George W Bush's second Treasury secretary, the MD of China's biggest private company, a Cayman Islands-based developer and a Russian-born banker walk into a bar...

Jack Sidders observes

Guests arriving for a drinks party at the Lloyds Chambers building on 10 December last year would be forgiven for thinking they were witnessing an elaborate comedy sketch unfold before their eyes.

Instead, the room full of agents, bankers, lawyers and assorted hangers-on watched as one by one this cast of characters took to a podium to explain why, two months earlier, they had closed one of the most intriguing deals of the year.

The seemingly mismatched foursome joined together to talk through their recent purchase of Lloyds Chambers – which has its own complicated back story – for £64.5m.

Although unusual partnerships in the City are hardly rare, this had to be among the strangest assortment of investors ever brought together in a single deal.

So how and why did it ever come about? And what's the punchline?

The building back story

Before even touching on the investors, this tale can't be told properly without touching on the history of the building itself. The previous owner of the 190,000 sq ft office block on Portsoken Street was Patrick Rocca, the Irish tycoon and brother-in-law of musician Van Morrison, who infamously shot himself in the wake of the crash in 2009. He had bought it from the Tchenguiz brothers for £104m in 2006.

"The last couple of times it has traded it has been a debt play – the building was well let and you could gear it up," says Gryphon Property partner Mike Pope. "This time around there were only five years left on the lease, so it was different."

Built in the early 1980s, the glass-clad block lies just to the north-east of the Tower of London, due south of Aldgate. The area is on the edge of the financial district and is blighted by largely uninspiring architecture. Lloyds Chambers itself is striking, with pod-like office windows jutting out at sharp angles high above a large atrium. Since Rocca's death in 2009, numerous attempts have been made to sell it.

In May 2011 Capita Asset Services, loan servicer to the £110.3m securitised Credit Suisse loan that funded Rocca's purchase of the building, appointed Gresham Down to find a buyer for £94m. Then, when the loan came due that autumn and defaulted, it was transferred to special servicers at CBRE, which took the building off the market to assess its options.

At the start of last year, CBRE and Savills made a fresh attempt to find a buyer, this time with conversion to flats mooted. They were seeking just shy of £77m, reflecting an 8.75% yield. US private equity

firm Westbrook pounced in April, putting the building under offer for around £65m, a 10.3% initial yield.

But less than a month later Westbrook dropped the deal amid rumours that conversion to residential was no longer viable in the eyes of the local planning authority, leading City agents to make gloomy predictions about its future.

"Debt was an issue," explains Pope. "At the time it was difficult to find lenders willing to provide the required debt levels on deals where vacant possession value was significantly below the purchase price. There was a lot of nervousness in the market generally because of the difficulty in securing the right debt packages but also because the leasing market was still struggling to recover."

The phone call

A few weeks later, one Sunday afternoon in June, a Canada-born developer, Mike Ryan, phoned a good friend and contact in London. Having spent most of his career building luxury developments in central America and the Caribbean, he had been introduced to the deal through Pope.

The man on the other end of the line was Russia-born banker James Lapushner. He says: "Mike Ryan called me and said he had just seen a great deal that we could buy for a 10% yield, with five years remaining on the lease to Aon, near the Tower of London."

The pair knew each other well. Five years earlier, when Ryan moved to London, he asked some contacts in Credit Suisse's senior management who he should meet in the UK. They put him in touch with Lapushner, a former Credit Suisse man and US citizen who had gone on to head up Morgan Stanley's real estate funds business in Germany.

Lapushner – now set up on his own with a business called Anacott Capital – was convinced. He says: "I liked the sound of the deal, so I said, let's do it together." The pair agreed to work together that same Sunday and the ball started to roll.

Assembling the team

Next on Ryan's hitlist was John W Snow, the 73rd secretary of the Treasury to the US, best known for working alongside George W Bush from 2003.

Snow and Ryan had got to know each other during Snow's tenure as chief executive of CSX, a large transport-based conglomerate, from 1989 to 2003.

Snow says: "We had a big property business making well over $100m (£61m) of income a year from property.

"I never viewed myself as an expert but I did see what really smart developers could do.

"The more I watched, the more I concluded that we shouldn't develop our own property, we should get to know people like Mike."

Once Snow was on board, the trio was cemented, each contributing minority equity stakes. But they still needed a major backer. They started talking to investors and, after a couple of false starts, opted for a joint venture between a New York-headquartered financial house and a high-profile US billionaire – all just 10 days after the initial round of Sunday phone calls. "We received exclusivity from CBRE a week-and-a-half after the Sunday conversation, based on a partnership between Mike, myself, secretary Snow and the joint venture," says Lapushner.

