

## IN-DEPTH PROFILE

### *WESTERN INDUSTRIAL PORTFOLIO: MEPT Acquires Well-located Portfolio of Industrial Properties Below Replacement Cost*

MEPT NOT ONLY COMPLETED one of the largest acquisitions of industrial properties in the Los Angeles area in the last 5 years, but also purchased the portfolio at a value significantly below replacement cost. The local market knowledge and thorough due diligence process of MEPT's advisor, Kennedy Associates Real Estate Counsel, Inc., ensured that MEPT overcame concerns and risks that deterred other institutional buyers from negotiating the purchase of the portfolio.

Fourteen of the assets are located in the Los Angeles basin, with two in the San Francisco East Bay area of San Leandro, CA, and one near Phoenix, AZ's Sky Harbor International Airport. All the properties are in mature markets where there is little land available for development. Based on current land costs and city zoning requirements, it would be economically difficult to build comparable properties for manufacturing or distribution use in these land constrained markets today. The replacement cost of these assets, built approximately 25 to 30 years ago, would be significantly higher than the price paid by MEPT.

The buildings are over 88 percent leased, primarily by garment and food-related companies that are steady users of regional manufacturing and distribution space regardless of fluctuations in the market. The tenants for the most part serve the local areas in which they operate and these infill locations are important to their distribution systems. Additionally, these properties have excellent access to major freeway systems, airports, and ports. Several of the properties are rail served.

Gregory G. Young, portfolio manager for Investment Development Services, Inc. (IDS), the local real estate services firm that brought the opportunity to Kennedy, stated,

**“We recommended this portfolio to Kennedy as a long-term investment because of the stable nature of the tenant base, and the strong performance of the properties. These assets are located in areas that exhibit consistent demand.”**

### ACQUISITIONS DUE DILIGENCE

Kennedy began negotiating the purchase and sale agreement with Westcore Industrial Properties in October 2002. The 2.3 million square foot portfolio was widely marketed and attracted a lot of interest, but the urban infill location, potential releasing requirements and eventual renovation work intimidated many buyers. For MEPT, with an already strong local presence and a proven ability for renovation work, these assets were a good fit with MEPT's existing portfolio.

According to Christopher Stirling, a Kennedy Senior Vice President,

**“MEPT anticipates over the next five to seven years, the Fund will invest in excess of \$10 million in capital improvements at Western Industrial properties, including renovation projects, tenant improvements and other onsite work.”**

Acquisition of the 32 industrial properties required almost nine months of work by the Kennedy team. Led by John Parker and Christopher Stirling, Kennedy acquisition staff, asset managers and accountants managed over 30 outside consultants, environmental experts, physical site inspectors, and lawyers throughout the due diligence process.

Kennedy was careful to focus on the biggest issues first in order to identify early any issues that could derail the transaction. The age of the properties presented challenges regarding environmental issues, structural integrity, and differed maintenance that were addressed before the purchase was completed.

One by one, Kennedy tackled the issues and quantified any impact to the value of the portfolio which included reviewing the 55 existing tenants' leases and related correspondence to determine the financial strength and stability of the tenant base. Kennedy also attended to certain matters that arose from differences in tax laws and lease terms since the properties in the portfolio were located in several different jurisdictions. In addition, approvals were required from agencies that had rated the commercial mortgage backed debt on the portfolio.

Throughout the process, Kennedy asset managers actively followed day-to-day operations and leasing activity to ensure that the properties were well-maintained and that the tenant base did not erode during the purchase negotiations. Efforts paid off when one tenant, DHL, which had considered moving out at the end of its lease term, signed a new lease that Kennedy negotiated just prior to the close of the transaction. The international air express shipping company was retained as part of the stable tenant base.

Additionally, Riggs Bank, MEPT's Trustee, visited each asset, reviewed the financial records, capital improvement assumptions and financial projections for each property, and approved the \$115 million acquisition.



Properties in the Western Industrial portfolio