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IN THE PIPELINE (Feb. 1-7): Construction Spending Down, Delinquencies Up

Weekly CoStar Column Spotlights Trends, New Projects and Construction Entering (Or Leaving) the Commercial Real Estate Development Pipeline

This week, commercial and other nonresidential construction continue to decline, according to new Commerce Department numbers. Legacy Partners cuts the ribbon on a new \$73 million mixed-use luxury rental community on L.A.'s Sunset Strip; Duke Realty sells nearly 15 acres in Chesapeake Commerce Center in East Baltimore City to the Maryland Port Administration; Tempe, AZ-based Global Entertainment Corp. signs an agreement to develop a \$41.5 million events center adjacent to a planned casino in Dodge City, KS, and electronics plating firm Gilead Sciences is expanding its reach in Foster City, CA.

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Pain Continues for Builders in December

New Commerce Department numbers show that both nonresidential construction and overall construction spending fell for a third straight month in December. Developers are finding it harder to find financing, and those holding debt are defaulting at the highest rate since 1993, according to preliminary data from Oakland, CA-based Foresight Analytics.

As it has for the past 18 months, huge drops in housing construction led the decline in December, falling 3.2% to a seasonally annual rate of just under \$320 billion. Total construction spending fell 1.4% in December and a record 5.1% for the year, blowing past 2007's 2.7% decline.

Private nonresidential construction fell 0.4% to an annual rate of \$417.9 billion -- though nonresidential building rose 15.3% for the year, the third straight double-digit gain. However, the credit crunch and weak economy will likely reverse that trend this year.

"During the months ahead, the ongoing recession will continue to show weakness in construction spending," said Anirban Basu, Associated Builders and Contractors chief economist. "Today's data indicates for the first time in the past several years that the value of construction put in place is now falling on a month over month basis."

Construction loan delinquencies have topped the 9.7% registered at year-end 1993 but are still somewhat below the 16.1% at year-end 1992, according to preliminary fourth-quarter estimates of residential, commercial and construction loan delinquency rates by Foresight Analytics, based on earnings reports and call report filings from several larger banks and many smaller banks.

The data shows that delinquencies on residential mortgages are still rising, albeit at a slower rate, while delinquencies on commercial mortgages are just beginning to accelerate. The total delinquency rate for commercial mortgages rose to an estimated 2.6% in the fourth quarter, up from 2.1% in the previous quarter and 1.6% at year-end 2007.

"While single family construction loans are by far the main source of problems, results for many smaller

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banks indicate rising delinquency rates for other construction sectors, including commercial real estate construction," according to the Foresight report.

Legacy Partners Completes Luxury Rentals On LA's Sunset Strip

Legacy Partners has announced the completion of the 7950 W. Sunset, a new \$73 million mixed-use luxury rental community featuring 183 apartments and ground-level retail located on the famed Sunset Strip.

The Foster City, CA-based developer crafted a long-term ground lease with the Director's Guild of America in 2005 to replace an existing parking lot and develop the five-story Class A apartment project on Sunset at Hayworth Avenue, with views of the Hollywood Hills and downtown Los Angeles.

The project features single-story flats and town homes ranging in size from 590 to 1,238 square feet, along with 13,282 square feet of restaurant/retail space on Sunset Boulevard. Retail and restaurants include Wells Fargo, Fresh Bites, Pizza Fusion and San Sai Sushi. The project also features three levels of parking for future residents, guests, shoppers and Director's Guild patrons as well as two levels of privately controlled access subterranean parking for residents.

The upscale apartments will range from \$2,100 to \$4,600 per month. There are 28 studios, 81 one bedrooms and 74 two bedroom homes available for lease. In addition to luxury designs, the community has a sports lounge, infinity edge swimming pool, fitness center, business center and other accoutrements.

The project team for 7950 W. Sunset includes Legacy Partners Residential, Inc., developer and property management; Legacy Partners Builders, Inc., general contractor; AIG Global Real Estate, financial partner; Guaranty Bank, lender; Thomas P. Cox Architects, Inc., architecture; HRP Landdesign, landscape architecture and design; Fuscoe Engineering, civil engineering; Natural Graphics, graphics and signage; and Faulkner Design Group, interior design.

Duke Sells Land to Maryland Port Administration

By Laurie Forbes

Duke Realty Corp. sold 14.6 acres in Chesapeake Commerce Center in East Baltimore City to the Maryland Port Administration for \$5.25 million, or approximately \$359,466 per acre. The MPA, which operates the Port of Baltimore, will use the land at 2001 Broening Highway for cargo and storage.