"On that exclusivity we agreed to heads of terms to buy it at £65m and were supposed to close in four weeks."

But then, a week into the exclusivity, Lapushner and Ryan abruptly decided they didn't want to work with the jv any more.

The five-strong consortium couldn't agree on a structure, so Lapushner, Ryan and Snow walked away from their backers, taking the deal with them. The pair began talking to investors, but one potential backer after another expressed an interest only to retreat after hearing negative gossip about the building. Lapushner says they "didn't understand its risk profile".

With a fragile letting market in the City core, not least in fringe locations such as Aldgate, many investors felt the deal was high risk.

Three weeks out from the scheduled exchange date of 18 July, secretary Snow tapped up a fresh contact.

He had first come across the four founders of Chinese company Fosun several years earlier on a speaking tour at Shanghai's Fudan University. Following the meeting in Shanghai, Snow became a special adviser to the group.

Today Fosun has interests across a string of industries, including luxury brands such as Greek jeweller Folli Folli and French hotel chain Club Mediterrannee, and counts itself the biggest privately owned company in China. Real estate accounts for around $12bn of its $30bn of assets under management – or around 40%. But insurance is probably its biggest business (see page 59).

Snow made a call and, as luck would have it, the company's chairman Guo Guangchang was due to fly into London the next week. And he was keen to meet.

A quick tour and a late night bite to eat later and one of the world's most powerful investors was on board to provide the majority of the equity required to exchange. Three months later, on 18 October, the deal completed for £64.5m, with the help of a £42m loan from Aviva.

What next?

So that's how the deal was done, how this unusual foursome was thrown together. But what is the future likely to hold for the Lloyds Chambers four? Privately owned Fosun's decision to buy the block poses several difficult questions. The first is, what to do when Aon's lease expires in four-and-a-half years' time?

The insurer is no longer in occupation – it sublets the space to other companies – and plans to move its London headquarters to the Cheesegrater, which is due to be completed by British Land and Oxford Properties mid-way through this year, effectively ruling out the prospect of a lease extension.

"Because it is five years of income, it falls between two stalls," says Pope. "It is too long for the opportunistic buyer looking to redevelop and too short for the investor buying the income. For Fosun it gives them five years to come up with a

FROM THE WHITEHOUSE TO WHITECHAPEL: BUSH-ERA HEAVYWEIGHT TALKS UK PROPERTY

"Being Treasury secretary is a miserable assignment," John Snow tells an attentive audience, recounting the story of his first few days in George W Bush's cabinet in 2003, when he was called up in front of Congress for a roasting over the state of the economy.

It is the well-rehearsed anecdote of a retired political figure used to the international speaking circuit.

But this time the punchline is slightly different.

"I decided it was time to get into something more tranquil. And there's nothing more tranquil and peaceful than the London real estate market," he says half an hour later, repeating the gag.

Snow is the star attraction of the evening, but his CV boasts a lot more than the three years he spent as fifth in line to the presidency.

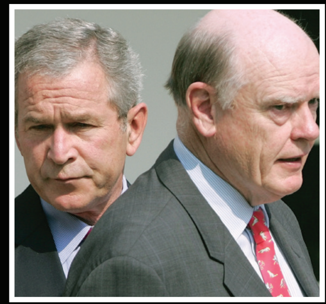
From 1989 to 2003 he ran the CSX Corporation, one of the biggest international freight transportation businesses in the world, a role that gave him his first taste of real estate deals.

"Railroads own a huge amount of property. We had a big property development company because we were closing yards and terminals and wanted to monetise our property, lease it out, develop it, and sell it. So I got a taste for it."

Among the biggest deals he ended up doing with the propco was the $1bn (£600m) sale of the port of Hong Kong, following the break-up of shipping business Sealander, the international arm of which was sold to Maersk.

On leaving office in 2006 to be succeeded by Hank Paulson, Snow became non-executive chairman of Cerberus Capital Management, the New York-based private equity house that has around $25bn of assets under management.

The group's real estate arm has been among the most active investors in distressed



European real estate, buying up hundreds of underwater loans from the banks, including most recently the €1bn (£860m) project Bravo and Charlie portfolios from Lloyds.

"As long as there is this huge overhang of non-performing assets and the need for recapitalisation of the banking system in Europe, they will need capital from somewhere to get those non-performing loans off their books," he says.

"They are being told by the European regulators to do so. So I think that for the banking system there is a long run for the unloading of its non-performing assets. We are seeing only the beginning of it and the scale of it will probably get bigger."

