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CoStar Lead Street (May 20-26): Buy-Side Representa

A Weekly Report on Future Trends and Plans, Acquisition/Disposition Str and Properties Under Contract

In this week's CoStar Lead Street we report on: CBRE's attempt to bring a world practice to U.S. for foreign investors; the NAR's commercial outlook for the rest of the year; Acadia's and Behringer Harvard's new investment funds; Inland Group's new retail development plans; and an interesting report on the effect of ceiling heights on work tasks; plus give you the latest facility location and expansion decisions and major properties coming under contract, including 14 regional malls.



CBRE Initiates Buy-Side Representation to Foreign Investors

CB Richard Ellis launched a new initiative to advise foreign investors entering t market on the acquisition of commercial real estate.

"Buy-side representation is common in most of the world, but is a fledgling pra the U.S. However, continued increases in global liquidity, cross-border capital 1 and the growing participation of offshore investors in U.S. real estate have cre emerging opportunity to advise these clients on U.S. acquisitions," said Gregor Vorwaller, president of CBRE's Investment Properties Group.

Joseph Callanan is spearheading this new initiative, called CBRE Global Propert Advisors, within the company's Capital Markets Group.

Callanan will be working with CBRE colleagues in the Europe, Middle East, Afric Pacific and Canada/Latin America Regions who have clients interested in acqui real estate. Callanan will advise them on the dynamics of the U.S. market, and collaborate with Capital Markets professionals in local offices to develop and im acquisition strategies.

"Buy-side representation constitutes close to half of our investment sales busir many parts of the world," said Callanan, senior managing director. "As offshore investors move into the U.S. we are well positioned to assist them with develop strategies and capitalizing on opportunities due to the depth of our platform."

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clicking on the byline above or at e-mailing me at mheschmeyer@costar.com

Commercial Markets "Normalizing"

Respectable job growth, improving fundamentals, favorable interest rates and speculative construction suggest strong investor appetite will continue in 2007 according to a commercial market update and forecast from the National Assoc of Realtors.

"The office market is the sector of choice, but growing international trade is strengthening the demand for warehouse and distribution facilities," said Lawrence Yun, NAR senior economist. "With these positive fundamentals and strong performance far this year, we expect the appetite for commercial investment to remain historically high in 2007," Yun said.

U.S. exports have been rising solidly, and business spending for building construction is rising at double-digit rates -- boosted by record corporate profits. Much of the commercial construction currently is build-to-suit, or with a lead tenant.

On the downside, construction costs are rising due to global economic expansion pressures on core inflation are worrisome. Retail demand is decelerating and the economy is slowing.

"Residential construction has become a drag on the economy, resulting in sub-economic growth," Yun said. "Because commercial sectors follow the economy, commercial markets are in a process of normalizing."

The NAR forecast for major commercial sectors includes analysis of quarterly data for various tracked metro areas. The sectors include the office, industrial, retail and multifamily markets.

Net absorption of office space is lagging new completions and should be in the range of 20 million to 25 million square feet this year. Annual rent growth in the office is forecast at 3.0 to 3.5% in 2007.

New state-of-the-art industrial facilities are being built, increasing the availability of older structures in some markets. Net absorption of industrial space for 2007 is expected to be in the range of 75 million to 80 million square feet.

Decelerating retail sales are lessening the demand for space, and a negative sales rate is worrisome. That is the only sector experiencing significant vacancy rate increases and declining net rental rates. Net absorption of retail space for 2007 probably will be in the range of 15 million to 20 million square feet.

Acadia Forms Third Opportunity Fund

Acadia Realty Trust has formed its third discretionary investment fund, Acadia Strategic Opportunity Fund III LLC. Fund III will be capitalized with \$500 million of discretionary institutional capital, which will enable Acadia to acquire or develop approximately \$1.5 billion of assets on a leveraged basis.

It is anticipated that Fund III will consist of 13 institutional investors, including the investors from prior funds. The existing investors and seven new members

invest a total of \$400 million of equity and Acadia will invest \$100 million. Approximately 90% of Fund III's offering has closed; the remaining balance is anticipated to close during the current quarter.

