Developer Opus Northwest turned the property back to its construction lender to head off foreclosure. Completed in late 2009, the speculative building suffered under the combined effects of the recession and the collapse of Seattle-based Washington Mutual.
By Patrick Callahan

Developing for the healthcare and life sciences market contains challenges unlike those in the office, retail or mixed-use sectors. The 7th & Madison property in Seattle is one such example of a project with its share of complexities that started out as anything but the typical deal. Developed by Opus Northwest and completed late in 2009, the 205,000-square-foot Class A office building was built without a tenant in mind. Under previous market conditions, this strategy may have worked.
introduced HAL to The Polyclinic, established in 1917 and one of the largest multi-specialty medical clinics in the Puget Sound area with more than 200 primary care and specialty physicians. The Polyclinic had been represented since 2007 by Heartland, specifically Jim Reinhardsen and Matt Anderson. They were interested in a new headquarters to anchor their operations. “We loved the location. It’s a high visibility, attractive location,” said Lloyd David, executive director of The Polyclinic. With Urban Renaissance Group acting as the matchmaker while representing HAL and bringing The Polyclinic and their representatives from Heartland to the table, HAL’s efforts to acquire the building immediately strengthened. HAL Real Estate Investments, led by Dana Behar and Gabe Grant, purchased the 7th & Madison building for $30.8 million, approximately 40 percent of the reported development cost.

A Deal with Strings and Hurdles Attached

The lease that The Polyclinic was ready to sign was comprised of three critical contingencies that would significantly impact how most investors would underwrite their value as a sure tenant of the building. First, they needed the of face building’s zoning to be changed from of face to medical use, effectively changing the footprint of the building’s use pattern. Other lease contingencies had more physical manifestations: the building’s owners had to secure a long-term lease with various owners along the full block directly south of the building. Why? Unlike traditional office buildings, medical office buildings require many more parking spaces, to accommodate the comings and goings of patients and clients, as well as medical personnel working staggered shifts. The Polyclinic would need
an above-ground parking structure adjacent to the building to make their new space function.

All this work was undertaken for a location that, at first glance, had a geographic deficit. The building was situated on the wrong side of Interstate 5, separated from Seattle's central business district by seven lanes of concrete. Fortunately, Urban Renaissance Group and HAL didn’t buy into that off-the-cuff analysis.

“Seventh & Madison has tremendous proximity and visibility to thousands of people working every day in downtown Seattle, bridging a gap between the traditional CBD and Seattle’s major hospitals clustered on First Hill,” said Bliss. “The Polyclinic is Seattle’s largest multi-specialty medical clinic. The fact that their new location is walkable from the entire CBD offers tremendous benefits to their many clients.” Urban Renaissance Group disregarded the conventional wisdom about the location, seeing the asset in a different light. The group conducted research with Seattle’s best tenant representation companies leading to recognition of the location possibilities. It was determined that there was no wrong side to I-5 at that particular site. In fact, one local measure of walkability is the property’s proximity to the Washington Athletic Club on 6th Avenue in Seattle, an important location criteria to many downtown Seattle tenants. The 7th & Madison building was closer to the club than well over 50 percent of Seattle’s Class A office buildings.

Discussions and negotiations began in earnest and all stakeholders came to the table to make the new building work. The Polyclinic knew what they wanted and had a great advisor in Heartland, resulting in a lease that worked for all parties.

Beating the Clock

The Polyclinic wanted to be moved in to their new location and open by April 2012. That put the fire under the various parties, first to acquire the building in the bid pro-
cess, and then to satisfy the three contingencies. Without those met, The Polyclinic could not complete its move into 7th & Madison. HAL Real Estate Investments would be left to lease the building on a speculative basis. Their clear preference was to deliver the building to Polyclinic. One of the reasons why the project was so successful was because all the parties involved trusted one another — a critical element in a complex transaction.

HAL’s capital return expectations weren’t in a box — high returns with high risk, or modest returns with modest risk. They approach opportunity with wisdom, experience and flexibility. The parties all say cooperation of the various players in the deal was essential to getting the garage permitted and built, the use changed and The Polyclinic moved in. Heartland took responsibility for successfully resolving the contingencies on behalf of The Polyclinic. Things came together as needed and The Polyclinic waived the contingencies by June 30, 2011.

The Hold Strategy Payoff

The parking structure is complete with a new entryway and pavilion that connects it to the 7th & Madison building. The estimated $30 million tenant improvement project provides The Polyclinic with a distinctive and highly functional headquarters, facilitating another 100 years of serving customers and clients.

The impact of the deal on Seattle’s market confidence hasn’t gone without notice. It gets more significant considering the building was delivered at precisely the wrong side of the market’s peak. Many observers were stunned to see a tenant of The Polyclinic’s size commit to a building at that time. The Polyclinic move also represented a major commitment by a large medical tenant into Seattle’s core central business district.

Part of the deal’s success came from the willingness of the parties involved to take a different view of the market than the view prevalent in 2010. “HAL recognized a rapidly improving Seattle market; however, unlike almost all major investors, was comfortable holding the building off the market for six months while The Polyclinic resolved its contingencies,” Bliss said.

Lloyd David knows that the development project was not at all typical. He is grateful to have the benefit of his partners and their experience to make what he calls a “white knuckle” experience turn out so positively.

By Patrick Callahan, founder and CEO, Urban Renaissance Group.