

The Property Report: Plots and Ploys By Sheila Muto

Wall Street Journal Interactive Edition, June 2, 2004

What's Brewing in the Real Estate Market

Big Shift

Gaedeke Landers is starting to think big.

For the past decade, the real-estate investment firm has focused its attention on acquiring, leasing and managing small, suburban office properties, most of them less than 175,000 square feet and located in places like Boca Raton, Fla., and Nashville, Tenn., using capital from German investors. Now, the closely held firm, based in Dallas, is looking to invest some \$300 million in more-sizeable assets. It's looking for office properties that are 300,000 square feet or larger and located in major markets -- such as Boston, Chicago and San Francisco -- where it can amass holdings of at least 700,000 square feet in each market.

"Unless it's a large property, we will look for a minimum of two" assets in each market in order to justify expanding staff to handle management and leasing for its holdings, says Sabine Gaedeke Stener, the firm's executive vice president.

The 38-year-old Ms. Gaedeke Stener will take on the title of president and chief executive officer after D.W. Landers, 60, leaves that post and the firm at the end of August. At that time, the firm will change its name to Gaedeke Group LLC. Ms. Gaedeke Stener's father, Werner Gaedeke, 67, will step down as the firm's chairman next month.

Although the firm is likely to encounter increased competition for assets, Ms. Gaedeke Stener isn't concerned about the firm's ability to beef up its portfolio or generate returns in the low- to mid-teen percentage rate. "A lot of deals are only working because interest rates are so low," she says. As interest rates rise, "I think those deals will come to market because their current owners don't have the equity to hold them anymore."

Close to the Action

Scott Lawlor recently traded in his five-minute commute for a 30-minute one by moving his real-estate investment firm to midtown Manhattan from Greenwich, Conn.

But by moving Broadway Real Estate Partners LLC to Manhattan, he's closer to "most of the people we do business with," says Mr. Lawlor. "Being there for breakfasts and lunches is better for business. I've had more people visit me in my office in the last two months [in Manhattan] than the last two years" in Greenwich.

The move is helping Broadway attract additional senior executives, including a head of acquisitions for its new West Coast office.

Mr. Lawlor hopes to spend about \$750 million acquiring office properties throughout the U.S. this year, more than double the \$300 million of assets the firm purchased last year. Already, Broadway is in the process of spending about \$70 million to buy office properties in two markets that are new for the firm: one in Beverly Hills, Calif., and another in Boca Raton, Fla.

One office market has eluded Mr. Lawlor so far in his shopping spree: Manhattan. In the past two years, Broadway has made 15 bids on Manhattan office properties but has failed to win any of them.

Growing Demand

In a sign of things to come for office owners, **HQ Global Workplaces**, which operates temporary office centers, has seen the occupancy rate for its U.S. portfolio rise to 80% from a little more than 70% a year earlier, with its office centers in areas of Atlanta, Chicago, Dallas and Tulsa, Okla., showing most improvement.

The closely held Dallas company leases about five million square feet of space in some 210 properties nationwide, and then furnishes and leases offices and offers services to companies looking for space for as little as one hour, but more typically for six months to a year.

Much of the increase in demand is coming from financial and brokerage firms and technology companies, specifically those focused on software and hardware services and installation, such as Internet company Google Inc. and Washington Mutual Inc., according to Steve McNeely, chief executive of **HQ Global**. But more than one-third of the demand **HQ Global** is experiencing is coming from small companies that have a single office location, a shift from the boom times of 2000, when most of **HQ Global's** tenants were large corporations with global office locations, Mr. McNeely says.

In addition, a growing share of **HQ Global's** revenue is coming from business services the company offers to its tenants, such as videoconferencing, receptionist services, and telecom and technology offerings, Mr. McNeely adds. **HQ Global** emerged from Chapter 11 bankruptcy-court protection last October after eliminating more than 260 locations.