Fund III will continue to pursue the investment initiatives of Acadia's first two discretionary investment funds -- expanding the urban-infill redevelopment plan and make investments in retailer-controlled properties.

Behringer Harvard Goes Dutch

Dutch pension fund PGGM has agreed to co-invest up to \$100 million with Behringer Harvard in a geographically diverse portfolio of apartment communities in top metropolitan areas.

Target assets will consist of well-located Class A multifamily communities purchased from reputable national and regional developers before the properties achieve stabilized occupancies.

"Each project will be a planned or a newly developed property that has not yet a specified occupancy level," said Mark Alfieri, senior vice president-real estate at Behringer Harvard. "We will be looking for projects where we will be able to create added value in areas such as project development, completion of project leasing, changing property management or leasing agents, providing additional capital or complete amenities, or combining projects in a given market to achieve economies of scale."

"As the investment manager for nearly 2 million Dutch health care and social service professionals, PGGM is highly selective about the programs it chooses to participate in," said Robert M. Behringer, founder and CEO of Behringer Harvard. "Their decision to co-invest with us represents a strong endorsement of our multifamily development and acquisition platform."

Under terms of the agreement, PGGM will invest in individual assets with Behringer Harvard or one of the firm's current investment programs. Behringer Harvard will provide strategic management for each joint venture including acquisition, asset management and disposition services, legal and accounting services, and property management services.

Inland Forms New Retail Development Arm

The Inland Real Estate Group of Cos. Inc. formed the Atlanta-based Inland Atlantic Development Corp. The new company will focus on the development of retail centers in the Southeastern states.

Inland Atlantic Development will specialize in the development of new and re-development projects, focusing on neighborhood retail centers and mixed-use developments to be developed both on its own and in joint ventures.

The company will be led by the personnel who oversaw the development division of the former Inland Retail Real Estate Trust Inc., a real estate investment trust recently sold to Developers Diversified Realty.

"We are a dynamic group with an impressive track record and are excited to continue to grow our business."

working as a team," said president John DiGiovanni, who previously headed the Retail development division. "Within three years working at Inland Retail we developed a pipeline of more than 1 million square feet of retail space, worth as much as \$100 million."

The team's projects with Inland Retail, all of which were inherited by Developco, diversified in the merger, included a planned 300,000-square-foot South Fulton mixed-use lifestyle center in Atlanta expected to include hundreds of apartments and townhomes; and another mixed-use center in Brandon, FL, with more than 200,000 square feet of retail, 180,000 square feet of office space, as well as hundreds of apartment and hotel units.

Forget Glass, Height of Ceiling Might Be More Important

Recent research by Joan Meyers-Levy, a professor of marketing at the University of Minnesota Carlson School of Management, suggests that the way people think is affected by ceiling height.

Meyers-Levy and co-author Rui (Juliet) Zhu, assistant professor of marketing at the Sauder School of Business, University of British Columbia and a Carlson doctoral student, found that, depending on the situation, ceiling height will benefit or impair consumer responses.

The paper "The Influence of Ceiling Height: The Effect of Priming on the Type of Information Processing People Use," will be published in the August issue of the *Journal of Consumer Research*.

"When a person is in a space with a 10-foot ceiling, they will tend to think more abstractly," said Meyers-Levy. "They might process more abstract connections between objects in a room, whereas a person in a room with an 8-foot ceiling is more likely to focus on specifics."

The work has important implications for retailers of all types who are faced with consumers whose thought processes might influence what products they buy, how they process point-of-purchase information and even sales persuasion strategies. Careful attention to this important design aspect of retail spaces can pay off for retailers with one eye on the ceiling and the other on the bottom line.

In addition, managers should want noticeably higher ceilings for thinking of bold initiatives. The technicians and accountants might want low ceilings, the author says.

Facility Location/Expansion Decisions

PACCAR Inc. plans to build a \$400 million engine facility and technology center in Columbus, MS. Construction on the 400,000-square-foot facility will begin in mid-2008 and is due to be completed in 2009. The new facility will manufacture 12.9-liter and 9.2-liter diesel engines for Kenworth, Peterbilt and DAF vehicles and complete PACCAR's state-of-the-art engine facility in the Netherlands.

