

OFFICE/INDUSTRIAL ACTIVITY

Developers and investors alike race for space in the West.

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Developers and investors are honing their strategic growth plans to take advantage of prime conditions in the western office and industrial sectors. Location, population growth, job growth and shrinking land availability has demand high. Nobody can just throw a net anymore and expect to catch a prime property or development opportunity.

Office Activity

Las Vegas

According to Applied Analysis' third quarter 2005 Indicator Brief, the Southern Nevada economy is adding an average of 5,200 jobs per month. Nevada's pro-business tax system was ranked sixth best in the nation by the Tax Foundation in 2004, according to the brief. These reasons and many others keep companies on the lookout for office space in the Las Vegas area.

Thomas & Mack Development Group (TMDG) continues its 10-year commitment to developing quality suburban office projects in master-planned parks throughout the Las Vegas Valley with the unveiling in fall 2005 of Corporate Gateway I, the first multi-story office building constructed in the 400-acre master-planned Beltway Business Park, which is a joint venture between TMDG and Majestic Realty Co.

At build-out, Corporate Gateway will consist of six buildings totaling 470,000 square feet of Class A office space. The 73,000 square-foot Corporate Gateway I is currently leased to American Family Insurance and InfoGenesis. Construction of Corporate Gateway II is underway with completion slated for August 2006.



Corporate Gateway I is the first multi-story office building being constructed in the 400-acre master-planned Beltway Business Park in Las Vegas.

“With land values continuing to rise in the Valley and construction costs being impacted by steel and concrete shortages, rental rates in new buildings are now exceeding \$36 per square foot per year, a historical high for this market,” says Tim Snow, president of Thomas & Mack Development Group. “Being able to provide a lower cost alternative (with tilt-up versus steel construction) in an institutional-looking building satisfied a growing segment of the market that is balancing economics and corporate image.”

The fourth flex-office building totaling 50,000 square feet is under construction as well. The Beltway Business Park offers office, industrial and retail space with full interstate access to I-15 and the I-215 Beltway, with I-215 frontage.

Arizona

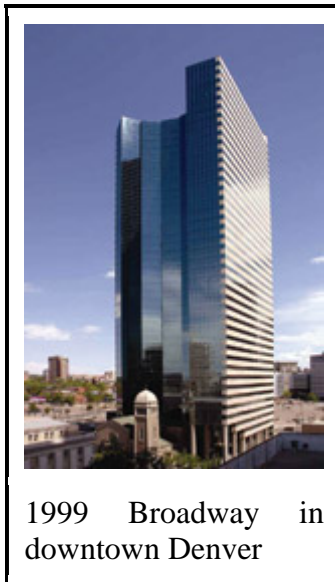
In Chandler, Arizona, at the northeast corner of Chandler and Gila Springs boulevards, McMahon Development Group purchased 18 acres of land for \$5.84 million. The Solana Beach, California-based developer plans to develop Chandler Midway Corporate Center, a mixed-use office park with 110,000 square feet of Class A office space and 79,000 square feet of office condominiums.

McMahon Development Group will develop the office park in two phases, the first of which — a two-story office building and four one-story office condominiums — will be completed in May.

Denver

California-based Broadreach Capital Partners LLC and Chicago-based Transwestern Investment Company LLC joined forces with local investor and operator Equity West Investment Partners LLC in December to purchase 1999 Broadway, a 642,000-square-foot, 43-story Class A office tower in downtown Denver. Winthrop Financial Associates sold the property for \$77.65 million.

Located at 17th and California streets, 1999 Broadway was the last high-rise building to be constructed in Denver's central business district. Besides its unique design, 1999 Broadway benefits from being located directly across the street from a light-rail stop servicing both north and southbound trains.



Southern California

GVA DAUM reports the following third quarter vacancy and absorption numbers for key Southern California office markets: 12.9 percent vacancy, down 1 percentage point from the prior quarter, and 6.4 million square feet in Los Angeles County; 9.1 percent vacancy, a 1.3 percentage point decrease from second quarter, and 2.8 million square feet in Orange County; and 8.1 percent (a 4-year low) and positive net absorption in Ventura County.

