



October 09, 2007

Written by Mark Heschmeyer (mheschmeyer@costar.com)

## CoStar Lead Street (Oct. 7-13): Supply Constrained

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

In this week's issue of CoStar Lead Street, data hosting centers may be in need of a vast overhaul as technology changes are making many facilities outdated; individual investors who are directing their own IRA investments still see investment properties as their ticket to a financially secure retirement; and Mack-Cali decides to pump Wall Street Journal news into all their buildings. Plus, we give you the latest corporate facility location decisions and summaries of major properties under contract valued at more than \$800 million.

### Data Center Hosting Market in Need of Makeover

By 2011, more than 70% of U.S. enterprise data centers will face tangible disruptions related to energy consumption, floor space and/or costs, according to Gartner Inc.

In fact, during the next five years, most U.S. enterprise data centers will spend as much on energy (power and cooling) as they will on hardware infrastructure.

"[Chief information officers] of large U.S. organizations must prepare for a period of rapid changes in their data centers," said Rakesh Kumar, research vice president at Gartner. "This disruption will be accompanied by a significant increase in capital and operational expenditures. Failure to respond quickly and appropriately to the changing market conditions and technologies will result in needlessly high energy bills, expensive service contracts and delays in implementing new technologies."

Gartner estimates that more than 70% of the world's Global 1,000 organizations will have to modify their data center facilities significantly during the next five years. The United States has the biggest concentration of large (greater than 50,000 square feet) data centers, the majority of which were built more than seven years ago.

"These legacy data centers typically were built to a design specification of about 100 to 150 watts per square foot. Current design needs are about 300 to 400 watts per square foot, and by 2011, this could rise to more than 600 watts per square foot," Kumar said. "The implication is that most current data centers will be unable to host the next generation of high-density equipment, so CIOs will have to refurbish their established sites, build new ones or look for alternatives, such as using a hosting provider."

During the next two or more years, three main issues will come together and cause the disruption:

- Legacy data centers won't have sufficient power and cooling requirements for the next generation of high-density server and storage equipment.
- The volume growth of IT infrastructure will exceed the available data center floor space for most organizations.
- The need to manage upward-spiraling energy costs through optimization tools and modeling techniques.

During the next three or more years, one of the most-important changes to the U.S. data center landscape will be midsize and large users' increasing propensity to use data center hosting services. Traditionally, the U.S. market has been reluctant to embrace the leasing of space and running IT services from that location. However, during the past nine months, Gartner has detected a shift in attitude that will accelerate during the next few years.

The expensive capital cost for a new, owned data center - as opposed to the much more inexpensive, ongoing operational costs of leased space - would encourage companies to explore the use of hosted space. The perceived issues of lack of control and weaker security with hosting players generally haven't manifested themselves.

"The net result is that leasing space from a well-designed, modern data center hosting provider can yield financial and operational benefits," Kumar said. "Currently, the market is supply constrained, resulting in a rapid increase in costs. We expect this hosting market to become very attractive during the next few years, so users should move quickly to secure good prices."

### Real Estate Is Still the Ticket to Retirement

Despite the housing market experiencing its first downturn in several years, small private investors still consider real estate as their top investment option.

Guidant Financial Group, a Seattle-based provider of self-directed IRA services, recently conducted a survey that gives insight into which investments are getting the most traction in this niche market, given the current economic situation.

Almost 65% of respondents cited investment property as an investment option they are considering for their retirement savings, while close to 60% selected rental properties. Foreclosures and pre-foreclosures rounded out the top three with more than 36% of respondents considering these investments.

"These numbers provide valuable insight into the minds of investors," said David Nilssen, president and CEO of Guidant Financial Group. "It demonstrates that, although the real estate market is experiencing a downturn, many still continue to view real estate as a secure and viable means to growing their nest egg."

The survey also showed that traditional stocks and bonds ranked very low on the list of choices for investors; only 7% noted securities as a self-directed IRA investment under consideration.

