

In-Rel may grow further in Memphis

Memphis Business Journal - August 15, 2003

by [Kate Miller Morton](#)

With its recent \$40.1 million purchase of Clark Tower, the little known Florida investment firm In-Rel Management, Inc., has become a major player in the Memphis office market, vying with **Boyle Investment Co.** as the dominant player in the East Memphis Class B office market.

Clark Tower is the company's third purchase in the Memphis market, bringing its total investment to \$68 million and local portfolio to just over 1 million square feet.

In-Rel principal Charles Stein says the investment firm most likely isn't done expanding in the Memphis market.

"I'd like to look at retail and get some balance to our portfolio there," he says.

Founded in 1986, In-Rel acquires, leases and manages retail and office real estate and has 800,000 square feet in its South Florida portfolio.

The firm owned no property outside of Florida prior to September 2001, when during a Tampa retail transaction New York-based Prudential sparked In-Rel's interest in Poplar Towers, a property in which Prudential had previously invested and was for sale. In-Rel purchased the 100,000-square-foot building at 6263 Poplar for \$6.8 million.

Stein says In-Rel was looking to diversify its portfolio with property outside of Florida, where hurricanes can make property ownership quite costly.

"Ironically the biggest weather damage I had was in a property outside of South Florida," Stein says, referring to the recent storm damage to Clark Tower.

Stein says In-Rel was first approached about Clark Tower during its acquisition of the 281,000-square-foot Lynnfield Office Park, which it purchased for \$21.19 million in December 2002. The company wasn't interested in other buildings at the time, but it didn't take long. By the first quarter of 2003, Stein says In-Rel was again looking for an office property "to build critical mass on the East side of Memphis."

About that time John Lamberson, CB Richard Ellis vice president of investment sales, was looking for a buyer on behalf of Toronto-based TrizecHahn, which spun off its U.S. assets into real estate investment trust Trizec Properties in May 2002. Trizec had made no secret of its desire to exit its non-core markets of which Memphis was one.

The 650,000-square-foot Clark Tower didn't fit the profile of property In-Rel usually acquires, Class B or B+ property between 100,000 and 200,000 square feet, but Lamberson

thought the company would be interested because it would give them critical mass in the East Memphis Class B office market.

In addition to size, Stein says he saw synergy between the property and In-Rel's other Memphis holdings.

"One of the things we don't want to have is to be competing against ourselves, so you really don't want three of the same properties," he says. "You have Poplar Towers on the outside of the loop and an office park scene with Lynnfield. (Clark is) inside the loop and more of a Downtown kind of property with some spectacular attributes you don't normally get in a suburban type of building."

In addition to structured parking, Stein says he was attracted by other developments in the area, including high-end homes and Malco's new movie theater, in addition to good restaurants nearby.

The price was also attractive. In 1998 TrizecHahn paid \$54 million for Clark Tower, which was then 97% occupied. TrizecHahn was asking \$60 million for the building just three years ago. Atlanta-based European American Real Estate reportedly offered \$50 million that year before walking away.

Clark Tower's occupancy now sits just below 80%. Stein says rents will likely will come down, but he won't know for sure until he determines what kind of capital improvements are necessary.

"I would think we're going to be very aggressive," Stein says.

Boyle executive vice president Mark Halperin says Boyle has about 1.5 million square feet of office in the East Memphis market, some of which is Class A. He doesn't expect In-Rel's purchase to have much of an impact on the market even if it does initially lower rents.

"It could bring rents down, but why would they want to cut rents?" Halperin says. "Our experience is that cutting rents is only a short-term solution to filling vacancies, and frequently you can't get someone to do something because the rents are cheaper. Usually people end up going where they want to go."

Lamberson says the amount and variety of space In-Rel now has will give them an advantage.

"It creates a mass for them, variety," Lamberson says of the Clark Tower purchase. "It gives them an opportunity to look at anything within a specific price range. They'll look at more deals."

Halperin says it will take time for In-Rel to establish the reputation for performance already enjoyed by longtime players like Boyle, Belz Enterprises, Highwoods Properties and Clark & Clark

Stein says he likes the stability of the Memphis market, which lacks the wild swings of the trendy South Florida market. He also likes the "buzz of the city."

"It reminded me of Atlanta 15 years ago," Stein says. "Everybody I met in Memphis was very bullish on the city."

In-Rel is investing at a time when other institutional investors are shying away from investing in the Memphis market because of rising property taxes.

"We like the city, we like the people, but the property tax environment is so oppressive that it just makes the decision to further invest in this market very difficult relative to other opportunities we have in the Southeast and Midwest," says Highwoods senior vice president Mike Harris.

Stein says property taxes are always a concern but Memphis isn't that different from South Florida. He says the company addressed the issue in the Clark Tower transaction and hopes to get some rate relief based on the contract, as In-Rel has done in Florida when it purchased properties at prices below the assessed value.

Clark Tower's is currently assessed at \$56.4 million, \$16.3 million more than In-Rel paid for it. The building was most recently reassessed in November 2002 when it was raised from \$54 million. The building's assessed value had been reduced just one year earlier from \$55 million.

Harris says the true market value of commercial property isn't always reflected in its tax assessment. Highwoods has twice bought property in Memphis for a price below the assessed value and failed to win a reassessment appeal.

CONTACT staff writer Kate Miller Morton at 259-1764 or kmorton@bizjournals.com