Westlake Plaza Center East LLC, a joint venture involving Newport Beach, California-based Steadfast Business Properties and Denver-based Amstar Group, has acquired more than 28 acres in Westlake Village, California, to develop 482,215 square feet of office space. The Westlake Plaza: Steadfast Signature Collection will be a new suburban office

complex consisting of eight buildings in the Conejo Valley, which has a vacancy rate of a little more than 7 percent, according to GVA DAUM.

“This is our first office project in the Conejo Valley market,” says Ralph Deppisch, vice president, business properties, with the Steadfast Companies. “Though not a large market, there is approximately 9.5 million square feet of office space and the vacancy rate continues to tighten, especially in the Class A arena. The difficulty and length of time it takes to obtain approvals/entitlements in this region makes it a market with a high degree of barriers to entry.”

The Steadfast Signature Collection will be low-rise, suburban office product with architect, Behr Browsers Architecture Inc., handling the design work. Groundbreaking on the office development will occur in early spring. Deppisch says that the Conejo Valley's office market fundamentals are very similar to Orange County and parts of San Diego County.

Hines was impressed enough with the Orange County office market to commence its first project there. The privately owned real estate firm will develop 2211 Michelson, a \$90 million, 260,000-square-foot Class A office building in Irvine.

“The opportunity to develop prime land as a joint venture partner with Crescent in what is rapidly becoming a true CBD emerging in the John Wayne Airport submarket of Irvine provided the perfect entry into the market,” says Senior Vice President Doug Holte, who heads up Hines' Orange County office. “As the region has matured and the amount of entitled land for commercial development has tightened, Hines is finally seeing the fundamentals that make Orange County a target for long term investment.” The 2211 Michelson office development kicks off a \$1 billion Orange County growth strategy for Hines.

Just down the road, Hines acquired its second San Diego office property, the three-building, 220,000-square-foot Pacific Plaza in the Del Mar Heights/Torrey Hills submarket of the city. The purchase was made on behalf of National Office Partners Limited Partnership (NOP), Hines' investment partnership with the California Public Employees' Retirement System (CalPERS).

“As land in San Diego County capable of supporting new office development dwindles and job growth continues in the office sector, it is expected that barriers to entry will continue to rise along with rents and occupancy, characteristics of a healthy market,” says Holte. “San Diego has come into its own as an independent office market in Southern California due to its high quality of life, dedication to education and clustering effects of high-tech, bio tech, professional service and government agencies seeking to capitalize on the region's benefits.”

In one of the biggest office deals of late 2005, RREEF purchased Emerald Plaza in downtown San Diego for more than \$123 million. Santa Ana, California-based Triple Net Properties sold the 364,000-square-foot Class A office building. Located at 402 West

Broadway and a fixture in San Diego's skyline because of its unique design, the 30-story office tower was 88 percent leased by approximately 50 tenants, including the San Diego Regional Chamber of Commerce, at the time of sale.

Industrial Activity Phoenix

The bright commercial real estate outlook in the Valley of the Sun has spurred Brookfield Asset Management (formerly Brascan Corporation) to make its initial foray into the Phoenix market. As part of a 25-property, \$177 million purchase from Developers Diversified Realty through its Brascan Real Estate Opportunity Fund, Brookfield acquired two properties in Phoenix in early fall 2005 — the 155,000-square-foot Gateway West office building and Washington Business Park, a 137,000-square-foot industrial property.

“Brookfield Asset Management has a strong residential housing business in California, but Phoenix is the only western city that we are in at the moment in the commercial real estate sector,” says Katherine Vyse, senior vice president, investor relations and communications, for Brookfield. “However, the level of growth in Phoenix does place it in a unique category compared to other cities in the United States.”

Central California

Recognizing the strategic industrial importance of the central California corridor, Oneida Ltd. and IKEA signed leases totaling 570,000 square feet at the 1,450-acre Tejon Industrial Complex (TIC) in Kern County. IKEA, one of the world's largest home furnishings retailers, now occupies more than 2 million square feet at the TIC.