Below are the top 10 self-directed IRA investments of choice:

- Investment property (64.3%)
- Rental property (59.4%)
- Foreclosures and pre-foreclosures (36.2%)
- Tax liens and deeds (29%)
- Raw land (28.2%)
- Business/franchise (22.8%)
- Hard money lending (22%)
- Notes (19.3%)
- Vacation property (19%)
- Foreign investments (10.4%)

Since 1974, IRA and 401(k) account holders have had the option to personally control the ways in which their retirement monies are invested. Real estate-related investments (i.e., commercial, rental and foreign properties, foreclosures, etc.) are among a long list of options available to the self-directed IRA investor. Because these investments are made on behalf of the retirement account (just like the IRA investing in stocks and bonds), real estate acquisitions can be made without triggering a taxable event.

Guidant Financial Group projects the self-directed IRA market to double over the next five years.

### All the News That's Fit for Tenants

**CONTINUED: CoStar Lead Street (Oct. 7-13): Supply Constrained**

---

Mack-Cali Realty Corp. plans to install The Wall Street Journal Office Network in more than 100 office buildings in the company's portfolio.

The WSJ Office Network, created by Dow Jones & Co. and partner Office Media Network, broadcasts up-to-the-minute news from The Wall Street Journal - including market indexes, weather and scrolling headlines - on digital LCD screens in the lobbies, common areas and elevators of office buildings. The service also provides building owners with a tool to communicate building announcements and other messages to tenants and visitors. Installation is expected in a majority of the Mack-Cali buildings by year-end 2007.

The Network will be installed in Mack-Cali properties throughout its portfolio in Northern and Central New Jersey; Suburban Philadelphia; Westchester County, New York; Fairfield County, Connecticut; Prince George's County, Maryland; and Washington, DC.

#### Facility Location/Expansion Decisions

Northrop Grumman Corp. selected Melbourne, FL-based BRPH Companies Inc. to lead a multi-firm team to design a KC-30 production center in Mobile, AL. The facility will be used for the final integration of refueling and military-specific systems for the KC-30 tanker aircraft, Northrop Grumman's offering in the U.S. Air Force's KC-135 replacement competition. The center, at Mobile's Brookley Industrial complex, will be directly adjacent to EADS' Final Assembly Line.

Sysco Corp. plans to construct a high-efficiency, environmentally friendly warehouse/office complex on a site in a proposed industrial park at the southwest corner of Interstate 45 and Beltway 8 in Harris County, TX. Groundbreaking is anticipated as soon as the required permits are issued. The new facility is expected to be operational approximately 15 months after groundbreaking and will serve restaurants, hospitals, schools, colleges, retirement homes, hotels and other foodservice operations in Houston and its surrounding communities. The complex will include approximately 585,000-square-feet of refrigerated, frozen and dry product warehouse space, as well as administrative offices.

Thyssen Krupp Waupaca Inc. plans to invest \$162 million to expand its Etowah, TN, iron castings facility. The move will add 100 jobs and double the footprint of the plant. Some 600 employees there produce gray and ductile iron castings for automobiles. The expansion will add a new state-of-the-art production line and grow the company's presence in the Knoxville-Oak Ridge Innovation Valley's robust auto supply sector. Currently, 20% of the Innovation Valley's manufacturing workforce is employed in auto supply.

#### Receive CoStar Lead Street and Watch List Newsletter by E-Mail

Watch List is available as an e-mail newsletter and CoStar Lead Street as an e-mail alert. The e-mail services are the quickest ways to review all of the news in these columns as soon as they are published and link directly to the news and features you want. They're free. Just e-mail me your name, title, company, company business, city, state, and e-mail address. You can reach me by clicking on the byline above or e-mailing me [atmheschmeyer@costar.com](mailto:atmheschmeyer@costar.com)

#### Under Contract

Inland American Real Estate Trust Inc. agreed to acquire a SunTrust bank portfolio in a sale/leaseback deal. The portfolio contains 208 single-tenant retail banking facilities and eight office buildings. The properties contain approximately 1.15 million aggregate gross leasable square feet and are in eight states and the District of Columbia. The purchase price is to be \$374.9 million in cash. SunTrust Bank will lease all of the retail banking facilities in the portfolio for a term of 10 years, commencing in December 2007 and terminating in December 2017. SunTrust may renew each of these leases for an additional term of 10 years, and then for six additional 5-year terms. A breakdown of the properties in this portfolio by location follows.