More broadly he argues that the world is set for a period of lower growth; the UK should do "a little better than most".

But in general he is complimentary about his successors and their current economic management in the face of a crisis. Perhaps it is because he remembers the hot seat.

So what was it like working alongside President Bush?

"Bush was a wonderful guy to work with," Snow says. "He listened, he was thoughtful, he didn't micro manage but he had vision."

They remain in touch, says Snow, often appearing on the same speaking bills at international events.

"Now he is a relaxed man. He is really enjoying his post-presidency period," he adds.

Snow's most prominent legacy in office was probably a major tax bill he sold to Congress that introduced large tax breaks for the middle and upper class, the partial repeal of which made for one of Obama's biggest battles in office.

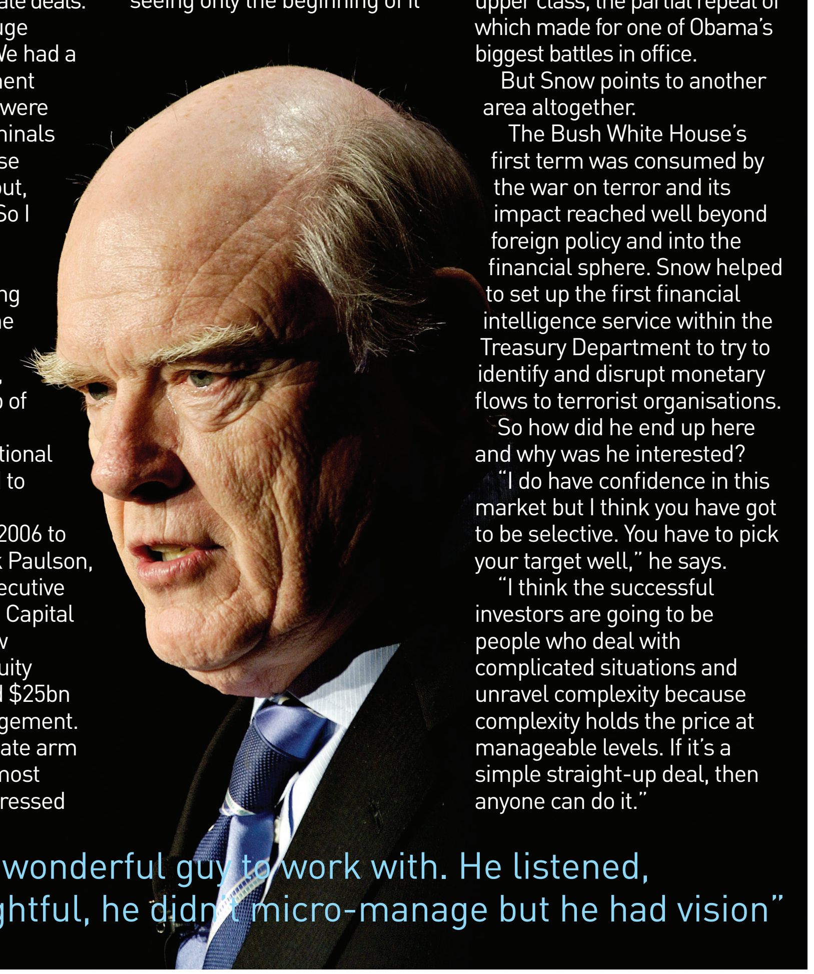
But Snow points to another area altogether.

The Bush White House's first term was consumed by the war on terror and its impact reached well beyond foreign policy and into the financial sphere. Snow helped to set up the first financial intelligence service within the Treasury Department to try to identify and disrupt monetary flows to terrorist organisations.

So how did he end up here and why was he interested?

"I do have confidence in this market but I think you have got to be selective. You have to pick your target well," he says.

"I think the successful investors are going to be people who deal with complicated situations and unravel complexity because complexity holds the price at manageable levels. If it's a simple straight-up deal, then anyone can do it."



"Bush was a wonderful guy to work with. He listened, he was thoughtful, he didn't micro-manage but he had vision" plan, build a team and then put it into action."

The City of London Corporation is cool on the prospect of conversion to flats, the scheme Westbrook apparently had in mind when it put the building under offer, so a refurbishment of the offices or redevelopment appears to be on the cards. No mean feat for Fosun, which has no-one permanently on the ground in London.

But that shouldn't be confused as a reason to write off the company. Anyone in doubt as to the scale of its ambition might have looked to a story in the US financial press that appeared the same day Lloyds Chambers closed. JP Morgan had just accepted a $725m (£440m) bid for its New York home at One Manhattan Plaza from Fosun.