“With its position directly on the Interstate 5, both California and the West Coast's most significant north-south trade arterial, just south of the Highway 99 interchange, the Tejon Industrial Complex anchors California's central trade corridor,” says Barry Hibbard, vice president commercial and industrial marketing for Tejon Ranch Co. “This position allows logistics-driven firms to reach 96 percent of California's major markets in an 8-hour turnaround, while also providing diversified port access to the state's major maritime centers.”

Hibbard says that Kern County and the Bakersfield market's centralized location in relation to California's major ports, access to all modes of commercial transportation, available land for new development and strong workforce fundamentals mean the TIC will be making industrial leasing (and development) headlines like this for a long time.

Southern California

In perhaps the largest mid-cities industrial transaction of 2005, St. George Distribution Inc. signed a 454,826-square-foot industrial lease at Golden Springs Business Park in

Santa Fe Springs, California. The firm will relocate from Torrance to 13300 Carmenita Rd. St. George signed for 10 years with landlord Thrifty Oil.

”It is not surprising that St. George should have significant growth requirements in the Southern California market with the tremendous volume of consumer goods being shipped through the ports of Los Angeles and Long Beach,” says David Kim, corporate managing director for Studley’s Industrial Services Group, which represented the third-party distribution company in the lease. “The Santa Fe Springs market provided the best economics that did not have the absolute premium of the South Bay while still offering excellent proximity to the ports.”

Los Angeles-based Lowe Enterprises has purchased a 15-acre industrial site in Fullerton, California, with plans to develop 260,000 square feet of small, for-sale buildings, ranging in size from 7,500 to 15,000 square feet. Johnson Controls Battery Group sold the north Orange County property and will lease back its 182,966-square-foot building for at least 1 year while clearing the rest of the site for Lowe’s future development, its first in Fullerton.

“Lowe continues to be very bullish on the Orange County market,” says Rick Newman, president of Lowe Enterprises Real Estate Group, western region. “As the supply of vacant land in Orange County has diminished, Lowe has focused its development strategy on in-fill redevelopment opportunities.”

The site offers easy access to the 91, 57 and 5 freeways, the region’s major transportation corridors. Buildings will be designed to accommodate office, warehousing and light-manufacturing uses. Lowe Enterprises expects to start construction in fall 2006 with completion slated for fall 2007.

In its first foray into the Southern California market, Chicago-based McShane Corporation has teamed up with MetLife Real Estate Investments in a \$50 million joint venture to develop the 250,000-square-foot Shenandoah Way in San Bernardino, California.

“This move exemplifies the direction of future industrial growth in the Inland Empire, shifting from the historic core area surrounding the Ontario Airport and moving north, east and south along the regional freeway system,” says Stephen Hess, vice president of McShane Corporation’s Western Regional office. “The scarcity of available, affordable and developable land is the force behind this directional growth.”

The prime 13.54-acre Shenandoah Way industrial site, located on Shenandoah Way in the University Business Park in San Bernardino, was acquired by the joint venture in September 2005. McShane Corporation will break ground this winter with tenant occupancy slated for this summer.

A joint venture between Patriot Drive Holdings LLC and Mark W. Ossola will acquire and develop the Corporate Center at Moorpark Village, a planned light-industrial park

located in Moorpark, California. Pacific Coast Capital Partners LLC (PCCP) committed \$42.9 million in financing to the venture.

“We view the overall Los Angeles and San Fernando Valley market as extremely attractive, especially the for-sale market,” says Hal Pohl, vice president of Pacific Coast Capital Partners. “Pricing and demand are very strong. There is little new product, low vacancy and it is difficult to find available sites. Additionally, it is very hard to find a site with entitlements for industrial product.”

With proximity to both the 118 and 23 freeways in Ventura County, the property will total 465,000 square feet of industrial space, with individual buildings ranging in size from 5,000 to 40,000 square feet. Groundbreaking is scheduled to begin in March 2006.