



Unico Snares 255,000-SF Office Building for \$44 Per SF

By Brian K. Miller

Last updated: April 7, 2005 10:28pm

PORTLAND, OR-Unico Properties Inc. of Seattle and Broadreach Capital Partners of Menlo Park, CA, appear to have hit a homerun here with their acquisition of the Lincoln Building, an eight-story, 255,000-sf, class B office building at 421 SW Oak St. The building sits next to the 1.1 million-sf US Bancorp Tower, so far the only other asset in the market that Unico and Broadreach own.

The duo paid Qwest Corp. \$11.25 million or \$44.11 per sf for the building. The discounted rate was in part due to high vacancy. When they put it under contract, the building was only about 34% leased, with Qwest's 10-year, 85,000-sf leaseback accounting for all but a fraction of that percentage. While the purchase and sale agreement was being negotiated, however, general manager Brian Pearce of Unico landed a 99,478-sf, 10-year lease with Multnomah County that dropped vacancy in the building from about 65% to about 25%.

The county's lease, with an average lease rate of about \$17 per sf, is valued at \$17 million. Minus \$3 million in tenant improvement allowances and commissions and the value of the lease is still well more than Unico and Broadreach are paying for the building. The value of the Qwest lease is not being released by the parties involved, but it is believed to be comparable to the county's lease. If so, the capitalization rate on the investment is well into the teens, even when considering the \$4 million in non-TI-related structural and cosmetic improvements that are planned for the building.

"We were prepared to buy this even without the county's lease," Pearce tells GlobeSt.com. "I won't say this is a once-in-a-lifetime deal, but this is the kind of outcome every investor hopes for."

Pearce worked on the acquisition with Unico's office acquisitions manager Greg Petry and Trevor Wilson, Broadreach's director of acquisitions for the Pacific Northwest. Qwest Communications was represented by Dave Squire of Grubb & Ellis. David Reinhart of CRESA Partners represented Multnomah County.

The deal also represents a solid deal for the county, which as a result of the new lease will vacate 110,000 sf in the Commonwealth Building owned by American Property Management and the 10,000-sf 14th floor of the city-owned Portland Building. Multnomah County's senior property management specialist Mike Sublett tells GlobeSt.com that the Lincoln Building's more efficient floor plates meant it needed less than 100,000 sf, which will save it \$3 million over the life of the lease.

As is the case with US Bancorp Tower, Broadreach owns a 75% interest in the Lincoln Building and Unico has a 25% interest as well as the management and leasing assignments, which are fee based. The cosmetic improvements include a renovated ground floor lobby and major streetscape improvements. Details on the seismic improvements were not immediately available, but do not include floor and wall ties, work previously completed by Qwest.

The Lincoln Building has been Qwest's Oregon headquarters for the past 30 years. The southern portion of the building was originally built in 1895 as a brewery for Henry Weinhardt. Details are sketchy on when the south half of the building was built, but the two became one in the 1940s and in the 1950s the building's wood columns and floors were replaced with concrete. More recently, in 1994, the building underwent a major interior renovation.

Unico has been trying to acquire the building for almost three years. Qwest first brought the building to market in 2001 with 17 other buildings around the nation, but it was one of a couple of buildings that did not sell. When it came back on the market recently, Qwest went back only to the top three original bidders with their leaseback terms and asked for best and final offers. The names of the two other bidders were not immediately available.