Paying to Play' in the Corporate Game

As Dallas-based Koll Development Company (KDC) came off 2002—its best year ever—its challenge was to continue its outstanding growth and profitability even as the market continued to slide.

Said CEO **Steve W. Van Amburgh**: "In the fourth quarter of last year, we had a lot of development underway, a total of 1.5 million square feet of projects, but our volume was dwindling. We had a meeting in Dallas with our new business development people from all our offices including Detroit, Dallas, northern and southern California and Colorado."

A decision was made at the meeting to go out to the company's 100 largest customers, including FedEx, EDS, Citigroup, Nokia, Del Monte, Nortel Networks, Ford Motor Company and AT&T Wireless to ask them the following questions:

- Did they see any growth at all?
- What would enable KDC to do business with them in the future?
- Did they have a need for expansion?

"What came out of this," explained Van Amburgh, "was that any development between now and 2005 would be niche development. In fact, as we looked over our recent development work, we found that it was based on cost-saving measures: companies were spending money to save money. If a company had five or six facilities with 600,000 square feet of total space, it wanted to consolidate that space into one facility of 400,000 square feet."

KDC discovered something else from its interviews as well, which prompted it to change its logo and recapitalize the firm to add acquisitions. "We were told by these big clients—

and it was uniform among them—that if we wanted to develop, for example, that new call center for them in Arlington, Virginia, they would certainly keep us on their list and send us the proposal. However, if we wanted to enhance our opportunity to be the winner, we needed to buy the facility from them that they were vacating in Charlotte, North Carolina.

"They said they would sign a 15-year lease on the Virginia facility and a two-year lease on the North Carolina facility, which would end when the new lease began because they did not want any double-rent problems. In effect, they wanted us to pay to play."

What if the old facility was a white elephant? How would Koll handle the risk? Said Van Amburgh: "We did two things. We made certain that we had the capital to move forward but we also created an internal mandate that we would never buy the old facility just to do the development deal. That is, we will not do a deal that leaves us with a white elephant after the tenant leaves where we cannot recoup our investment."

KDC is very sensitive to what it will buy, but it likes the opportunistic upside of the acquisition piece of the transaction. For example, KDC has one project right now for a $10 billion company. It received an RFP for a 120,000-square-foot office requirement in which the company would be willing to sign a 10-year lease. It wanted KDC, however, to buy two regional office buildings to get them off the company's books.

Van Amburgh said that in making this deal, Koll effectively became a one-stop shop to solve this company's problems. It turns out that numerous other clients want to get non-core assets off the books as well. They do not want to own real estate anymore. Why the change? Van Amburgh said that Wall Street investors are interested in a company profitably producing its products or services, not in its real estate investment savvy.

This strategy seems to be a win-win for Koll and its clients: "If we walk into a meeting and represent ourselves as being only developers, then they are not going to think of us as solutions providers. If we go in with a foundation of development and the capacity to buy and manage the existing projects, we are effectively accommodating their needs. We are solutions providers."