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BRE Land Deal Finalized, Construction on Hold

San Francisco-based multifamily REIT not likely to break ground on Sunnyvale parcel until 2011.



A rendering of the Luminaire, BRE's envisioned 336-unit apartment community in Sunnyvale, Calif. Credit: Trumark Companies

Details regarding a proposed development by San Francisco-based real estate investment trust BRE emerged last week as the seller of the underlying land—Danville, Calif.-based Trumark Companies—issued a press release regarding the \$14.6 million deal that originally closed in the fourth quarter of 2009.

According to Trumark, plans for the 6.6 acre site include construction of the Luminaire, a 336-unit apartment complex that would boast 16 live/work lofts as well as approximately 14,500 square feet of ground floor retail. The site was originally designed and entitled as a

condo community by Trumark, which formed a strategic buyer/seller relationship with BRE over two years ago when it became apparent that the market would better support market rate rental apartments.

“We were originally going to entitle the deal as a for-sale development and keep it for ourselves, but as the market began to turn in 2006 and 2007 we realized we might have to take a look at a different exit strategy other than for-sale development,” says Trumark partner and general counsel Jason Kliever. “BRE turned out to be a really good strategic match for a buyer seller relationship, particularly on the entitlement effort. Trumark has a very good for-sale entitlement acumen, but I don’t know that we are the experts on apartments. BRE was able to give us a lot of insight during the design and entitlement process in that regard.”

The Sunnyvale site is one of a handful of land and development assets that survived a pipeline downsizing at BRE over the past two years. Two fully entitled sites in Los Angeles and another in San Jose were abandoned by the REIT in 2009, resulting in \$12.9 million in charges to the company’s balance sheet. “We believe that a continued review of our development program is a very prudent decision, and our focus is only on those sites that will be accretive to our shareholders given current market consideration,” said BRE CEO Constance Moore on the company’s Feb 2 earnings call for 2009 fourth quarter and year end results. “We did, however, purchase a parcel of land in Sunnyvale during this quarter [and] with this acquisition we now

own four land parcels and have two sites under contract to purchase. None of the sites will be in a position to begin construction until late 2010.”

On the earnings call, Moore said that BRE owns four land parcels in total, two in Southern California and two in Northern California, representing 1,298 units of future development, and an estimated aggregate investment of \$580 million upon completion. While BRE had no comment on the Sunnyvale land deal or the construction status of the Luminaire, Kliewer says the REIT had recently been considering pushing groundbreaking into the earlier half of 2010. When completed, the property is expected to qualify for certification under various green building and sustainable development guidelines.

With the recent completion of four sites that were under construction at the end of 2009, the abandonment of additional land holdings and the indefinite pause on construction, BRE has reduced the funding requirements on its development pipeline by 36% in the last 12 months, according to SEC filings. The company announced Mar. 31 an offering of up to 5,750,000 shares of its common stock in an underwritten registered offering. According to a press release, proceeds from the sale could be used for reducing the balance on the firm’s unsecured credit facility, financing acquisitions, and funding development.