

Trendy deals

Seattle office market tops Los Angeles, San Francisco for rise in activity

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Talon Private Capital LLC is closing on a \$21.5 million waterfront office building next to Carillon Point in Kirkland — its first deal and a bet that money plowed into well located, smaller office properties will pay off for investors.

The deal, set to close Oct. 29, culminates a yearlong search by Talon co-founders Bill Pollard and Jim Neal, who looked at 165 properties on the West Coast, in the Southwest and in Texas, and made about 18 offers. Seattle-based Talon is a fund whose investors include wealthy families from the Puget Sound area and Germany.

Talon paid \$414 a square foot for the three-story building.

The transaction is one of a growing number of office-building sales pushing Seattle ahead of other West Coast markets in terms of commercial real estate activity, according to Real Capital Analytics, a New York research firm.

Through September, 33 deals worth \$1.2 billion have happened in the Puget Sound area, a 479 percent jump from 2009, Real Capital said. The average price per square foot is up 136 percent from a year ago, to \$229. Much of that action relates to The Bravern and City Center Plaza sales in Bellevue. By comparison, Los Angeles deals are up 63 percent, while San Francisco is up 155 percent.

"It's kind of a unique sale," said Chris Hughes, a principal at Pacific Real Estate Partners in Bellevue.

"It's one of the last commercial office developments on Kirkland's waterfront."

Additionally, not a lot of smaller office buildings have traded hands recently, said OfficeSpace.com co-founder Kip Spencer. "I think it's a good play considering its location on the water and the amenities that come along with being next to Carillon Point," Spencer said.

Pollard and Neal formed Talon last fall to act on their belief that the drop in real estate prices offered a rare opportunity to buy high-quality properties at a discount. Unlike a fund, the Talon "club" allows investors to decide whether or not they will participate in a particular deal. Twelve of the club's 20 families are participating in the Waterfront Place investment, with Pollard and Neal investing alongside club members.

The building, known as Waterfront Place on Yarrow Bay, is located at 5209 Lake Washington Boulevard, and overlooks a marina, with an unobstructed lake view. It lies just south of Carillon Point, a large mixed-use complex that perennially boasts among the highest office rents on the West Coast, according to Spencer.

Pollard said the proximity to Carillon will help lift rents at Waterfront Place because tenants can reach Carillon via a boardwalk and take advantage of its shops and restaurants. The property met Talon's criteria: an "irreplaceable" location and tenants with strong credit in a substantially leased building, Pollard said. The building is just over



PACIFIC REAL ESTATE PARTNERS PHOTO

BARGAIN TIME: The sale of this Kirkland building suggests how active the Seattle commercial real estate market is.

83 percent leased to the mortgage division of Metropolitan Life, the architecture firm Freiheit & Ho Architects Inc. PS, and Bluetooth, the organization behind a popular wireless technology.

Initially, the property will yield a return of about 7 percent for Talon's investors, and that is expected to rise to "double digits" in the mid teens as the market improves, Neal said. Talon is betting that office rents and values will rise significantly as the Puget Sound area recovers from the recession.

Pollard and Neal see the Kirkland market as part of a high-tech corridor running along State Route 520 between Microsoft in Redmond and the tech companies based in the South Lake Union district in Seattle.

"Demand for the building is

very strong despite the overall market," Pollard said. "We acquired the building (with) rents that reflect the current rents, which are significantly lower than historic norms, with the opportunity to be positioned for future market rent growth."

Asking rents are under \$25 a square foot net of operating expenses that include taxes, insurance maintenance fees, he said. Current asking rents at Carillon Point are between \$26 and \$26.75 a square foot net. They were above \$50 during the dot-com era.

The 51,899-square-foot building was developed in 2008 by John Goodman of Seattle-based Goodman Real Estate Inc. Amenities include bike and kayak storage, 12-foot ceilings, 197 parking stalls and sustainable construction that

keeps tenant operating costs under \$10 a square foot, Talon said.

The building wasn't on the market when Goodman contacted Pollard and Neal about purchasing it. Goodman "has a long history with the both of us and wanted to give us the first opportunity to acquire it," Pollard said.

Pollard left Pacific Real Estate Partners Inc., the Bellevue-based real estate brokerage firm he co-founded, to partner with Jim Neal, who was then CEO and president of Metzler North America Corp. and remains non-executive chairman. Metzler North America is the real estate investment arm of Bankhaus Metzler, the oldest private bank in Europe, founded in 1674.