

CLASS A OFFICE SPACE in Spokane has become an attractive commodity to outside investors as space in larger markets becomes too pricey and unprofitable

OUTSIDE MONEY



Dale Sperling stands in the lobby of the Bank of America building in downtown Spokane. A native of Spokane now living in the Seattle area, Sperling is president and CEO of UNICO, which just purchased the facility. (CHRISTOPHER ANDERSON The Spokesman-Review)

Acquisitions

Below is a list of some of the more high-profile acquisitions made recently by investors from outside of Spokane:

- Fowler Property Acquisitions LLC of Larkspur, Calif., spent \$19.7 million for Crescent Court and the adjoining

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Spokane's premier office buildings have suddenly become coveted acquisitions for out-of-town investors from places like Puget Sound and Larkspur, Calif., near San Francisco.

"They're here, and they're very active," said Scot Auble, president of Auble, Jolicoeur & Gentry, a real estate appraisal and consulting firm in Spokane.

"Of the more than 1.9 million square feet of Class A property in the central business district and its periphery, more than 1 million, or 58 percent, sold to outside investors in the last 15 months," said Auble, who tracks regional real estate transactions for "The Real Estate Report," a specialty research publication.

Back in the 1990s, out-of-town investors turned a cold shoulder to Spokane.

"They couldn't even spell Spokane, let alone consider buying here," said Larry Soehren, co-owner of Kiemle & Hagood, a Spokane commercial real estate and property- management firm.

They were gobbling up the best buildings in larger, more prestigious markets, Soehren said. But as prices there soared, profits plummeted. "It's really driven them to second-tier markets where property is not priced as high, but returns are better."

He knows full well how hot the local market's become. In 2006, his company enjoyed its most profitable year, handling 600 transactions worth more than \$150 million.

Out-of-town investors have increasingly been drawn to smaller cities like Spokane, where they view markets as more stable. In addition, they see communities where populations and jobs are rising, increasing the need for office and retail space.

They still follow the cardinal rules of realty, said acquisitions gurus from the three big companies that have branched into Spokane, an appealing alternative to sold-out, overpriced property elsewhere. As always, location is key. Buildings of great values at great prices carry big appeal. And better than average profit potential is crucial.

In other coastal hot spots, Class A buildings are selling for between \$400 and \$500 a square foot, compared to \$100 to \$150 a square foot in Spokane, said Mike Livingston, a

Paterson Building in 2005. The property spans 243,000 square feet of office and retail space on Spokane Falls Boulevard.

- Prium Companies of Tacoma, paid \$25.7 million in 2006 for the 17-story Wells Fargo tower on West First Avenue. The year before, Prium paid \$82.8 million for Rock Pointe office complex, four buildings just north of downtown, with a total of 600,000 feet of space.

- Unico Properties LLC of Seattle paid \$36 million for the 20-story Bank of America Financial Center on West Riverside Avenue in February.

Kiemle & Hagood broker who assisted Unico Properties LLC of Seattle in its recent purchase of the Bank of America tower.

"Seattle and California markets are so overheated and the competition for quality investments is so fierce, it's driven rates of return lower, making Spokane even more attractive," Auble said.

Though they're investing in Spokane for some of the same reasons, each company has slightly different strategies, philosophies and goals.

Unico, for instance, practically pried the Bank of America tower away from its previous owner. The building wasn't on the market when a Unico representative singled it out as the kind of high-caliber building Unico seeks.

The building's owner, First States Investors 5000A LLC, wouldn't return inquiries from Unico President and CEO Dale Sperling, a Spokane native who'd had his eye on this market for some time. Sperling said he finally tried humor and left a whimsical message on the owner's answering machine.

"I said: 'If the phone don't ring, I'll know it's you,'" he said, a line he borrowed from an old Willie Nelson song.

That broke the impasse, he said. The owner called back and that sparked the dialogue that led to the building's sale, Sperling said.

Unico always eyes the "best buildings" in town, Sperling said. It makes cosmetic and management improvements and holds its property for the long run.

"In Puget Sound, the commercial real estate market tends to be a lot more volatile. You can do well by buying when it's cheap and selling when it's dear. But if you're a long-term investor, buying and selling and trying to time the markets is a risky strategy," Sperling said.

"We think of ourselves as a get-rich-slow company. We want to be in markets that are more stable and steady. We've done it in three or four markets now. We refer to them as AAA cities, like Triple AAA ball clubs. We thought Spokane was another natural in that respect. We've found we can go into these markets and essentially buy the best building in the market, apply a more institutional level of service and all the best tenants are going to want to be in that building," Sperling said.

Meanwhile, Fowler Acquisitions roots out commercial property listed for between 50 and 80 percent of replacement value, fixes it up and usually flips it, said Chad Eisenbud, vice president of commercial acquisitions. The Larkspur, Calif.-based company purchased the Crescent Court and adjoining Paterson Building in downtown Spokane in 2005.

"We're opportunistic buyers," said Eisenbud, who called the Crescent Court a "trophy asset" in downtown Spokane, which he considers to be a safer, secondary market that helps diversify the company's portfolio.

"It's a great price per pound. There were some very attractive long-term leases in place from great tenants. Spokane has drivers for continued employment growth. The city is pouring a lot of money into downtown and the location excited us," Eisenbud said.

Primum Companies of Tacoma helped blaze the trail to Spokane. It owns property in 26 communities throughout the state and hedges its bets with a range of holdings. The company purchased both the Wells Fargo building in downtown Spokane and the Rock Pointe office complex just north of the city's core.

It invested in Spokane because it still boasts "good deals, unlike Seattle and some of the other markets in the state," said Pete Ansara, Primum's chief operating officer.

The city and many local entities are development-friendly, and Spokane is more affordable to do business in than many of its Western peers, Ansara said.

"As long as they keep things like cap rates (on loans) and value in perspective, then it will continue to be a market that continues to grow," Ansara said.

"People are willing to pay more than ever" for the right piece of property, said Craig Soehren, also of Kiemle & Hagood. "If they want a lot of floor space and lots of parking, they have to go to Spokane Valley or Liberty Lake. If they want image and access to services, they're more likely to be a central business district tenant."

And considering the stock market's wild swings, buying property in Spokane looks to many investors like a safe way to go.

"There's such growth of wealth and so much of it seems pinned to the stock market that people are trying frantically to find ways to diversify – and real estate is an ideal complement to the stock market," Livingston said.

Auble said the new investors coming to Spokane are value shopping, but their idea of value may be different from what people here are accustomed to.

"As soon as they run the prices up in the major markets, they're floating down the tiers and will step up and buy a really nice, new strip center in Sandpoint with national tenants and pay a much higher price than you would have seen," Auble said. "And they think they're getting a great deal."