



General Mills sublease to Fredrikson & Byron, Pillsbury Center

Delay in approval for General Mills-Pillsbury merger kept leasing team on its toes

BY SCOTT D. SMITH STAFF REPORTER

Fredrikson & Byron's lease for 148,000 square feet in the Pillsbury Center was one of the largest transactions of 2001. It was also one of the most complex, since it depended on the merger of General Mills and Pillsbury.

The deal worked for both Golden Valley-based General Mills Inc. and Minneapolis-based Fredrikson because it allowed the law firm to economically move 400 employees into seven floors of a premier building for the next 14 years, while also allowing General Mills to avoid a significant liability during its merger.

In summer of 2000, General Mills announced an agreement to acquire Pillsbury from Diageo. As part of that merger, General Mills planned to expand its headquarters in Golden Valley and consolidate employees from various locations including the Pillsbury Center in downtown Minneapolis.

Around the same time, Peter Kitchak, president of Minneapolis-based Keewaydin Real Estate Advisors, was looking for about 130,000 square feet of space for client Fredrikson & Byron. The law firm's lease at the International Centre in Minneapolis was scheduled to end in May of 2001.

At that time, the office market was tight, and Fredrikson was concerned that it would not be able to find a large enough block of space to meet its needs. The firm was also considering a merger and needed an expansion option totaling tens of thousands of square feet.

Kitchak knew that General Mills would most likely vacate space at the Pillsbury Center almost immediately after the merger. At that time, the deal between the two food giants was expected to close by the end of 2000.

He also knew that if a sublease deal could get done before the merger, it could save General Mills a huge amount of money, he said. Without Fredrikson or some other tenant taking the Pillsbury space, General Mills would have been

forced to write off the cost of the lengthy lease as a loss.

"I thought it was very creative on Peter Kitchak's part to identify the opportunity," said Eric Anderson, a Fredrikson shareholder and real-estate attorney who managed the firm's search for a new home. "I think that he was the first to recognize that [open space in the Pillsbury center] was going to occur."

The next part of Kitchak and the leasing team's strategy was to approach General Mills with a fairly detailed proposal. General Mills hired Russ Nelson of Minneapolis-based real-estate consulting firm Nelson, Tietz & Hoyer as its representative in September of 2000. By February of 2001, the parties had a fully negotiated sublease agreement, contingent on the merger. The gross rental value of the transaction is \$67 million.

That deal included expansion options that Fredrikson wouldn't have been able to get anywhere else, Anderson said.

But that wasn't the end of the team's work. The Federal Trade Commission delayed the General Mills-Pillsbury merger while antitrust issues were resolved, thus making life harder for the small leasing team back in Minneapolis.

Fredrikson was forced to extend its lease at the International Centre to Oct. 31, without knowing when the deal would actually close. After months of negotiations, regulators finally approved the General Mills-Pillsbury merger. It just happened to go through on Oct. 31.

If the merger wouldn't have happened by that day the transaction might have fallen apart, sources said.

Fredrikson is staying in the International Centre until the build-out of its Pillsbury Center space is completed. General Mills helped the law firm bear the cost of its lease extension by allowing more money for tenant improvements. Fredrikson plans to move into 148,000 square feet on floors 34 through 40 of the Pillsbury

■ project credits

Tenant: Fredrikson & Byron

Tenant broker: Peter Kitchak

Tenant brokerage: Keewaydin Real Estate Advisors

Sublessor: General Mills Inc.

Sublessor broker: Russ Nelson

Sublessor brokerage: Nelson, Tietz & Hoyer

General contractor: Ryan Cos. U.S. Inc.

Architect: Hammel, Green and Abrahamson Inc.

Lessor's attorney: Faegre & Benson

Gross rental: \$67 million

Center — up from the six floors they originally considered — on July 18.

The deal was unique because it filled space before it was vacant, and both sides assumed a significant amount of risk to make it happen, since the sublease was contingent on the General Mills-Pillsbury merger, said Steve Chirhart, vice president of Minneapolis-based Griffin Cos.

Making the deal happen and meeting the timing deadlines was "extremely challenging" for all parties, but those involved were creative and tenaciously worked to make it happen, Nelson said.

Anderson said that was important given the complexity of the transaction. "It was the kind of transaction, where if the people were not [professional], it would have been hard to get done," he said.

Kitchak said the deal was beneficial to Fredrikson. "I've done a lot of deals of that size [about 150,000 square feet], and this is the best deal that we have done economically in the last 10 years," Kitchak said.

Though the deal benefited those involved, it probably had a negative impact on the market from a landlord's perspective, since it put new space on the market in exchange for sublease space, which technically is rented space, said Chirhart.