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Creative SIORs Find Solutions Where Others Saw Only Obstacles

by Steve Lewis

Steve Lewis is the president of Wordman, Inc., a marketing/public relations firm in Atlanta, Georgia. He served as editor of the National Real Estate Investor *for eight years. He was also the real estate editor of* Business Atlanta *and the editorial director of the Real Estate Group of publications at Communications Channel's Inc., which includes* Southeast Real Estate News, Southwest Real Estate News, *and* Shopping Center World. *His firm represents developers and contractors in the Atlanta area, and he continues to write freelance articles about the real estate industry.*

A prospective tenant "sells" the building it plans to occupy for a $2 million profit before its lease even begins; another finds a 220,000-square-foot building for a client that initially only needs 20,000 square feet. These are just a few of the "war stories" several SIORs have agreed to shared with us, in our search for some of the most creative deals put together by your colleagues. In this two-part series, we will share their experiences with you; we hope you find their stories both fascinating and educational.

Here's a Deal Where the Tenant Makes a Profit!

A team of professionals at Colliers Turley Martin Tucker (CTMT) in Indianapolis recently successfully executed a tenant representation strategy whereby they negotiated a 456,000 square foot leasehold arrangement on behalf of their client that included an option to purchase the facility at a fixed price prior to lease commencement. They marketed the option to purchase for their client, and achieved a price premium of $2 million.

"This was a Fortune 100 company that has its own corporate real estate department, but with whom we had been working on assignments over several years," recalls **Patrick Lindley, SIOR**.

"Facilities [in this market] had recently gotten much larger; being in logistics, they wanted 400,000-500,000 square feet. The number of institutional investors looking to acquire big bulk facilities was at an all-time high, as were prices. The opportunity presented itself for us (1) to position ourselves in the transaction where we were signing a

lease [with the current owner], …and (2) to negotiate an option to purchase the property at the same time we were negotiating lease rates."

The goal, he says, was to get a new owner and put some profit in the pocket of his client. "The prices investors were willing to pay based on low cap rates was typically substantially higher than total construction costs would be, so we had a gap of opportunity," he explains. "Most developers sign leases and then sell the building to make a profit. We put our client in the middle, so they could make the profit."

The Colliers Turley Martin Tucker team took the option to the open market, found an investor, and assigned the purchase agreement (a right they had negotiated as part of the deal) to that investor. The client made their profit, and they got a good market rental rate to boot.

So, did the tenant actually pick their future landlord? "To a degree they did, but in this case there was more interest in maximizing the profit," says **Jeffrey Castell, SIOR, CCIM,** Senior Vice President, Industrial Services at CTMT. "In this case, we identified a landlord, and that new landlord inherited a lease that had already been negotiated and assumed all the terms and conditions."

This was a case, says Castell, of "an opportunistic play we recognized because of market conditions." With a vacant building such as this, the value increases dramatically when you add an investment grade lease, he notes. "And, we demonstrated to the client how they could capture this profit potential," Castell adds. The lease in and of itself was competitively bid, so if the owner never sold the building they still made a competitive lease deal, so [the sale] was gravy."

This is not the type of deal that gets executed on a regular basis, Castell emphasizes. "You have to have a competitive environment with more than one lease alternative for your client," he notes. "It's certainly an uphill battle if there's only one owner with a building that will suit your tenant. The fact that we were dealing with investment-grade credit made it more appealing, and landlords were more aggressive and showed more latitude in terms of an option to purchase. When you talk to five or six different developers, you have leverage; certain developers will pass, but we had two or three who were willing to do it. Ultimately, the seller agreed to a sales price they were comfortable with, and we ended up with a client that was very pleased with our efforts; it was the proverbial win-win."

It Ain't Over 'til the Contract Is Signed . . .

Everyone in town believed it was a done deal; Wal-Mart was going to purchase the 600,000 square foot Tampa Internation-al Center, and there was nothing anyone could do about it.

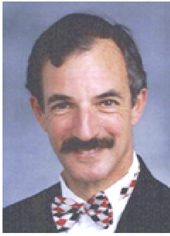
Everyone believed it, that is, except for **Robert J. Dikman, ALC, CCIM, CRB, SIOR,** of The Dikman Company, Tampa, Florida. "This was a 'white elephant' building here in town, built in the '30s or '40s and formerly owned by a canning company," he recalls. "They moved out in 1982, and it was sold to an insurance company, who turned it into a multi-tenant building. It did quite well for a long time, and then they sold it to America's Capital Partners in 1999-2000, who bought it to do a telecom hotel."