As for Snow, Ryan and Lapushner, they will continue to bid for property here.

Fosun is their preferred partner, but not all the potential deals they see will suit the Chinese and between the three of them they have an extensive contacts book.

In the past few months they bid on an office building on the north bank of the Thames, Millennium Bridge House, that is due for redevelopment.

They were backed by a US investor on the deal but lost out to Indian group Shiva Hotels.

Their £290m bid for the Canadian Embassy building MacDonald House on Grosvenor Square – backed this time by a different Asian investor – was bested by another Indian group, Lodha, which agreed to pay £306m for the chance to convert the prestigious property into flats for the super rich.

And current targets include a luxury hotel in Rome, an office complex in Germany and a redevelopment opportunity in West London.

"The truth is that the world is a small place," says Lapushner, who claims he puts the enjoyment of doing the right deals ahead of the riches that could accrue from them.

"Guys we talked to on Lloyds Chambers that flaked out called us after it closed and said, 'we wish we had done that deal'."

Perhaps that's the punchline.

LAND OF THE RISING FOSUN? CHINESE GIANT PLOTS UK PORTFOLIO

Alain Chang, the softly spoken managing director of Fosun International and vice-president of Fosun Property Holdings, is unusually forthcoming.

The predominantly state-controlled Chinese investors which have come before have largely preferred to avoid the limelight when it comes to their UK property investments.

But quietly moving among the crowd at Lloyds Chambers, Chang is happy to lay out the company's vision for its embryonic UK business.

"We are interested in commercial properties with redevelopment or repositioning potential and at least for the moment we are not looking for core," he says.

"We don't have a hard target but if we see deals that meet our criteria, they could be going into the billions because we can syndicate and bring in partners."

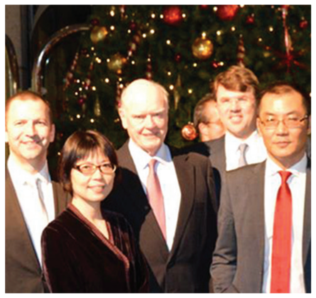
The confidence is reflected in Fosun's spectacular rise.

Founded by four university classmates in 1992 as a pharmaceutical business, today it is the largest privately owned company in China and has investments in a diverse range of industries.

Fosun's biggest platform is its insurance business, which has grown exponentially through a string of daring acquisitions.

In 2007 Fosun bought a 20% stake in Yongan P&C insurance; in 2011 it announced a $78m (47.5m joint venture with the Prudential; in 2012 it paid $468m for Hong Kong-based Peak Reinsurance; and last week it secured a deal to buy 80% of Caixa Seguros, Portugal's largest insurer, beating US private equity giant Apollo with a €1bn (£830m) bid.

And it holds similar ambitions in real estate, a business which already accounts for around $12bn of its $30bn AUM. It recently made a successful bid for JP Morgan's New York



headquarters at One Manhattan Plaza (pictured, below).

"For the London market we would like to invest in more assets, but if there is a platform we would be interested as well," says Chang.

"It could be a real estate asset management platform, it could be a public vehicle with a portfolio of assets, or it could be an operating brand, because we are also interested in hospitality."

In China the company's real estate platform is focused on residential development, a market it is considering entering in the UK.

But for now Chang says it will focus on building a platform with the right people in the UK before his company considers wholesale development projects.

"Until we have the

infrastructure we will focus more on existing assets with redevelopment and repositioning potential," he says.

The company's initial focus will also be on London, but he does not rule out deals in other UK cities. "We just entered this market, so we want to explore London a little more before we start thinking about other UK markets," he says.

"Whether we do deals in cities such as Manchester depends on the return profile. We are quite open and flexible and right now we are looking not just in London but also in a few continental markets.

"But if the return profile reduces in London then we will look for preferable areas."

Nor will the investment be only one way.

Among the opportunities that interest the company is buying a hospitality business it can move into the Chinese market.

"It's a combination of operations and real estate. We think there is a lot of synergy," Chang explains.

"If it's a really good brand and has management expertise, we think there's opportunity to grow and break into the Chinese market because people are really going for lifestyle there."

Given the scale of this ambition, the comparatively modest acquisition of Lloyds Chambers might seem unusual.

But Fosun is desperate to be seen as the smart money here, and keen to distance itself from sovereign wealth investors that have been happy to buy trophy assets at extremely low yields.

"This one was really interesting and unique and the location is up and coming," says Chang. "There's a lot of new development in this area and the City is putting more investment into it and improving the infrastructure, so we think values will go up."

"We don't have a hard target but if we see deals that meet our criteria they could be going into billions"