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DEAL OF THE WEEK

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Offices at Ire-Sale Prices

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Opportunistic investors who have bought buildings at steep discounts are beginning to pass on their savings to tenants, much to the distress of other landlords in the area.



Samsung Electronics America leased space in this Ridgefield Park, N.J., building at a discounted price. Bruce Goldsmith Photographer for Goldsmith Studios Inc.

Take the case of the lease that Samsung Electronics America Inc. just signed for 193,000 square feet in an office building in Ridgefield Park, N.J., for its North American headquarters. Earlier this year, the 235,000-square-foot building at 85 Challenger Rd. was purchased by KABR Real

Estate Investment Partners LLC, a real-estate fund, from American International Group Inc., which had taken control of the distressed property.

The price KABR paid for the then-empty property: about \$10.5 million, or about \$44 a square foot. The average price of comparable office buildings sold near the peak of the market in 2007: about \$200 a square foot, according to Real Capital Analytics, a New York real-estate research firm.

"A lot of landlords were very nervous thinking that they could be undercut at any moment," says Gregg Najarian, a senior managing director in Hackensack, N.J., with Studley, a real-estate-services company.

They were right to be worried. KABR, of Paramus, N.J., says it leased the property to Samsung for about \$20 a square foot annually. That is well below the East Bergen County submarket's average annual asking rent of about \$31 a square foot for Class A property, according to Studley. On top of that, Samsung got more than \$40 a square foot in tenant-improvement costs, above the average of about \$30 in the market, according to Kenneth Pasternak, a principal in KABR, and brokers.

It isn't clear what Samsung would have paid to continue leasing space in its existing headquarters location at 105 Challenger Rd. But Mack-Cali Realty Corp. lists the initial costs for the land, building and improvements to building that Samsung will be leaving at about \$34.5 million, or about \$230 a square foot, according to a Securities and Exchange Commission filing. Mack-Cali declined to comment on the matter.

Other goodies that might have had a price tag in better times were also thrown into the deal: Samsung will get its name on the building, which can be seen from the New Jersey Turnpike, new bathrooms with granite countertops, a new gym and a newly remodeled cafeteria that will be fitted out to prepare both American and Korean foods. "Our value proposition was so compelling nobody could really compete with us," Mr. Pasternak said.

Similar scenarios are starting to play out nationwide as the increasing number of distressed properties sold at bottom-of-the-barrel prices are freeing up the new owners to offer deals that landlords with more leverage on their properties couldn't afford to consider. That in turn is expected to put further downward pressure on rents that are already stressed by higher office vacancies as companies have cut their work forces and re-examined their real-estate needs in the wake of the financial crisis.

In the East Bergen submarket, the percentage of vacant or available office space has risen to about 24% in the third quarter from about 23.6% a year ago, one of the highest availability rates in the New Jersey markets tracked by Studley. The third-quarter average availability rate in the state's submarkets surveyed by the firm was 19.2%.

Mr. Pasternak, 55 years old, founded KABR last year with the hopes of buying and repositioning real estate and KABR has raised about \$40 million from its principals and other individuals to do so. The Ridgefield Park building is its biggest deal to day, but KABR has also acquired a small apartment building in the Bronx, N.Y., and another office building in New Jersey.

The previous owner of 85 Challenger Rd. had defaulted on a roughly \$20 million mortgage held by AIG, according to Mr. Pasternak. AIG declined to comment on the matter. Negotiations with Samsung on the lease deal began shortly after KABR completed its acquisition of the building over the summer.

"There aren't a lot of 200,000-square-foot tenants in New Jersey," says Marc Trevisan, executive vice president with Cushman & Wakefield of New Jersey, which represented KABR. "They asked for a lot and we accommodated them."

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