General Motors' will make a \$335 million investment in its Toledo (Lucas County) Powertrain facility where it will add production of six-speed transmissions and a \$100 million investment in its Defiance (Defiance County) Casting facility where the company plans to expand engine block capacity. The projects will result in the

retention of 1,350 jobs in Defiance and 1,600 jobs in Toledo, where 600 employees will begin production of a new, front wheel six-speed transmission.

Beech-Nut Nutrition Corp. intends to build a new, state-of-the-art production facility in the town of Florida in Montgomery County, NY. The baby food company will also move its corporate headquarters from St. Louis to the new site. The new 635,000-sq foot facility in the Florida Industrial Park will become Beech-Nut's corporate headquarters and will be home to the company's infant-food production facility replacing Beech-Nut's existing Canajoharie and Fort Plain plants. The proposed facility is just 22 miles away from the main facility in Canajoharie. The overall investment in the new facility is estimated at \$124 million with various county and state programs offering funds and financing assistance for which Beech-Nut could qualify. Over the next few months Beech-Nut will develop a master plan for the project. The new facility could open as early as fall 2009.

Thresher Industries is considering site locations in Michigan for additional casting capacity. This location would compliment the company's existing 28,000-sq ft California manufacturing facility. Thresher would utilize a new operating site to its rapidly expanding Eastern U.S. clientele.

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Babcock & Brown Acquiring Mall Operator GG&A

By: Sasha M. Pardy

Australia-based investment and advisory firm Babcock & Brown significantly expands its U.S. retail property holdings by striking a deal to acquire Gregory Greenfield Associates, a Sandy Springs, GA-based mall owner and operator, for an undisclosed price.

Under the acquisition, expected to close in August, Babcock & Brown will gain a portfolio of eight regional malls owned and operated by GG&A as well as the asset management contracts for six other malls owned by third-party investors.

This will be the third -- and largest -- investment made by Babcock & Brown in American retail real estate. It will give the firm its own retail leasing and management operation.

The acquisition also signals the company's interest in additional U.S. retail investments.

"The creation of this retail investment platform will establish Babcock & Brown as a major participant in the US retail market, offering enhanced opportunities for portfolio growth and flexibility with respect to potential value creation strategies. B&B's head of global real estate, Eric Lucas, noted in a statement announcing the acquisition.

Babcock & Brown said it is still discussing how its joint venture with GPT might participate" in the Greenfield transaction.

GG&A's portfolio includes the following properties.

- Broadway Mall in Hicksville, NY (1.14 million sq. ft.),
- Crossroads Center in Waterloo, IA (847,000 sq. ft.),
- Westgate Mall in Amarillo, TX (887,000 sq. ft.),
- South Park Mall in San Antonio, TX (790,000 sq. ft.),
- Hanover Mall in Hanover, MA (704,000 sq. ft.),
- Mesilla Valley Mall in Las Cruces, NM (590,000 sq. ft.),
- Santa Fe Place in Santa Fe, NM (570,000 sq. ft.),
- Killeen Mall in Killeen, TX (559,000 sq. ft.),
- Magic Valley Mall in Twin Falls, ID (524,000 sq. ft.) and
- Market Basket Plaza in Leominster, MA (86,000 sq. ft.).

Under Contract

Behringer Harvard Opportunity REIT I Inc. agreed to acquire an 85% ownership interest in The Lodge & Spa at Cordillera, a 56-room resort, which includes a 2 square-foot spa, in Edwards, CO. The Lodge & Spa at Cordillera is on 8.3 acres includes 3.5 acres planned for development into 19 additional units. It also includes adjacent 23.2 vacant entitled for residential development. The contract purchase is \$35 million, excluding closing costs and including the portion funded by its 1 unaffiliated partner.

Cole Credit Property Trust II Inc. intends to acquire a 23,900-square-foot Staples store in Warsaw, IN, for \$3.215 million; and a 61,331-square-foot Kroger store in Grange, CA, for \$7.3 million. The deals are expected to close this month.

NeoRx Manufacturing Group Inc. agreed to sell 3100 Jim Cristal Road in Denton, TX to Molecular Insight Pharmaceuticals Inc. for \$3 million. The closing is expected to be completed by mid July 2007.