

Plots & Ploys

By Peter Grant, The Wall Street Journal, 672 words
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[What's Brewing in the Real Estate Market]

Telecom Vacancy

THAT SCREECHING SOUND you're hearing is the brakes being applied to the "telecom hotel" business. For months, it was one of the fastest-growing areas, as developers converted old warehouses into high-rent computer and switching facilities for space-hungry telecom firms. But with telecom stocks now taking a beating, demand for the space is declining.

"The developer who is not seasoned in this business is probably going to get a world of hurt," warns Jeffrey Markley, president of Markley Stearns Partners, Los Angeles, which has developed about 3 million square feet of telecom space.

Evidence of a slowdown include decisions by some telecom firms to postpone the build out of leased space. Colo.com, a Brisbane, Calif., firm that just shelved plans to go public, has stopped work on a 28,000 square-foot project it leased in Detroit. Sublet space also is coming on the market, like 35,000 square feet that FirstWorld Communications Inc. is giving up in San Francisco.

Many feel, however, the business will rebound, given the projected demand for telecom services. Some telecom firms are still signing leases. Sphera Optical Networks, of New York, will sign more than 20 more deals before the end of the year, says its broker Richard Kennedy, of Cushman & Wakefield.

Meanwhile, MetroNexus, a huge effort backed by Morgan Stanley Real Estate Funds to develop a world-wide telecom hotel network, plans to continue buying property aggressively, says Alex Twining, president, MetroNexus North America. "A sorting out process is occurring," he says. "The strong are going to be eating the weak."

Growth Issues

SAN FRANCISCO PLANNERS who have been struggling with the city's strong antidevelopment sentiment are shaking their heads over the Sierra Club's position in the latest ballot measure battle. On one hand, the environmental organization supports developing urban areas over more suburban sprawl. But of the two growth-related measures on the San Francisco ballot, the Sierra Club favors the one that would allow less development.

"Jobs that do not locate in high-rises will be displaced to the suburbs," says Jim Chappell, president of the San Francisco Planning and Research Association. "It's up to organizations like the Sierra Club to help concentrate growth."

Clayton Mansfield, the head of the Sierra Club's San Francisco unit, says it supports the more restrictive measure because it better addresses the needs of communities that might be displaced by development. "Uncontrolled growth is as bad as suburban sprawl," he says.

Hot Downtown

RESIDENTIAL DEVELOPERS have cashed in big time on the new trend in downtown living. Thanks to demand from young professionals and empty nesters, successful apartment buildings have sprouted in Chicago, New York, Boston and even Denver and Houston.

But the downtown lifestyle is proving to be a harder sell in Phoenix. About half the 330 apartments in Camden Property Trust's Park at Arizona Center are still available some nine months after it opened. Meanwhile, Post Properties Inc. last month noted slow leasing at its Roosevelt Square project.

So what's the problem? "People come here for the desert lifestyle," explains Al Savastano, president of Apartments & More, a brokerage. "They want to see a sunset over a mountain."

Also, the layout of downtown Phoenix as well as its climate aren't conducive to urban living. "There's a real question as to whether you can create a live-walk-to-work environment in a city where it's 120 degrees in the middle of the summer," says Craig Leupold, analyst with Green Street Advisors Inc.

Trading Tower

IT LOOKS LIKE Tishman Speyer Properties has the inside track with New York City to become the developer of the office tower above the planned new trading facility for the New York Stock Exchange, people familiar with the situation say.

Tishman and Brookfield Financial Properties were the only two developers that submitted bids to build the tower that will be over 1 million square feet. City officials are leaning towards Tishman because it is willing to build more of a speculative project. Officials with Tishman, Brookfield and the city declined to comment.