

Unico Properties Planning First Pearl Project

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By Brian K. Miller

PORTLAND-Unico Properties is extending its development pipeline to Oregon. The Seattle-based owner of Portland's largest high rise, US Bancorp Tower, is planning a two-block development in the Pearl District here that would include a nine-story office and parking tower anchored by a street-level Safeway and a 17-story apartment building anchored by additional retail.

The development site is located between Marshal and Lovejoy streets and Northwest 12th and 14th avenues. The landowners are Bob Ames and Al Solheim. Unico's GM of multifamily investments Greg Van Patten tells GlobeSt.com that Unico will joint venture with Ames and Solheim on the Safeway block and will acquire and develop on its own the multifamily block.

The joint venture building will a 47,000-sf Safeway on the first two floors, parking on floors three through six, and 75,000-sf office space on floors seven through nine. The multifamily building would have 20,000 sf of retail and about 25 parking spaces on the first floor, parking on the second and third floors, and about 240 apartments on floors four through 17.

The goal is to open the Safeway-office block in October 2007 and the apartment building in May 2008. In order to accomplish that, Unico would have to break ground for the Safeway block by June 2006 and break ground for the apartment block by December 2006.

Ames and Solheim previously were working with a division of Wesbild Inc. of Vancouver, BC on plans to put apartment buildings on both blocks, one anchored by the same Safeway. When Unico stepped into replace Wesbild, it wanted to split the project between office and multifamily.

Class A vacancy in the Pearl district is between 5% and 10% for apartments and 8% for office, according to Unico's research. With regard to the multifamily market, Van Patten says he that although the Pearl District is the strongest multifamily submarket in the Portland metropolitan area its planned apartment building won't be open for just less than three years from now, "so we have to make certain leaps of faith in the strengthening of the market."

Regarding the office market, Van Patten says Unico sees the Pearl District as distinct from the CBD as a whole and attracts a different type of tenant. Its development there will include high ceilings and exposed concrete within a modern glass and steel structure. Moreover, because the office space doesn't start until the sixth floor, all three office floors will have views. Unico counts just 550,000 sf of class A space in the Pearl, 400,000 sf of it in the recently completed five-block Brewery Blocks redevelopment. Triple-net asking rates for class A space in the Pearl is \$18 to \$22 per sf per year.

Ames and Solheim could not be reached Wednesday for comment. "They know the Pearl extremely well," says Van Patten, explaining why Unico chose to JV with the developers.

To move forward with the project, the developers will need to get approval for their parking plan, approval for a store bigger than 40,000 sf and design approval before obtaining the necessary construction permits. To make the multifamily block pencil, Unico says it will need the city's 10-year tax abatement for multifamily projects, which means 15% of the units will have to be affordable to families making 80% of the median income and the building as a whole will have to include some environmentally friendly features.

Unico's Portland project is right in line with what it's been doing up in Seattle area, which is adding to and diversifying its real estate holdings and engaging in environmentally friendly initiatives. The company got its start operating a 10-acre tract of prime Downtown office and retail properties known as the Metropolitan Tract for the University of Washington. Wanting to expand but not being able to compete with its partner in Downtown Seattle, Unico accumulated a portfolio of CBD office buildings in other Western markets such as Boise, Portland, Bellevue and Tacoma.

Last year, the company began an effort to diversify by selling off majority stakes in several of its CBD office buildings but retaining the management assignments. The proceeds are being used to acquire and develop an apartment portfolio and medical office portfolio.

On the multifamily front, the company followed up last summer's announcement of a \$15-million, six-story residential, office and retail development in Seattle's University District with plans for another \$12-million residential project in the vicinity of Seventh Avenue and Jackson Street in Seattle's International District.

In January, the company landed its first medical office property, paying \$10.8 million for a 64,000-sf, multi-tenant mid-rise on MultiCare Health System's Allenmore Hospital campus in Tacoma. The Allenmore Building B, as it is known, sits on six acres, which should allow the Seattle-based real estate owner and operator to permit and develop an additional 40,000-sf building on the site that already has been preleased in part by MultiCare and is slated for completion in early 2007.

Since that time, it has acquired two additional medical office properties. The first, in April, was a 74,000-sf building that sits on a long-term ground lease from Stevens Hospital and houses the Stevens Center for Internal Medicine. Unico paid an entity of Deutsch Partners \$18 million for the building.

In June, it acquired for \$14 million the West Pavilion One and West Pavilion Two medical office buildings adjacent to Yakima Valley Memorial Hospital in Yakima, WA. The buildings total 80,000 sf and are master leased by Yakima Valley Memorial Hospital.

In Portland, the company most recently added to its office holdings, acquiring for \$11.25-million the Lincoln Building, an eight-story, 255,000-sf, class B office building at 421 SW Oak St., which is a stone's throw away from the US Bancorp Tower.

Unico acquired the property from Qwest Corp. in partnership with Broadreach Capital Partners of Menlo Park, its partner in the US Bancorp Tower, and then promptly hit a home run. After negotiating a discounted purchase price (\$44.11 per sf) due to the building's 66% vacancy, Unico landed a 99,478-sf, 10-year lease with Multnomah County that dropped vacancy in the building from about 65% to about 25% and more than covers its cost to acquire the building and build out the county's space.