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Investors eye old buildings

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Cathy Cheney | Portland Business Journal

Urban Renaissance Group purchased the Sherlock Building at 320 S.W. Oak St. for \$9.75 million.

As vacant office dries up in downtown Portland, investors and brokers are looking to older buildings to provide the large blocks of space missing from the market.

There are just a handful of empty floors in Class A buildings. Vacancy rates have dropped to nearly 5 percent and asking rents are above \$25 a square foot for the first time. In contrast, landlords are commanding average rents of about \$19 per square foot for Class B buildings and nearly \$17 a square foot for Class C.

First and Main, the 16-story office tower under construction near the Hawthorne Bridge, won't join Portland's skyline until early 2010. It will be Portland's first new office building in a decade and will command \$35 or more per square foot.

Smelling opportunity, some of the city's most notable real estate investors are turning their attention to older, neglected B and C buildings with large blocks of empty space. Their new owners are ready to invest in upgrades to attract tenants. Among them:

- Sherlock Building, a 61,000-square-foot historic building at 320 S.W. Oak St. Its chief tenant, [Zimmer Gunsul Frasca Architects LLP](#), moves out in 2009, leaving 45,000 square feet of empty space.
- The Commonwealth Building, 421 S.W. Sixth Ave., which has 130,000 square feet of empty space, including 100,000 square feet that are contiguous.

Some other candidates include:

- The Commerce Building, a 60,000-square-foot empty office building on Southwest Broadway near Burnside.

- The Willamette Block, the current home to the University of Oregon's Portland Center at Southwest Second and Yamhill. Next year, the center moves to the White Stag block near Old Town/Chinatown.
- The Port of Portland offices on Northwest Everett Street. The port is selling the building in anticipation of its move to new offices at [Portland International Airport](#).

"The Class A sector is where we're noticing the most large blocks of space disappearing," said Sean Turley, a broker with NAI Norris Beggs & Simpson. "If you need more than 20,000 square feet, you have no options."

Turley, who represents the Marquam Building at the south end of downtown, said renovating older buildings is a good move for landlords.

"Buying an older building, renovating it and going after users that are going to be looking for larger blocks is a smart strategy."

Patricia Raicht, research director for Grubb & Ellis, predicts the pressure on Class A space will increase in 2008. That in turn will compel some tenants to consider Class B and even C buildings.

[Urban Renaissance Group](#) and [Unico Properties LLC](#), two Seattle investors with high profiles in Portland, both have moved to acquire sleepy downtown buildings and make them attractive to larger tenants.

In August, Urban Renaissance bought the Sherlock Building for \$9.75 million. Constructed in 1894, it is notable for its corner tenant, Ruth's Chris Steakhouse, and the fact that its chief office tenant is leaving. Urban Renaissance intends to update the building and aggressively market it to top-drawer tenants.

Unico, which owns and manages U.S. Bancorp Tower, earlier this month acquired the Commonwealth Building for \$27 million. The purchase was its second Class B acquisition in downtown Portland after the Lincoln Building.

The Commonwealth is an especially intriguing example of large space begging for a tenant.

It is just 30 percent occupied, chiefly by architects drawn to the Pietro Belluschi-designed structure, considered one of the most innovative office buildings constructed in the decade following World War II.

Unico is spending \$6 million on modern mechanical systems and other updates to restore the Commonwealth building to Class A status, said Brian Pearce, who manages Unico's Portland holdings.

David Squire, a broker with Grubb & Ellis, said the Commonwealth Building is well-positioned to take advantage of a changing neighborhood and market. It is on the transit mall in a transforming neighborhood. It is just blocks from the [Meier & Frank](#) Building, which will soon reopen as Macy's and The Nines, a plush downtown hotel.

"This is sitting pretty," he said.

TJ Newby, a broker with [Integrated Corporate Property Services](#), hopes the resurgence of interest in older buildings will help attract a buyer for the Commerce Building, her 60,000-square-foot listing at 225 S.W. Broadway.

Constructed in 1929, the Commerce Building was the longtime home to [Western Union](#). Today, its multicolored facade gives it a dated look and conceals the many updates made by the current owner, including new electrical and mechanical systems.

Newby attempted to divide the building by floor and sell it as office condominiums, but the market wasn't quite right. Now, she's marketing it as a single building with an asking price of \$8.95 million.

A few years ago, she said, stagnant rents prompted tenants to move to newer, fancier buildings, the so-called "flight to quality." That helped Class A buildings but left Class B and below with plenty of empty space.

"Now, finally, B and C is seeing some absorption," she said.

wculverwell@bizjournals.com / 503-219-3415