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Griffin Partners clinches downtown office buy

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After trying unsuccessfully to purchase a downtown office tower two years ago, Griffin Partners has finally added a Central Business District property to its young portfolio.

Houston-based Griffin Partners and its financial partner, Urdang Capital Management Inc. of Pennsylvania, paid \$114.5 million last week for the 786,000-square-foot office building at 1301 Fannin. The 25-story facility is a combination of office space and data center space that was originally built in 1983 by the now-defunct First City Bancorporation.

This is the largest acquisition to date for Fred Griffin and Drew Lewis, local real estate veterans who serve as co-chairmen of Griffin Partners. The pair has been focused on owning a piece of downtown since forming Griffin Partners five years ago.

"It was one of our goals -- to own a building in downtown Houston," Griffin says. "We think it's a very vibrant part of Houston."

Lewis, who started his career with the Horne Co. in 1973, cut his teeth leasing office space downtown.

"It's fun for me because I grew up in downtown," says Lewis. "A lot of people I know are still there."

Property watch

Griffin Partners has been trying to stake a claim in downtown Houston for a few years.

The firm was planning to buy what is now the Fulbright Tower at 1301 McKinney in late-2004, but Crescent Real Estate Equities Co. exercised a right-of-first-refusal to purchase the property in the 11th hour. The 1.2 million-square-foot building sold for an estimated \$105 million, making it one of the largest local building sales in 2004.

Griffin Partners executives were caught off guard by Crescent's last-minute decision, primarily because the Fort Worth-based firm was undergoing some restructuring at the time.

"We knew they were interested in it," Lewis says. "We didn't think their timing was going to allow them to do the acquisition."

The cost of downtown real estate escalated over the next two years while Griffin Partners continued looking for another acquisition target.

The company hit a bull's-eye last week with 1301 Fannin.

Griffin Partners typically puts between 5 percent and 20 percent equity in each of its deals, but the firm would not disclose its portion of the \$114.5 million investment in 1301 Fannin.

Griffin Partners picked up the building from The Shidler Group, which owned the property in a partnership with Angelo, Gordon & Co. Shidler of San Diego and Angelo, Gordon of New York acquired the office building in 1998 for \$60 million, spent more than \$5.6 million to upgrade the facility, and ultimately made a profit of more than \$48 million on the sale.

The Class A building is unique because its infrastructure can handle the additional energy requirements of a data center, says Stewart Robinson, an office broker with Conine & Robinson Inc.

"(The building) really doesn't have a competitor in downtown," Robinson says. "For its size, it doesn't have a competitor anywhere in Houston."

Griffin Partners will lease and manage the building, which has an 87 percent occupancy rate in its data center space and a 76 percent occupancy rate on office space. Griffin wants to get the building to a 95 percent occupancy rate.

Griffin, 68, also hopes to double the firm's portfolio to 10 million square feet in the next three to five years.

The 1301 Fannin building is the crown jewel of Griffin Partners' portfolio, which now consists of 4.7 million square feet in 15 office buildings in major cities throughout Texas. Most of the properties were acquired rather than built, Griffin says, because acquisition costs have been lower than development costs lately.

Griffin has decades of development experience to draw from. In 1962 he joined Humble Oil & Refining Co., which became Exxon Co. U.S.A., where he eventually oversaw commercial development for Friendswood Development Co. Exxon established Friendswood Development to create residential and industrial properties, initially around the Clear Lake area.

During his Friendswood tenure, Griffin was responsible for developing four office buildings and some retail space in the Greenspoint area as well as office and retail space in the residential community of Kingwood -- which was developed by Friendswood Development and King Ranch.

Griffin went out on his own in 1980 to form Griffin/Juban Properties with Conley Juban. During that time, Friendswood Development sold Griffin roughly 30 acres around NASA's Johnson Space Center, where he went on to build a large portfolio of office space.

Griffin bought out Juban's ownership stake in 2000, and changed the firm's name to Griffin Partners two years later. Lewis began working with Griffin as an investment partner in 1999 and joined the partnership in 2002.

The other two owners of the 87-person firm are Wayne Axtell, who specializes in property management and development; and Edward Griffin, Griffin's son, who joined the firm in 2002 and now serves as president.

1301 Fannin

- 786,000-square-foot office building originally built in 1982 by First City Bancorporation.
- 25-story building has roughly equal amounts of office space and data center space.
- Purchased Houston-based Griffin Partners and Urdang Capital Management Inc. of Pennsylvania for \$114.5 million.
- Sold by The Shidler Group and Angelo, Gordon & Co., which made a profit of more than \$48 million on the property after nine years.

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