That owner got MCI in the building for about 10,000-15,000 square feet, and they signed some additional tenants, but the plan never really panned out. "They had become disenchanted, and they 'unofficially' had it for sale," says Dikman.

Enter Wal-Mart. "They had been chasing the site for about year or so, floating trial balloons," says Dikman. "The papers were saying it was practically a foregone conclusion."

In the meantime, Panattoni Development had entered the Florida market, and was looking for 'interesting' properties. "Panattoni is a creative developer, and they wanted me to show them something interesting that was not being chased by 100 other people," Dikman explains. "This thing jumped out at them; they paid $8.25 per square feet for the land, while the land across the street sold for $50 a square foot and land down the street was selling for $100." (The land, by the way, sits on state road 60 with a highway ramp.)

Some people, says Dikman, "Didn't see the forest for the



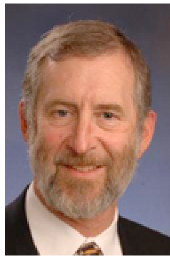
trees" when it came to this site. Panattoni envisioned an adaptive reuse project for the 30-acre downtown site.

And what about Wal-Mart? "Wal-Mart is a slow-moving train," says Dikman. "They are among the largest corporations in the world, and they have their methodology. What was interesting about this site was that since it was zoned industrial, you couldn't stop Wal-Mart, and the neighbors really liked the idea, but they kept dragging their feet. During that time, my client stepped up to the plate, got in a bidding war, and before you knew it, it was a done deal."

Panattoni closed three months after it put the land under contract. "Their plan is to turn it into a retail play, and the interesting thing is we may eventually have Wal-Mart on the site," says Dikman.

The bottom line to this success story, he says, is, "Some brokers might not have even shown this property. After all, it was not officially on the market!"

Solving the Ultimate Challenge in Space Flexibility . . .



For **Raymond Ahrens, SIOR,** Vice President, Corporate Representation Services, for Colliers in Vancouver, BC, it was the ultimate case of "good news, bad news." The good news was that a year ago, he was selected to lead a team that was engaged by the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Games to help them secure 220,000 square foot of office space. The not-so-good news:

- He needed to find his client space that would allow them to grow from 20,000 square feet in 2005 to 220,000 square feet by 2010—and then back to zero in three months.
- The Vancouver office market was and still is tightening up rapidly—seven percent vacancy with no big blocks of space available.

There was no time to build anything, and costs were prohibitive.

His solution? Have the host city buy an industrial complex with an industrially zoned but office-usable component. "We did something a little unusual," he says modestly. "Our company had been in business in Vancouver since 1898; we were very active in the community, and got involved in a lot of sports events. When we won the [competition to host the] games and this task came up, we became pretty passionate. We knew they faced this extreme space shortage, so we started by talking to all the major organizations that had space in the city, to see if we could relocate them and free up blocs of space in downtown."

But people could not simply up and move so easily. "Then, we started to encourage the space users to move to the suburbs, but with a 1.3 million square foot convention center expansion under way, there was a lot of reason to be down in the core," says Ahrens.

Then, there were timing issues. One bloc of 60,000 square feet was available, but the committee only needed 20,000 square feet right away. What could be done with the surplus space?

"We started looking at conversion opportunities outside of the downtown core," Ahrens recalls. "But costs started to look really prohibitive, and after the committee used it for a relatively short term, then what?"

So Ahrens looked at an industrial building. "It had been around awhile, but nobody had looked at it because it was zoned industrial," he says. "A hi-tech company had basically developed an office building next to a manufacturing building. We ended up making a presentation to the city to get it rezoned."

In order for that to happen, the city had to buy the building. "They bought it at a price that made the owner very happy—he got much more than its industrial value—and the city ended up with an office building that cost less than a typical office building," Ahrens says. "They then leased it to the Olympic Committee at the city's cost of capital." This, he notes, enabled the Olympic Committee to lease office space at industrial rates—about 25 percent of the cost they faced in a conventional solution.

When the Olympics are concluded in 2010, Ahrens says, "The city may utilize the building themselves."