BUYER TO CART OFF BUILDINGS AT HALF PRICE

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Legacy Partners has emerged as the front runner to buy Inktomi's troubled campus in Foster City, according to sources close to the deal.

If it closes, Legacy, which is headquartered in the Third Avenue, two-building development, will buy it for around $175 a square foot – after selling it to Inktomi for nearly $400 a square foot earlier in the year. The project is called Bayside Towers and is located on Highway 92 at the foot of the San Mateo Bridge. The Campus offers spectacular bay views.

Legacy will partner with Walton Street Capital Fund, which will put around 85 percent of the equity into the deal. New York-based Walton has been a Bay Area investor in the past, backing Pacific Shores Center, 100 Pine St. in San Francisco and the San Jose Marriott.

San Francisco-based Dennis Wong and his SPI Holdings had the two-building campus under contract but bowed out last week. Wong was in first position and hoped to pay $190 a square foot, but didn't close because tax benefits didn't materialize. He also may have been spooked by the tenuous lineup of tenants in the building.

Legacy developed the site, is housed in 60,000 square feet of the project, and was in second position. It immediately stepped in after Wong backed out, and now has the 268,000 square feet under contract, sources said. It will likely downsize its office to 30,000 square feet. Legacy is betting that the market will rebound and it will be able to lease it up, should Inktomi fail.

A Legacy of Problems

Legacy is a commercial and residential developer well known on the Peninsula. It developed the site for Inktomi in the late 1990s, when the then-hot search engine support technology company's stock was soaring to well over $200 a share. Inktomi signed a synthetic lease in August 2000, but when the dot-com boom went bust, it violated the terms of the five-year agreement by not maintaining minimum levels of profitability. It was required to purchase the development.

Inktomi is close to being delisted on the NASDAQ stock market because of its poor performance. With its revenue continuing to plummet in the high-tech downturn, Inktomi needs the sale to raise cash.

Forced to terminate its synthetic lease and buy the buildings from Legacy, Inktomi paid $112 million earlier in the summer, according to Tom Masles, vice president of operations at Inktomi. Inktomi now wants the sale back to Legacy to close quickly. It's doubtful this deal will close before the end of the year, however.

Bottom feeders have swirled, but the big problem in selling the project was the question of whether Inktomi will stay in business. With Inktomi occupying about half the space, concerns over having an anchor tenant loomed large. Investors who have looked at the site include Lend Lease and CarrAmerica, as well as Wong's SPI Holdings.

Inktomi was asking around $190 a square foot, but that was considered too high a price because Inktomi's tenancy is so tenuous.

"This property should go for less than $170 a square foot because there is too much doubt about Inktomi as a creditworthy tenant by the banks," said an executive with a major real estate investment fund who considered the acquisition.

Masles acknowledged a private partnership has the building under contract and is doing its due diligence. He declined to name the potential buyer. Legacy also declined to comment on the potential deal.