales prices can be justified.

One market that Myerson said is clearly overvalued is Washington, D.C. While it is a target market for Swig Co., most opportunities have been way too expensive to justify jumping in, Myerson said. New York is slightly better, but Myerson said prices are high enough -- and Swig Co. already invested enough in the market -- that she does not foresee more acquisitions there in the near future.

Whether Swig will buy in the Bay Area is harder to say. Myerson insists the company is not looking to focus growth outside the region, but acknowledged that it is becoming harder to find good deals here.

"How much Kool-Aid are you going to drink?" Myerson said. Prices "are hard to comprehend, but are in my personal comprehension the result of interest rates and too much capital in the market."

A more certain bet for the company is Southern California, where Swig has few holdings and where cap rates remain more reasonable.

*Ryan Tate covers East Bay real estate for the San Francisco Business Times.*