**CONTINUED: CoStar Lead Street (Oct. 7-13): Supply Constrained**

---

Number of Properties, Location, Purchase Price, Square Feet, Ave. Rental Income

- 2, Alabama, \$2.9 million, 9,508 SF, \$0.21 million;
- 77, Florida, \$150.6 million, 407,805 SF, \$10.84 million;
- 38, Georgia, \$75.9 million, 243,977 SF, \$5.46 million;
- 9, Maryland, \$26.4 million, 42,283 SF, \$1.9 million;
- 37, North Carolina, \$43.1 million, 141,885 SF, \$3.1 million;
- 7, South Carolina, \$8.9 million, 24,949 SF, \$0.64 million;
- 24, Tennessee, \$29 million, 106,800 SF, \$2.1 million;
- 23, Virginia, \$35.4 million, 169,179 SF, \$2.56 million; and
- 1, Washington, DC, \$2.7 million, 2,745 SF, \$0.19 million.

Inland American Real Estate Trust Inc. agreed to acquire The Woodlands Waterway Marriott Hotel & Convention Center at the intersection of Lake Robbins Drive and Six Pines Drive in the heart of The Woodlands Town Center campus in The Woodlands, TX. The 341-room property was built in 2002. The property includes a leasehold interest in an adjoining 70,000-square-foot conference center. The purchase price is to be \$137 million.

KBS Real Estate Investment Trust agreed to acquire two six-story office buildings containing 647,196 square feet, which include 610,462 rentable square feet, plus 36,734 square feet consisting of storage space, a fitness center, a lower level deli and other amenities (the Woodfield Preserve Office Center). The purchase price will be \$135.8 million plus closing costs. The Woodfield Preserve Office Center is on 24 acres at 10 and 20 N. Martingale Road in Schaumburg, IL. The Woodfield Preserve Office Center was completed in 2001 and is approximately 96% leased by 26 tenants, including IBM (15%) and Chef Solutions (10%). The current aggregate annual base rent for the tenants is approximately \$10.8 million with leases expiring on average in about 4.9 years.

After 21 years of leasing office space in Simsbury, CT, Hartford Financial Services Group Inc. plans to acquire its world headquarters at 200 Hopmeadow St. The price was not disclosed. Hartford Life's lease at the 611,000-square-foot office property expires in 2010. The Hopmeadow facility is four stories and was built in 1984.

Optical Communication Products Inc. agreed to sell to and lease back its Woodland Hills, CA, facility at 6101 Variel Ave. from DS Ventures LLC for \$28 million. The premises consist primarily of an approximately 148,671-square-foot industrial/office building, on-site parking spaces, and the underlying land with improvements and all fixtures attached thereto. The closing is tentatively set for Dec. 20. The term of the lease is set to commence at closing and continue for up to 18 months thereafter.

Solutia Inc. is evaluating the potential sale/leaseback of its corporate headquarters at 575 Maryville Centre Drive in St. Louis, MO. Solutia says it thinks the sale could generate between \$35 million to \$40 million of net proceeds, a portion of which would be used to retire the existing mortgage of \$20 million.

Greenbelt Resources agreed to exchange its current corporate office building at 216 N. Commercial in Eagle Grove, IA, for a block of soon to be released restricted stock. The deal allows Greenbelt Resources to remain in the current space for an undisclosed amount of time while it conducts a search for other corporate headquarters.

Dhillon Hospitality Management Inc. agreed to purchase Stockman's Casino Inc.'s real property, building, improvements and personal property comprising the hotel operations generally known as the Holiday Inn Express in Fallon, NV, for a \$7.2 million. The deal calls for a closing within 90 days.

Team Inc. expects to complete a \$5 million purchase of nearly 50 acres in the Houston, TX, area that will become the home of a new multi-use facility encompassing the corporate headquarters, TMS manufacturing, equipment center, and global training activities. The estimated completion and move-in date for the new facility is January 2009.