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Real Estate Investor Makes Aggressive Strategy Payoff

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ScanlanKemperBard Cos. recently secured the \$41 million acquisition of the American Bank Building, Jackson Tower and Mohawk Building by making a fast, aggressive offer for the historic buildings.

"Two offers were greater than ours, but they were made subsequent to our original offer and its acceptance," said Robert Scanlan, principal of ScanlanKemperBard

Cos. "Had we not closed, I think these historical buildings would have sold for a greater value."

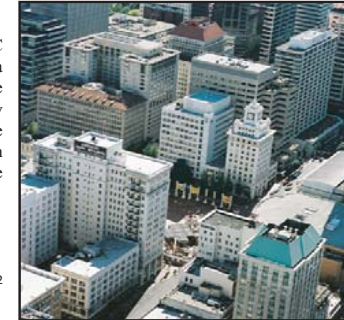
Scanlan believes SKB beat the competition to buy these buildings by offering the seller a relatively short, 30-day due diligence time frame and \$500,000 in non-refundable earnest money with a promise to close by Dec. 30, 2002.

The buildings' former owner, Chicago-

based Transwestern Investment Co. LLC (TIC), acquired all three Portland-area buildings as well as 16 other out-of-state properties on behalf of Aslan Realty Partners LP, a TIC-sponsored real estate fund. The March 24, 2000 acquisition included 900,000 square feet of mixed-use retail and office properties.

Scanlan said the company decided to...

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divest its assets in secondary markets such as Portland and Austin, Texas, where it didn't own enough real estate to create economies of scale. "When you make a strategic decision to sell, you want to get it over with as quickly as possible," he added.

All three buildings have street-level retail space. Jackson Tower is anchored by Margulis Jewelers at the corner of Southwest Yamhill Street and Broadway; it has 11 stories of office space and a total of 51,361 square feet. The American Bank Building at 621 S.W. Morrison St. is anchored by The Gap and has 13 stories of office space, totaling 163,168 square feet. Built in 1913 and 1914, respectively, both buildings are on the National Register of Historic Places.

The Mohawk Building, anchored by Borders Books & Music at 708 S.W. Third Ave., has three stories of office space and 67,699 total square feet. It is actually two buildings; the main building was constructed in 1902 and an addition, the Mohawk Gallery, was built in 1940.

Interface Engineering celebrated its new office space there with an open house Jan. 9.

Scanlan said SKB was able to make an "opportunistic" investment in these buildings because they are too large for individual investors and too small for institutional investors.

"Institutions would look at this as an office play, because 85 percent of the space is office, and they're not going to get excited about owning office space in Portland, Ore. in 2003," because of high vacancy rates, Scanlan said. "But we see the opportunity in retail. If you just hang onto the asset for a while and wait for the retail leases to expire, you've got an upside, because the leases were made several years ago and are by definition below market rates."

Many of SKB's individual investors live in the Bay area. Scanlan explained the acquisition to them by comparing Portland's Pioneer Courthouse Square to San Francisco's Union Square.

"We were much more concerned with what the real estate is and where it is than who is

in it," Scanlan said. "We look at intrinsic - regardless of who is in it, if you have sound locations and a competitive building, you'll have good tenants."

Furthermore, Scanlan said he'd rather compete for tenants with what he calls "Class A historic" buildings in "100 percent locations" that have been asking rental rates typically \$8 to \$9 dollars below actual Class A building asking rates. Many of these newer buildings have less-than-ideal locations, he added.

"I'd rather try to get 60 or 70 percent of the maximum rental rate in the best location, rather than trying to get top-of-the market in rents in a lesser location," Scanlan said. He estimated that retail rental rates, because of their ideal locations, could increase as much as 50 percent when the leases are renewed. A full-service retail lease in the American Bank Building is approximately \$24 to \$30 per square foot, far less than Williams-Sonoma's recent lease in the Kress Building, which was reportedly approximately \$45 per square foot.

SKB acts as a merchant banker for its

investors, and Scanlan expects investors to realize an approximately 12 percent cash-on-cash return on these properties. That is, if an investor has \$100,000 interest in these buildings, he or she will earn 12 percent annual cash returns, or \$12,000. Scanlan added that SKB's strategy is typically to hold properties for four to six years; when these assets are sold, he expects investors to realize an additional 7 percent return from appreciation.

Tom Fellman of Portland's CB Richard Ellis office and Bill Palmer, principal of The Palmer Team with CB Richard Ellis in Sacramento negotiated the transaction on behalf of both parties.

SKB has acquired nearly \$70 million in assets in the past five months, including the \$7.3 million Sunrise Corridor Business Center in Clackamas and the \$21 million Uptown Shopping Center on Northwest 23rd Avenue and Burnside Street. □

SKB