

MPG Office Trust

Courtesy: FreeOption; LA Business Journal

Writer reviewed Preferred Shares with a face value of \$243MM + \$79 in accrued dividends, for a combined \$322 claim by Prefs holders. Currently, the prefs are selling at \$22/share for a \$25/share par. The value of the Trust is backed by: "Gas Co. Tower at 555 W. Fifth St.; U.S. Bank Tower at 633 W. Fifth; Wells Fargo Tower at 333 S. Grand Ave.; KPMG Tower at 355 S. Grand Ave.; 777 Tower at 777 Figueroa St.; and One Cal Plaza at 300 S. Grand Ave., in which it owns a 20 percent stake" buildings located in downtown Los Angeles. RE prices have recovered from the down in 2008, with cap rates at 6%.

Robert Macguire, the previous owner of the Trust, was kicked out back in 2008 on the terms the trust would pay for any taxes from gains on the sale of the buildings, as long as he held more than a 50% share ownership in those buildings. However, he cashed out 4 MM units so his ownership dropped below 50%, freeing up the Trust to sell the buildings without paying his portion of the gain. The indemnification is set to expire in June 2013, so with the expiration, the buildings can be sold, and the Trust may be closed down, which would mean the maturity of the preferred shares at par + recoupment of the accrued dividends, or a 30% return in 10 months.

The Trust faced leverage issues and buildings were sold to pay down the debt balance from \$4B to \$2.7B. The question is, whether there would be an eventual sale in June 2013, which we believe is viable since they are prime office buildings in LA and there has been a shortage of investable properties in the primary, metro area in the US. The writer assumed a 6% cap rate, and based off the Net Operating Income (NOI) of 3 main buildings, or \$74 MM, which would create a sales price for \$1.2B. The debt associated with the 3 buildings is \$933MM, which leaves \$300MM for equity investors. Inclusive of the other buildings in the portfolio, there would be residual equity value for common shareholders. One analyst is expecting a \$4/share residual for common shareholders, which means a full recovery for prefs, which seems like a cumulative dividend repayment. The NOI includes parking revenue, since the operations are all on a building level, or propco structure basis.