Duke, an Indianapolis-headquartered developer, purchased the site of the former General Motors Broening Highway plant two years ago to develop Chesapeake Commerce Center. The 184-acre park includes two fully leased industrial buildings that total 459,600 square feet.

Last June, Merchants Terminal Corp. acquired 13 acres to build a food distribution center. Duke has 133 acres remaining for development. The park can accommodate up to 2.8 million square feet of distribution, warehouse and office space when completed.

The seller used in-house representation. Broker information for MPA was not disclosed. (CoStar COMPS #1637144)

Duke Chosen for Interior Work in New Medco Facility

In another project, Duke's construction arm -- already handling the exterior shell for Medco Health Solutions, Inc.'s new fully automated dispensing pharmacy under construction northwest of Indianapolis, IN -- will finish out the interior of the building as well.

Duke Construction was chosen to complete the shell for Medco's new facility when it decided to move to

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AllPoints at Anson, the commercial district of the 1,700-acre, mixed-use community, in December 2007. However, the interior finish portion of the project was not part of the original shell building contract. Instead, Medco issued a separate RFP for interior finish and reviewed bids by four contractors before choosing Duke.

The project will include finishing out 402,398 square feet inside the building, including 75,000 square feet of office space and a 62,398-square-foot mezzanine which Medco added to the original 340,000-square foot design plan.

\$41.5 Million Events Center Planned for Dodge City, KS

Tempe, AZ-based Global Entertainment Corp. has signed an agreement for development of a \$41.5 million, 4,300-seat multi-purpose events center adjacent to a planned casino in Dodge City, KS.

The firm's global subsidiary, International Coliseums Co., signed the agreement to serve as project manager for design and construction of the facility over a 22-month period, with a planned 2010 opening. The agreement was approved by the Dodge City and Ford County Commissions.

The events center and the state's first authorized casino, the 400-acre Boot Hill Casino and Resort, "will create a regional entertainment draw for Dodge City and Ford County," according to a Global Entertainment release. ICC is part of the master planning group that includes Dodge City, Ford County and the casino development. Dodge City is well known for historical and rodeo events and will augment the center's schedule with sports, concerts, trade shows, family shows, agricultural events and other civic functions.

The Dodge City project has a smaller capacity than ICC's typical events center, said Richard Kozuback, president and CEO of Global Entertainment Corp. However, the facilities will meet the market and attendance requirements without limiting the range of sporting, entertainment and civic events available for residents.

"This new Dodge City [events facility] has the unique aspect of the destination casino that is under development," he said. "We look forward to working with all parties to ensure the events center and casino realize the full benefit of having both entertainment facilities located next to each other."

With the signing of the Dodge City agreement, ICC has three events center projects under design and construction, along with the previously announced \$52 million project for Allen, Texas and the \$55 million project for Independence, MO.

Electronics Imaging Firm Expands in S.F. Bay Area

By Andrew Deichler

Gilead Sciences, expanding its reach in Foster City, CA, has completed its partial acquisition of the Electronics For Imaging (EFI) headquarters along with an adjacent 30-acre parcel for \$137.5 million. Gilead intends to occupy the 163,000-square-foot building and formulate a development plan for the parcel, which can accommodate 542,000 square feet of office space. John F. Milligan, president and COO of Gilead, called the deal "an efficient means for expanding our Foster City campus to create flexibility and to accommodate planned long-term growth."

The biopharmaceutical company owns the Vintage Park office campus that surrounds the EFI headquarters with 17 buildings.

Gilead's new building, the five-story office building at 301 Velocity Way, delivered in 2001 as the second part of the EFI campus. EFI will remain in its 295,000-square-foot headquarters at the neighboring 303 Velocity Way. As part of the deal, Gilead obtained the first right to purchase or lease that building, according to an October filing with the SEC.

Like many companies, EFI is looking to its real estate assets to free up capital. "We are very pleased to deliver on our commitment to monetize our real estate assets, which was a key objective in our plan to restore shareholder value," said EFI Chief Executive Officer Guy Gecht. "The current business environment heightens the necessity to most effectively utilize our assets and this transaction allows us to monetize this previously undervalued asset."

Michel Seifer and Robert Dmytryk with Jones Lang LaSalle represented EFI in the sale. (CoStar COMPS #1642876)

VWR Relocating HQ to Uptown Worthington

By Andrew Deichler

VWR International has signed a 150,000-square-foot, build-to-suit office lease with O'Neill Properties Group. The global laboratory supply and distribution company will relocate its headquarters to O'Neill's Uptown Worthington, a 1.6 million-square-foot mixed-use community being developed in Malvern, PA.

