

Sullivan Guides CPPIB In \$1.2B Deal For Houston REIT

By **Matthew Perlman**

Law360, New York (June 30, 2017, 6:44 PM EDT) -- The Canada Pension Plan Investment Board said Friday that it has struck a deal to buy publicly traded real estate investment trust Parkway Inc. for \$1.2 billion, with guidance from Sullivan & Cromwell LLP.

CPPIB is offering to pay \$23.05 per share for Parkway, including a \$4 special dividend to be paid prior to closing plus another \$19.05 per share after, according to a statement announcing the agreement. The consideration is a 13.1 percent premium to Thursday's closing price for Parkway shares on the New York Stock Exchange.

Headquartered in Houston, Parkway was formed by a spinoff after the merger last year of Parkway Properties Inc. and Cousins Properties Inc., according to its filings with the U.S. Securities and Exchange Commission. It has a portfolio of office space in its home city that includes 8.7 million square feet of space across 19 properties. The buildings were 87.6 percent leased at the end of March 31, with a mix of tenants that includes financial services, technology and commodities companies, according to Friday's statement.

Parkway President and CEO James R. Heistand said the market in Houston has been better, but that the price being offered shows the value of the assets in the company's portfolio.

"We believe there are still some near-term headwinds in the office sector for Houston," Heistand said in Friday's statement. "But the implied asset valuation of this transaction shows CPPIB's appreciation for the high-quality portfolio we have assembled and the near-term stability it provides during the current downturn in the market."

CPPIB and Parkway were involved in the formation of a new joint venture in April. Parkway sold a 49 percent interest in a pair of properties totaling 5 million square feet to a consortium that included the investment board for \$512.1 million, according to a statement from the time. The other joint venture partners are TH Real Estate Global Asset Management, which is the real estate investment arm of TIAA-CREF, and Silverpeak Real Estate Partners.

Hilary Spann, CPPIB's managing director and head of U.S. real estate investments, said Parkway's Houston portfolio is a good fit for the board's broader strategy.

"Parkway fits well with CPPIB's long-term real estate strategy to hold stable, high-quality assets in large

U.S. markets,” Spann said in Friday’s statement “Through this investment, CPPIB gains additional scale in Houston.”

The companies said that private equity firm TPG Capital and its affiliates, which collectively own 9.8 percent of Parkway’s outstanding stock, have agreed to vote in favor of the transaction. They expect it to close in the fourth quarter, subject to shareholder approval.

The Parkway move is one in a string of deals this year involving CPPIB valued at \$1 billion or more.

On Thursday, the pension board said it was committing \$1 billion to a partnership with private oil and gas company Encino Energy LLP that will look for oil and gas acquisition opportunities in the U.S. Encino committed an additional \$25 million. In April, a consortium led by CPPIB and private equity firm Baring Private Equity Asia, struck a \$4.3 billion deal to take international school operator Nord Anglia Education Inc. private.

In March, a CPPIB joint venture with Singapore’s sovereign wealth fund GIC and student housing operator the Scion Group LLC added three new U.S. student housing portfolios to its holdings through deals totaling \$1.6 billion.

CPPIB is represented in the Parkway deal by Sullivan & Cromwell LLP, with a team including Melissa Sawyer, Anca Mihaela Paraian, Patrick V. Salvo, Yelena V. Nam, Korey R. Inglin, Arthur S. Adler, Ralston W. Turbeville Jr., Matthew M. Friestedt, Rebecca S. Coccaro, Kristen B. Klein, Matthew J. Brennan and Mark Schenkel.

Parkway is being represented by Hogan Lovells US LLP, with a team led by Matt Thomson, David Bonser, Bruce Gilchrist and Prentiss Feagles, and including Katherine Keeley, Liz Graffeo, Meg McIntyre and Weston Gaines.

HFF Securities LP served as financial adviser to Parkway.

Parkway’s management team is being represented by Morrison & Foerster LLP, with a team led by Patrick Huard, Andy Campbell, Shane Shelley and Domnick Bozzetti.

--Additional reporting by Chelsea Naso. Editing by Joe Phalon.