THE PROPERTY REPORT

Archstone Draws Bids From Big Names

Trio of Owners Argues Over Whether to Sell the Apartment Giant Outright or Bring It Public; Dual Tracks Continue

By Eliot Brown
And Robbie Whelan

Four of the biggest names in real estate have submitted bids for Archstone, but the offers aren't high enough to resolve a dispute among the owners about how and when to unwind the apartment giant, according to people familiar with the matter.

Archstone, which played a major role in the sinking of **Lehman Brothers Holdings** Inc. nearly three years ago, is being pursued by private-equity firm **Blackstone Group** LP, Toronto-based **Brookfield Asset Management** Inc. and apartment owners **Equity Residential** and **AvalonBay Communities** Inc., the people said. The four submitted offers in recent weeks for all or parts of the company. The specific bids weren't available.

A Lehman-led group bought Archstone in a $22 billion deal in 2007, only to see it plunge in value with the economic downturn. One of the nation's largest apartment landlords, it owns or has stakes in nearly 77,000 apartments, and if it were sold in full, it would mark by far the largest commercial-real-estate sale since the downturn.

Archstone's owners—a trio of the estate of Lehman, **Bank of America** Corp. and **Barclays** PLC—have been arguing over whether to sell the company outright or to take a longer-term sale strategy by bringing it public. With Barclays pushing for a private sale and Lehman favoring an initial public offering, the owners this year agreed to take a dual-track approach by readying papers for an IPO while also reaching out to potential buyers.

Barclays, in particular, had hoped offers would be so high as to convince the others of an outright sale. But the offers were too low to satisfy Lehman to change its views, according to people familiar with the matter, making it unlikely that any major decisions with the company are imminent. All three owners must agree to major decisions for the company.

The potential sale process continues, as do preparations for an IPO, people familiar with the matter said. The offers received so far weren't final. The likelihood of a sale could increase if bids are raised.

But the sales process is being affected by the growing uncertainty over the economy. When the owners began searching for buyers, commercial-real-estate values in major cities had been rallying, particularly in the multifamily sector. Values in major markets such as New York and Washington had rebounded strongly, and some analysts placed Archstone's value at about $19 billion.

But a once-promising rebound has recently slowed, and maybe even started to move in reverse, particularly as volatility in the capital markets has caused lenders to pull back. The commercial-mortgage-backed securities sector, typically a major source of commercial-property loans, has been virtually frozen for weeks.

Some deals have fallen apart already. Last month, private-equity firm **Cerberus Capital Management** LP pulled out of a $1.12 billion deal to buy 64 hotels from **Innkeepers USA Trust**, saying a "material adverse effect" occurred, which allows it to back out. Innkeepers later sued Cerberus, saying the firm didn't have the right to terminate the deal.

Overall deal volume appears to be cooling, according to data from Real Capital Analytics, a real-estate research firm. July saw the smallest year-over-year growth in commercial-property sales since November 2009, with sales just 16% higher than July 2010, compared with 121% for June. Preliminary data from August show flat growth over the prior year, the firm said.

For Archstone, it is unclear exactly how the owners want to proceed, although there is no time pressure to choose a course of action, and the owners could opt to wait until the markets stabilize.

Another concern is the volatility of the stock market, which could make a private transaction particularly attractive. "In the public market, you've had significant gyrations, such that any potential IPO candidate would really have to question what the market would be like when they finally bring their deal public," says Craig Leupold, president of Green Street Advisors, a real-estate consultancy. "The problem with Archstone is: You've got three different owners with three different agendas."

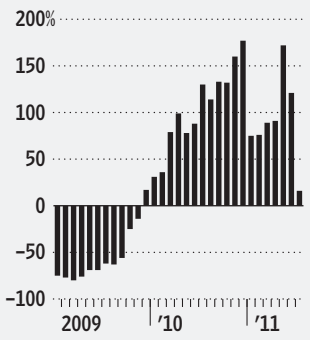
The bids that came in were complex, people familiar with the matter said, and involved various scenarios including buying pieces of the company as well as offering mixes of stock and cash. Equity Residential, AvalonBay, and Brookfield submitted offers for the entire company, none of which were all-cash, while Blackstone made offers only for pieces of it, the people said.

Daniella Zalcman for The Wall Street Journal

Archstone's fate is unclear. Above, one of its apartment buildings, at 800 Sixth Ave. in New York.

Real Retreat

Year-over-year change in U.S. commercial-property sales



Source: Real Capital Analytics

PLOTS & PLOYS

Breaking News From WSJ.com's Developments Blog

Happy Ending In the Big Easy

Investor Brings New Life To a Landmark Hotel; Meet You Under the Clock

Facing a deadline to repay debt, the developer of a storied New Orleans hotel has brought in a partner to stabilize its finances and move ahead with a major renovation.

The 251-room Chateau Bourbon Hotel, which originally housed the D.H. Holmes department store, is home to a white clock that has served as a meeting place for generations.

The property, converted into a hotel in the 1990s, gained wider fame through its mention in John Kennedy Toole's Pulitzer-prize-winning novel, "A Confederacy of Dunces."

But recently, the hotel's future was uncertain. **HRI Properties**, the New Orleans real-estate company that has controlled the hotel through long-term ground leases from the city, had faced a Sept. 1 deadline to pay off roughly $16 million in debt.

If it hadn't found a partner, HRI might have had to sell, says Tom Leonhard, the company's president.

HRI opted to sell a majority stake in the property to **Carey Watermark Investors** Inc. The nontraded real-estate investment trust affiliated with **W.P. Carey & Co**. put about $12.3 million of equity into the venture and helped it get a new $22 million mortgage.

