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Two-Step Sale Backing \$30M-Plus Retail Swap

By Connie Gore

FLOWER MOUND, TX-Direct Development and Rreef have once again sat down at the closing table for a piece of class A retail. Unlike other deals, the 160,771-sf Highlands Ranch has been set up as structure sale with the north of \$30-million trade carrying an early fourth-quarter closeout.

The earn-out is based on filling the 20% balance of the open space in the 6100 Long Prairie Rd. shopping center, which essentially delivered in late 2005, Matthew Noack, vice president for the Dallas-based development group, tells GlobeSt.com. "Hopefully, we'll have it closed out at the beginning of the fourth quarter," he says.

The acquisition is Rreef's second at the FM 2400 and 407 intersection, having bought the 450,000-sf Highlands of Flower Mound on the southwest corner from Direct Development in December 2004. The latest exchange does not include a trio of pad sites, being developed and sold piecemeal to maximize the developer's yield from the project, according to Noack. Direct Development has a third project under way in the neighborhood, but it's too early to say if Rreef is going to go for a triple play. The 450,000-sf Robertson's Creek is due to deliver in spring 2007.

Not only was the San Francisco-based Rreef the logical choice for the quietly circulated, free-an-clear offering, but Noack says the dealmaker was the willingness to package a two-step sale. "Not everybody in the world could do this type of structured deal to sell what's in place and in the future," he explains. "It was a complicated transaction that we closed with Rreef and it was a market price." Rreef had Chicago director Bradley Gries work out the terms.

The 21-acre center is anchored by a 175,000-sf Lowe's Home Improvement Store on 19 acres that it bought in 2004 from Direct Development. Earlier this year, the development group sold a 54,254-sf ground lease with Chase Bank to a private investor from New York City. Noack says that's the going-forward strategy for two more pad sites, one of which is in the home stretch in talks with Overland Park, KS-headquartered Applebee's International Inc. "We thought we could maximize the value by ground leasing and selling the ground leases," he says.

Highlands Ranch's junior anchors are a 30,406-sf Best Buy, 27,074-sf PetSmart and 20,306-sf Office max. The Retail Connection in Dallas leases the project for Direct Development.