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Real Estate Buzz: Lots of space still available in Russell Center

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When Northwestern Mutual bought the 42-story Chase Center in downtown Seattle last year for pennies on the dollar, competing landlords braced for Northwestern to offer primo bargains and fill up the 886,000-square-foot tower.

The assumption was \$15 a square foot, plus expenses, would be the asking rate and — whoosh — the space would be taken. Nordstrom signed up for 83,000 square feet in a transaction that one negotiator described as a market deal. Russell Investments, a subsidiary of Northwestern, will be the anchor tenant. JP Morgan Chase, which sold the tower — now known as Russell Investments Center — to Northwestern, will continue to occupy some space.

It's been three months since the Nordstrom lease was announced, and 473,000 square feet remains vacant, according to [officespace.com](#). Still, Northwestern isn't blinking.

CB Richard Ellis is marketing non-view space on the lower floors for \$18 a square foot. In the middle of the tower, rates creep up to the mid-\$20s. On floors 31 and up, rates are in the mid- to high \$20s. All those rates are triple-net quotes, meaning tenants pay annual expenses, which CB puts at \$9.75 per foot.

At 1918 Eighth Avenue, a largely vacant new tower, asking rates are \$20 to \$30 per square foot, plus \$10 per foot in expenses, according to [officespace.com](#).

“We're competing with premium Class A and new construction, and the [Russell Center] rates justify that,” said CB's **Jesse Ottele**, who is leasing the space with two up-and-coming agents, **Brandon Weber** and **Owen Rice**. Concessions of free rent also match the competition, Ottele said. “We are seeing anywhere from six to 10 months of free rent for 10-year deals.”

The strategy shows how key market players are doing their best not to panic. Northwestern acquired Russell Investments Center for \$115 million. That works out to about \$130 a foot. In

September, when the deal was announced, experts said it would cost \$300 a foot to build the tower, excluding the land.

Northwestern's strategy has its admirers.

“I do think it's a smart move,” said downtown Seattle office agent **Tim Foster** of GVA Kidder Mathews.

When you're signing decade-long deals, you don't want to give away space at bargain-basement prices and then watch the market take off again. That would greatly diminish a building's value. How long should Northwestern stand pat? Foster thinks the company should wait for about six months “to see what happens.”

Tenants are looking at the Russell space. Ottele says they range in size from 10,000 to 150,000 square feet. If the tower catches any of these prospects, it likely won't result in any net absorption because most prospects would merely be relocating, he said. Not the best of news for this floundering market. CB says the downtown Seattle vacancy rate is 20 percent.

One interesting possibility is that some tenants could move to Russell Investments Center from other submarkets, including Bellevue. “There are some Eastside tenants looking,” Ottele said.

What would Fidel do?

Some may scoff at that notion that developers and civic leaders could learn anything worthwhile in Cuba, but that didn't stop a group from going to Havana last month on an i-Sustain tour.

Seattle-based i-Sustain, which counts among its clients many of the region's leading architects, developers and builders, works to identify best urban development and sustainability practices and takes people on study trips to see how those practices work. They travel to Scandinavia, Australia and Brazil — among other places — to capture the best ideas on issues ranging from alternative transportation to recycling.

But Cuba? What could people learn from that falling-apart, communist country? Plenty, says Seattle developer **Kevin Daniels**.

“While I would never want to live there, they are the most sustainable country in the world,” says Daniels, who is also a member of the board for the National Trust for Historic Preservation. “They have to be.”

Last month, Daniels took his second trip to Cuba with i-Sustain, and he's looking into helping the National Trust plan a mission to Cuba, where the nonprofit is working to preserve Ernest Hemingway's home. Seeing how Cuba is preserving Old Havana, a collection of historic buildings similar to Seattle's Pioneer Square, was worthwhile, said Daniels, president of Nitze-Stagen & Co. and Daniels Development.

Cuba invests revenue from tourism to train people in the neighborhood to restore old buildings, which are turned into shops, studios, restaurants and housing. With such a different system in Cuba — the government owns everything — **Luis Borrero**, an i-Sustain principal says, “it’s a little tough to replicate up here.” But with tax and other incentives, the concept could help keep in place the people who give gentrifying neighborhoods character to begin with.

“They’ve done some really amazing historic preservation,” said another tour participant, Seattle City Council member **Sally Clark**. It’s somewhat similar to what Seattle has done with public development authorities, such as the one that operates Pike Place Market. “It makes you think what else we could with the PDA model,” she said.

Under the Cuban system, most of the tourism revenue generated at Pike Place would be plowed back into the market. An interesting concept, but will Clark propose it? “Not [anytime] soon,” she says, adding that is a state-level decision that would require a longer discussion.

The i-Sustain group also examined Havana’s urban agriculture co-operatives and how neighborhoods are structured around what are called Committees for the Defense of the Revolution. “With that name, you kind of freak out,” says Borrero.

Fascinating yet controversial stuff, but too much to detail here. You can learn more about the Havana trip during a brown bag discussion that the Seattle design firm SRG Partnership will host at noon April 9 at its offices, 110 Union St. RSVP to **Bonnie Duncan**; bduncan@srgpartnership.com or (206) 973-1697.

Opus founder starts new company

Interesting news out of Minneapolis: Opus founder **Gerald Rauenhorst**, whose company has had a major impact on development in the Puget Sound region, has formed Founders Properties to pursue commercial real estate opportunities nationally. Like so many others, they’re homing in on distressed properties. (Are there any other kinds these days?)

Rauenhorst says the market today offers enormous opportunity for investors with liquid capital, time and know-how. Opus Properties, which is separate and distinct from Opus commercial real estate development companies, is teaming up with another entity to create Founders Properties. Opus Properties has sponsored eight real estate investment funds since 1997, investing more than \$2.6 billion.

Opus Properties President **Andy Deckas** will be president of the new company. **Wade Lau** is senior VP of Founders. Deckas said Founders expects to invest several hundred million dollars over the next few years.

Opus Properties is partnering with **Richard M. Schulze**, who will own half of the new joint venture company. He and Rauenhorst will be the principal investors. Schulze is founder and chairman of the board of an appropriately named company: Best Buy.

Got a Buzz tip? Send it to marc@djc.com or call (206) 219-6517.