The hotel will undergo an $18 million renovation and be renamed the Hyatt French Quarter hotel, according to Michael Medzigian, chief executive of Carey Watermark.

Meanwhile, the clock and a statue of the novel's eccentric hero, Ignatius J. Reilly, remain outside the hotel, though technology has diminished the site's use as a rendezvous point.

"Cellphones have eliminated the need for a meeting place," Mr. Leonhard says.

—Maura Webber Sadovi

Judge Trumps Buyers' Remorse

Trump Organization dodged a bullet late last month, when a federal judge in Nevada ruled against some 350 would-be Las Vegas condo buyers who have been trying to get back their deposits.

The purchasers anted up $60 million in deposits on units at the Trump International Tower on the Las Vegas strip—a 64-story, 1,282-unit, gold-plated condo-hotel project developed by Trump and gambling mogul Phil Ruffin—but got cold feet when the market turned bad shortly after the building was completed in 2008.

The buyers sought their deposits back with the help of the Interstate Land Sales Full Disclosure Act, an obscure law meant to protect out-of-state buyers who are purchasing land sight-unseen, based solely on written descriptions.

In the past few years, as the market has gotten worse, condominium buyers have increasingly used the law to try to recoup their deposits with mixed results.

The Trump Las Vegas buyers sued the condo's developers in January, but an arbitrator ruled against them. Though the buyers appealed, a federal judge upheld the arbitrator's ruling.

"These people put down a deposit to buy a unit, and the market didn't go where they wanted it to go," says Eric Trump, the developer's acquisition head and son of Donald Trump. "At the end of the day, you had a lot of buyers suing and saying that a ceiling was one inch to low. It's clever, but ... it's 'Buyers' Remorse 101.' "

An attorney representing the buyers said they could appeal the ruling, but they haven't made a decision about that yet.

—Robbie Whelan

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These deteriorating buildings on Whiskey Row in Louisville, Ky., will be getting a face-lift.

CoStar Group

DEAL OF THE WEEK | By A.D. Pruitt

Saving a Louisville Legacy

Most real-estate investors buy buildings with a precise goal in mind. But for Steve Wilson and his wife, Laura Lee Brown, an heir to the Brown-Forman Corp. spirits empire, a recent acquisition of five landmark buildings in downtown Louisville, Ky., was an act of charity.

The husband and wife team lead a group of investors who recently rescued from demolition the deteriorating buildings on Louisville's historic Whiskey Row south of the Ohio River. The couple spearheaded an investment team that bought the properties for $4.8 million from a local developer who had planned to demolish the properties because they were too dangerous to enter. The deal, which closed in late July, ended a prolonged legal battle between preservationists, the city and former owner Todd Blue over the fate of the buildings, which were whiskey and bourbon warehouses during Louisville's burgeoning bourbon trade in the 1800s.

The properties also comprise the nation's second-largest collection of buildings with cast-iron facades behind New York City. "They are in the heart of a thriving city," Mr. Wilson said. "Europeans have such an architectural history. We feel if we don't actively try to save some of ours, we're going to lose it all."

The team headed by Mr. Wilson isn't likely to gain much from the acquisition in the near term. The new owners must stabilize the buildings within six months and expect to spend as much as $40 million over the next four years to fully rehabilitate the properties. Mr. Wilson acknowledges they will be difficult to save, given their conditions.

But if the buyers are successful in restoring the buildings, their efforts could be the catalyst needed to further revitalize Louisville's downtown. Some politicians and business leaders want to turn Whiskey Row into a tourist destination that revolves around bourbon, the state's most popular export. "Bourbon is like a food to us," said Mayor Greg Fischer. He noted that the state has more aging barrels of bourbon than the state of Kentucky's 4.3 million population.

Mr. Wilson and Ms. Brown were initially reluctant to get involved and came to the rescue at the 11th hour only after no other real-estate developers or investors would step up. After two weeks of intense negotiations, a deal was forged. "At the last minute, it became a choice of intervening or having the buildings torn down," said Mr. Wilson, who initially wasn't interested in buying the buildings because he had other projects underway. Mr. Wilson and Ms. Brown also are developers of the 21C Boutique Hotels franchise and have a hotel property nearby.

Mr. Wilson said they don't even have a master plan for the site, but are eyeing a big bourbon distillery that will be part of a "bourbon trail" of six distilleries across the state where tourists can sip different brands of bourbon.

Mr. Blue sold Mr. Wilson's team five of the seven buildings he purchased in 2007. He had a plan with **Duke Realty** Corp., a real-estate investment trust based in Indianapolis, to build 300,000 square feet of office space for insurance giant Humana Inc. But those plans soured during the economic downturn, and Mr. Blue found that he couldn't safely redevelop the crumbling properties unless most of the structures were gutted.

His plan put him at odds with local preservationists, who argued that a precious part of Louisville's legacy would be bulldozed along with the buildings. In an effort to block a demolition, they petitioned a federal court to have a say about the fate of the properties. Mr. Blue then sued the city to move forward with an emergency demolition.

Mr. Blue, also a longtime preservationist, said he always intended to preserve the cast-iron façade but had to demolish the anterior for safety reasons. "We couldn't go to work in the buildings, and I didn't want to risk life or limb," he said.

The night before the case went to court, Mr. Blue forged an agreement with Mayor Fischer in January to stay the demolition for 90 days because the mayor wanted to buy time to find another buyer. Under the terms of the deal with Mr. Wilson's team, Mr. Blue agreed to preserve the cast-iron facades of his two remaining properties, where he plans to build a hotel.