

## One Commerce Square changes hands, clearing way for Pinnacle landing in Downtown Memphis

By Wayne Risher

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Downtown's biggest office deal in 15 years closed Thursday as investors bought One Commerce Square and locked in Pinnacle Airlines Corp. headquarters as anchor tenant.

By next Nov. 1, about 650 employees of Pinnacle's regional airlines will breathe new life into a building that had slipped to about 30 percent occupancy.

Fittingly, it was a deal that never would have happened without the involvement of AutoZone founder J.R. "Pitt" Hyde III.

Hyde bucked the trend of office jobs migrating to Memphis' eastern suburbs when he moved his auto parts chain's headquarters and 750 employees to Front Street in 1995.

He stepped up to the plate again to make the One Commerce Square deal happen despite a woeful environment for commercial real estate.

Hyde's real estate investment firm, Worthington Hyde Partners, was the linchpin of a local investor group that bought the iconic former bank building from US Bank in Minneapolis for \$7.6 million.

They will pump more than \$20 million into restoring the 29-story, 38-year-old structure as premier Downtown office space.

"I was willing to invest in this project because of the positive experience I had when I relocated AutoZone to Downtown Memphis," Hyde said.

"It is my belief that the decision made by Pinnacle to move its operations to One Commerce Square will have an equally positive impact on the continued growth and development of Downtown," he added.

Gary Prosterman, a fellow investor and hotel developer, said, "Getting anything financed in this environment is extremely difficult. The Hyde entity was willing to step up both with equity and the debt to make this happen. I would say that were it not for the civic aspect, it would have not been possible."

Organizers also credited Memphis Mayor A C Wharton with keeping Pinnacle from

crossing the border into Mississippi, where it had a competing offer in Olive Branch. Wharton committed \$3 million in city economic development funding, with City Council consent, to secure free parking for Pinnacle employees.

Wire transfers of millions of dollars Thursday consummated a complex web of transactions. They included the investors' sale of the 480-space parking garage to the city; a city-county property tax freeze worth \$6.45 million over 20 years; a \$17.2 million issue of tax-exempt Recovery Zone Facility Bonds; and Wells Fargo Bank's permanent financing for the project.

The closing was a milestone for Downtown revival, Center City Commission president and CEO Paul Morris said.

"It's critical for Memphis to have a vibrant Downtown office market because we are competing with other cities for talented, creative people who want to live and work in a walkable, urban community," he said. "Our Memphis skyline gets a major vibrancy boost today..."

The lease for 170,000 square feet on 13 floors, floors 2-14, was signed by Pinnacle and building owners Dec. 13, pending the closing. Financial terms weren't disclosed.

Phil Trenary, president and CEO, said Pinnacle believes the move will be good for the company and its hometown. Pinnacle will leave the Memphis International Airport area, where it had outgrown its buildings.

"The incredible team effort to get this done is exactly what makes the Memphis community positioned for continued growth," Trenary said. "Our company's impact on Downtown is just beginning, and we are excited to be part of it."

The 13-year lease is designed to flex up or down, allowing Pinnacle to expand to as many as 15 floors in early years and contract to as few as 11 floors in later years. There could be two five-year renewals.

CB Richard Ellis Memphis' Kelly Truitt represented Pinnacle on the lease.

The building owners have retained Commercial Alliance Management to oversee property management and leasing.

City Councilman Kemp Conrad, president of Commercial Alliance Management, said he's looking forward to managing through major construction and filling the building with tenants.

"This local, well-capitalized ownership group is a key competitive advantage in this environment," Conrad said. "They're going to be investing about \$20 mil in the building and will really restore it to its rightful place as the pre-eminent space to do business in Memphis."

Conrad added, "We've got a full pipeline of deal, and we're ready to lead the charge in the repositioning of the building."

The new owner, Memphis Commerce Square Partners LLC, has had Looney Ricks

Kiss architects designing the project and will put general contractor Grinder Taber & Grinder Inc. to work as early as Monday.

Their timetable has Pinnacle occupying seven floors by Sept. 1 and the rest by Nov. 1.

Hyde's Worthington Hyde Partners, which includes Robert W. Worthington of Atlanta and John Pontius, is the controlling entity of the partnership. Prosterman joined Karl and Gail Schledwitz and Terry Lynch of Southland Capital to pull the deal together, and Prosterman's Development Services Group will manage construction.

Proceedings to close the deal took about four hours Wednesday in the first-floor lobby of One Commerce Square, the former National Bank of Commerce building at 40 S. Main.

The transaction was many-faceted and required a lot of lawyers.

"I will say this has been good for the legal community," Prosterman said.

Firms included Baker Donelson, Adams & Reese, Farris Bobango and Evans Petree.

After buying the building, the investors turned around and sold the parking garage to Center City Revenue Finance Corp.

CCRFC, an arm of Center City Commission, leased the garage to the Downtown Parking Authority, which subleased it back to the investors. It will be upgraded and turned into a public parking garage.

CCRFC and the investors closed on the tax freeze, and the investors closed on the Recovery Zone bonds, which were bought by Wells Fargo. They anticipated a 3.7 percent interest rate, compared to about a 5.25 percent floating rate with taxable bonds.

Also, the investors secured New Market Tax Credits worth about \$2.4 million over seven years.

"So many entities came together and cooperated in a short period of time to create something of value for Downtown and our community," Prosterman said. "It was either going to be a perfect storm or a perfect alignment of the stars."

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