

AMB Property to sell prime sites, reap millions

Buyers build offices, condos

BY J.K. DINEEN
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As a REIT specializing in urban industrial infill next to ports and airports, AMB Property Corp. has often found its blue-collar distribution centers smack in the development path of decidedly white-collar office parks and condominiums.

Now in an effort to cash in on some of its most valuable industrial land, AMB has identified 20 sites for possible sale or redevelopment with the expectation of reaping up to \$50 million a year in gains.

AMB Chief Executive Officer Hamid Moghadam said the opportunities are being driven by the company's longstanding belief in developing urban infill industrial sites rather than the far-flung "greenfield" distribution centers some of its competitors have favored. On rail lines and near airports, the land is often well-situated for the sort of sustainable, transit-oriented urban centers city governments are pushing for.

"It's a very interesting outgrowth of our infill strategy — it has had a lot of intended and unintended benefits," he said.

So far as part of this initiative, AMB is looking at 20 properties that will be repositioned over the next five to seven years and expected to generate some \$30 million to \$50 million in average annual gains, according to its 2007 annual report. Last year, AMB sold two conversion projects for \$58 million in gains.

Not in a hurry

With 600 employees in more than a dozen offices in Asia, Europe and North America, AMB has built itself into one of the world's largest

industrial landlords and developers, amassing an \$18 billion portfolio, mostly in urban centers near bustling ports and airports. The new AMB infill strategy works particularly well because the company can afford to be patient, according to AMB Senior Vice President Mark Hansen, who heads the value-add conversion group.

Typically housing or office developers have to carry non-income-producing properties for years while awaiting entitlements. But AMB's international holdings — some 150 million square feet under management across Asia, Europe and North America — are already leased and profitable. A big player in London, Madrid, Hamburg, Tokyo, Seoul, Mexico City, Boston, Miami, Seattle, Shanghai and elsewhere, AMB also owns more than 12 million square feet in the greater Bay Area with 4.5 million square feet in Silicon Valley.

"The key for success is, the whole time you are doing the entitlement work you are continuing to collect rents," said Hansen. "If you've really done your job, you can take those tenants and put them into another project."

In Dublin, for example, AMB has a building near the new BART station that is under construction. It has been identified for housing and is currently entitled for 220 housing units and 150,000 square feet of office space.

"In the meantime, we have cash flow coming from it," said Hansen. "When the time is right for housing, it happens. We get paid to wait."

Choice sites

The company is sitting on some of the Bay Area's most valuable sites, according to Colliers International Senior Vice President Michael Rosendorf.

"They have some fantastic sites — it's very, very difficult to find a large tract of land that is contiguous," he said. "You look at every new project coming out, and its multi-story, whether it's built for a user or speculative, everything is moving from a sprawled out environment to vertical."

On East Grand Avenue in South San Francisco, for example, an AMB air freight shipping center squats next to part of Genentech's sprawling campus. In Silicon Valley's Moffett Park, AMB's 64 acres of low-slung industrial warehouses are surrounded by Yahoo's glitzy corporate headquarters. Those 64 acres could accommodate 1.1 million square feet of Class A office under current zoning.



AMB's industrial property near Moffett Field is considered ripe for development.

"It's like owning the cheapest house in a really good neighborhood," said Moghadam of his company's sites.

In Menlo Park, AMB is working with city planners on the highest and best use for the 55 acres they own next to Sun Microsystems. Part of the land, about two acres, has been identified as a rail stop location for the proposed Dumbarton Rail. The development there would likely include a combination of high-tech office and transit-friendly housing.

"You just don't find 55 acres of land in Silicon Valley that is redevelopable and under one ownership," said Hansen. "It's a very desirable piece of property, no doubt."

Other Bay Area sites AMB is looking at converting include the Pilgrim-Triton parcel in Foster City, which AMB owns part of and which was recently re-entitled for 296,000 square feet of commercial and office space, and 730 units of housing. While some cities like San Francisco are bent on preserving blue-collar jobs by imposing strict zoning controls that prohibit housing, office and retail, most cities prefer condos to heavy distribution centers catering to exhaust-spewing 18-wheelers.

"These industrial buildings will always maintain their value as industrial buildings. We could keep them leased forever. But are they worth something more?" said Hansen. "Near term, long term — it doesn't make a difference to us. That is the underlying fundamental. If it works as an industrial property, we are happy to own it as an industrial property. If it has that conversion opportunity as well, that is great. If it has conversion potential and doesn't work as industrial, and we can't make it work as industrial, then we are off strategy and we wouldn't buy it."

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