The lease marks the end of a yearlong search for VWR, whose lease at its present headquarters in West Chester expires in 2010. VWR's new space will be part of a 240,000-square-foot building that will also house a fitness center and several restaurants. Binswanger President and CEO David R. Binswanger, as well as Senior Vice Presidents Scott Gabrielsen and Scott Williams, handled negotiations for VWR. Binswanger will also serve as project manager for the build-to-suit development, which is slated for delivery in the third quarter of 2010. Uptown Worthington, which is under construction at the site of the former Worthington Steel factory, is planned for 185,000 square feet of office space, 745,000 square feet of retail space and 753 residences.

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More New Development and Land Transactions

Foram Group is topping off Brickell Financial Centre and held a ceremony last week at the site of the new 40-story tower in Miami's Brickell submarket. The project at 680 Brickell Ave. broke ground in 2007 and is scheduled for delivery early next year. It will consist of 600,000 square feet of office and retail space and is pre-certified for LEED Silver certification from the U.S. Green Building Council. The law firm Bilzen Sumberg pre-leased 115,000 square feet at Brickell Financial Centre last year, according to CoStar information. The firm's offices are currently at 200 S. Biscayne Blvd., north of the new tower. Miami-based is developing the building. John Moriarty & Associates is the general contractor and RTKL Associates is the architect. CB Richard Ellis is handling leasing and marketing. Future plans for Brickell Financial Centre include a second tower of 68 stories that would include office and retail space, as well as a hotel and residential condominium component. (By Andrew Burr)

Graham Cos. has completed development of the LeRoy Collins building, an \$8 million office property in Miami Lakes, FL. The four-story property broke ground in 2007, according to CoStar information. It totals 63,800 square feet in the Governors Square section of the Miami Lakes Business Park West, at 7900 Oak Lane. Miller Construction Co. was the general contractor. Cushman & Wakefield is handling leasing. (By Stephanie White)

Hastings Development, acting as partner with a group of low-income tenants, recently purchased a 44-unit townhome complex in Potomac, MD, known as Inverness Knolls. Carl M. Freeman Associates of Olney, a single ownership entity who owned the properties under a condominium regime, sold the units for \$8.2 million, or about \$186,300 per unit. Hastings Development purchased the site with the intention of giving the in-place tenants the opportunity to buy back their individual units. The tenants have been leasing their

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townhomes at an average rent of \$1,300 a month. Located at 7801-7861 Coddle Harbor Lane, Inverness Knolls totals 53,592 square feet of space in 22 stacked townhome units. The one and two bedroom homes delivered in 1980, and they sit on almost 3 acres in the North Bethesda/Potomac SubMarket. Mychael Cohn at Fraser Forbes Co. represented the seller in this deal. (By Josiah Tindor; CoStar COMPS # 1642020)

Rubin Development sold 38,424 square feet of land to Milwaukee River Hotel LLC at 202 W Juneau Ave in Milwaukee, WI for \$2.5 million, or approximately \$65.00 per square foot, according to county records. The land, a former parking lot, will be developed into the Aloft Hotel Downtown Milwaukee. The hotel will reportedly have 5 stories, 160 rooms and 3,500 square-feet of retail space. The estimated completion date for the hotel is January 2010. Ed Carrow of Wave Development will also be part of the development team. (CoStar COMPS #1616963)

Superior Duct Fabrication Inc. acquired an industrial building at 1683 Mount Vernon Ave. in Pomona, CA, from Sanport Development Inc. for \$4.06 million, or about \$75 per square foot. The 54,000-square-foot building is on 3.83 acres. The property was built in 1960. The building was in good shape and 100 percent vacant at the time of sale. There was no deferred maintenance reported. Kent Stalwick of CB Richard Ellis in Ontario represented the seller. Michael Lawton of Lawton Real Estate Services in Brea represented the buyer. (By Rhonda Demarest; CoStar COMPS #1629003)

Yellow Roadway Co. has signed a 44,975-square-foot lease for a new truck terminal in Hamilton Township, NJ. Matrix Development Group signed the transportation service provider to a 15-year term. The facility at 15 Quakerbridge Plaza Drive is slated for completion at the end of first quarter this year. Features will include 101 overhead doors and 4,100 square feet of office space. With access to Route 1 and I-295, the 13.5-acre site is an ideal location for the Yellow Roadway truck terminal. There is also a 77,000-square-foot build-to-suit opportunity at the site. (By Andrew Deichler)

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