

Case Study: Intrarock 1, LLC, an Intracorp/Rockwood Capital Joint Venture

**Project Recapitalization,
Renovation Advisory, Leasing,
Stabilization & Investment Sale**

Assignment

Provide advisory, project renovation, leasing and repositioning of a 763,000 square foot suburban office project in South King County. Dan Foster was responsible for day to day responsibility of these efforts and among the team hired to lease and sell this seven-building office complex in Kent, Washington.

Challenges

CenterPoint Corporate Park was 100% vacant when Rockwood Capital and Intracorp purchased the project as a Boeing Space Defense Center auxiliary office park. It suffered from deferred maintenance and lack of common areas, tenant amenities and market demand. The market knew virtually nothing of the project's existence much less it's potential to serve as a multi-tenant office environment.

The project was blighted as a fortress with an undesirable office campus location positioned in what is predominately an industrial setting. Finally, the asset is located in a small office market with a history of large Boeing givebacks which resulted in 25%-30% market vacancy rates during down markets. Coupled with



the fact that there were few other tenancies beyond 20,000 square feet to backfill Boeing's givebacks, purchasing the largest vacant block of space in the history of the Southend became an act of bravery. Space was known to sit vacant for years, lease comparables were at the lowest rents in the region, and few real estate players paid attention to the Kent Valley outside of it's industrial capacity.

Leasing Results

Capital programs were established to create a Commons Building with a restaurant, childcare, conference and fitness centers, as well as lobby and grounds renovations. By providing everything on-campus, the location and drive

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time concerns were neutralized. 'Over the top' marketing programs were created to expose the brokerage and tenant communities to the facilities and orient them towards the client's deal-making objectives.

Originally hired to lease the project in a four-year period, the project was cash flowing at the end of the 1st year. By the 2nd year the economy was in a major recession, but CenterPoint's leasing was continuing at a pace which exceeded all records for absorption in its market and defied the heavy negative absorption being experienced in the local area, the region, and the nation. Dan's Leasing Team was able to climb to a high point where they captured 75% of all the local leasing traffic for Class 'A' office. By the 3rd year, two-thirds of the project was leased and the joint venture was seeking an exit.

Sales Results

No investor was willing to invest in a project which cumulatively represented 15% of the submarket's true Class 'A' office product. From the beginning of the project, the exiting/disposition plan called for breaking the sale into stages and components. Therefore the lease-up plan included:

Bringing the 218,000 square foot Creeksides Buildings to 90% occupancy first, since they were deemed less prestigious than other buildings on campus and harder to move second. When this was achieved they were sold to AFL-CIO as a stabilized, low risk asset.

Next, the Atrium (a call center) and Cascade Buildings (the tallest and largest buildings in the market) were sold upon obtaining 60% occupancy. The team identified Triple Net Properties' Government Property fund as a target buyer which could underwrite the

balance of lease-up risk in order to achieve the high yield criteria of ownership.

When telecom Winstar failed and dissolved the 10-year lease on the deep floor plate, difficult-to-lease flex building on the campus, the team eliminated any future risk by completing a user sale to Boeing Employees Credit Union.

In each instance the disposition was timed to match the joint venture's Investment and Development objectives. The vacant Tech Center sold for \$8m. The Creeksides project generated numerous offers in a declining market and sold for \$30m. The Cascades/Atrium/Commons offering drew numerous buyers despite the 33% remaining vacancy and sold for \$54m. The entire project's original acquisition cost was \$40m and represented a return for the client that far exceeded the original pro-forma.