4611 East Baseline Road
Phoenix, Arizona

CASE STUDY

CHALLENGE

In late 2003, TCC-Phoenix became aware that May Company, a national retail department store chain, planned to close its company-owned credit card payment processing center in Phoenix. The operation was housed in a 55,000sf single-story office building situated on approximately 7 acres of land in a popular employment district. The three-year old facility was developed with a 9.5:1,000 parking ratio, redundant power systems, and state-of-the-art telecommunications. Additionally, the structural system was designed for a future second story, potentially doubling the size of the facility. May Company had invested more than $10 million (± $200/sf) in real property improvements in the facility.

TCC-Phoenix concluded that on a vacant, speculative re-lease basis, the facility was worth between $4 - $4.5 million (± $75/sf). Although May Company had concluded that the Phoenix facility would be closed to provide for overall operational enhancements, it took extensive and persistent explaining by TCC-Phoenix to demonstrate that a significant capital write down was necessitated in order to dispose of the facility. Ultimately, the ability to deposit non-refundable earnest money at the signing of a purchase contract with a quick closing convinced May Company to select TCC-Phoenix for the $4.1 million transaction. Additionally, despite all the above standard features, the facility was designed for a single tenant and ideally would need to be released in its entirety to a single back office/call center type tenant. During the 1990's, Phoenix was a consistent winner in attracting these tenants; however, by 2000, Phoenix was viewed as too expensive for these operations when compared to tertiary U.S. cities and offshore outsourcing.

STRATEGY

With Trammell Crow Fund V, TCC-Phoenix identified a capital source that allowed operational discretion to execute the leasing, management, and disposition strategy. The following is a summary of accomplishments:

- Negotiated and obtained non-recourse, three-year financing from California Bank & Trust with an initial funding of $2.4 million with additional reserves for interest, tenant improvements, and leasing commissions.
- Completed clean-up and cosmetic improvements to the facility to enhance its leasing appeal.
- Engaged TCC-Phoenix's brokerage team for project leasing purposes. A seven-year lease for the entire facility was negotiated and finalized in July 2004, three months after acquisition, much sooner than forecasted. The rental rate exceeded budget expectations while the associated capital outlay was less than budgeted.
- Notwithstanding the budgeted three-year hold, a 1031 exchange buyer was secured by TCC-Phoenix's investment sales team, which resulted in a disposition in December 2004, only eight months after the acquisition. The disposition price was $7.2 million.

RESULTS

- April 2004 acquisition cost of $4.3 million ($78/sf) including associated costs and fees. $2.4 million in financing from California Bank & Trust, and $1.9 million of equity from TC Baseline Group LLC.
- Stabilized cost of $5.4 million ($98/sf) after Phase 2 Solutions lease in place. Financing level increased to $3.5 million while equity level remained the same.
- Disposition in December 2004 at $7.2 million ($131/sf) representing a 9% capitalization of net income.
- $1.5 million profit resulting in 134% IRR over eight-month hold period.

Quick Facts	
Location:	Phoenix, AZ
Type:	Office/Investment
Size:	55,000sf
Development Value:	$6,200,000
Acquisition:	April 2004
Stabilization:	July 2004
Disposition:	December 2004
Equity Partner:	TC Baseline Group LLC
Lender:	California Bank & Trust