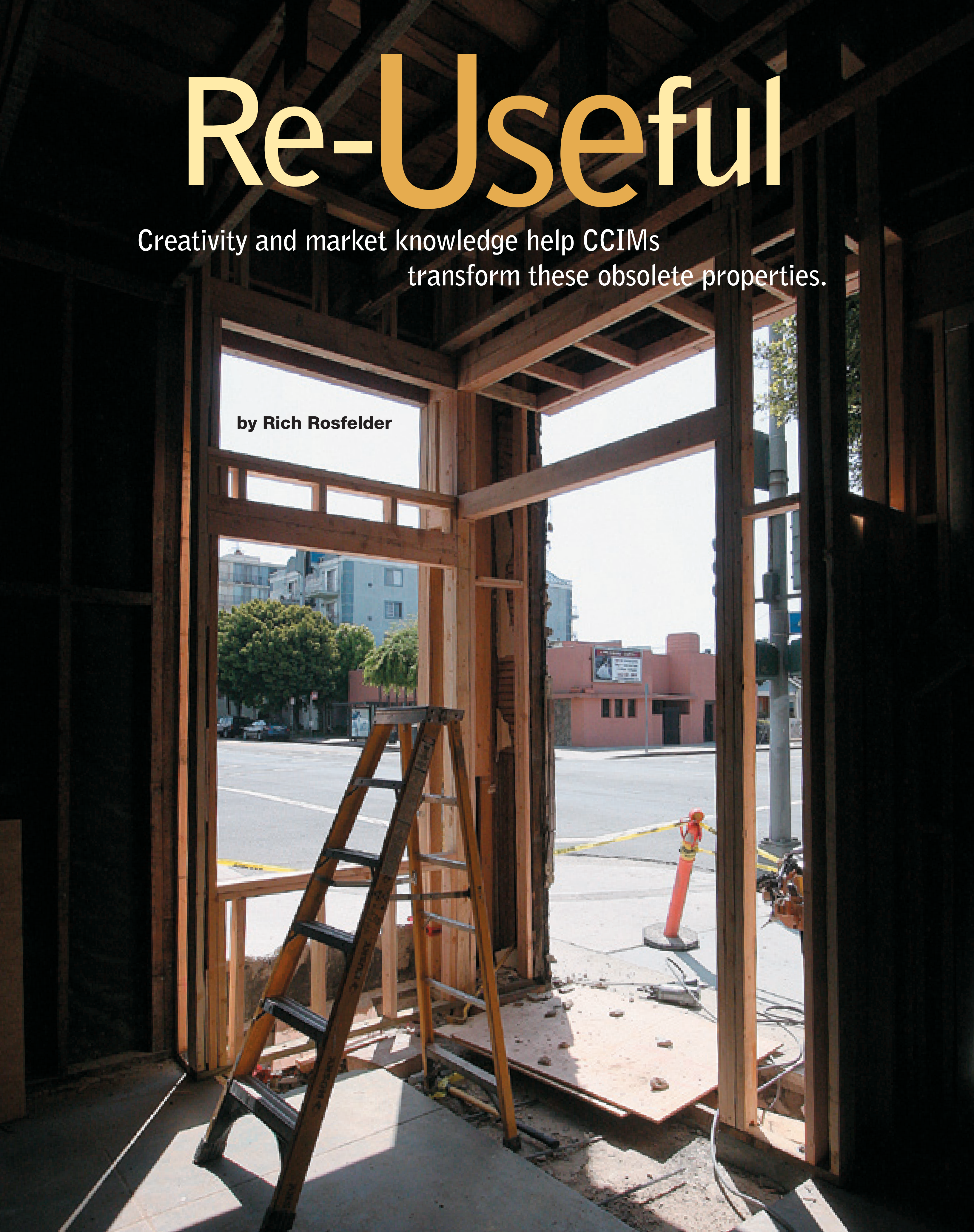
Re-Useful

Creativity and market knowledge help CCIMs transform these obsolete properties.

by Rich Rosfelder



Repurposing an old property demands creativity, especially in a climate where reluctant buyers, frozen credit markets, and rigid zoning regulations can immobilize even the most vital projects. To maintain momentum, adaptive reuse experts have broadened their strategies — and, in some cases, narrowed their commute: "A lot of work goes into repositioning adaptive reuse properties, so I try to locate projects near my main office," says Dan Earl Midgett II, CCIM, co-owner of Cumberland Real Estate and Auction in Lebanon, Tenn. On these winding journeys far and near to home, CCIMs are using their imaginations and specialized knowledge to breathe new life into old destinations.

Sustainably Fit in Fayetteville

"The very concept of adaptive reuse implies a bargain in the woodpile somewhere," says Craig F. Hull, CCIM, principal broker and owner of Hull & Co. in Rogers, Ark. But sometimes, as Hull discovered, it takes a little while for that bargain to catch fire. Two years ago he listed a 9,000-sf retail property on West Dickson Street in Fayetteville, Ark., the heart of the University of Arkansas' entertainment district. A local nightclub operator leased the property in September 2008, but its loan fell through and the deal died. At the time, Fayetteville's real estate market was still reeling from a "bust before the bust," and Dickson Street already was glutted with bars and restaurants, Hull explains. The old approach was no longer sustainable.

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Hull recognized the need for a unique land use in the nightclub district and culled about a dozen prospects. He settled on Clubhaus Fitness Centers, which proposed a Leadership in Energy and Environmental Design-certified health club. "All of the tenant improvements were in their package," Hull says. Clubhaus had penciled out the costs for asbestos removal, timber reuse, and other renovations that would allow the property to qualify for LEED Platinum status. But, according to Hull, the deal required 25 percent equity — minimum. Fortunately, Clubhaus' SBA loan came through, and the property owner invested more than $40,000 in the project. "It's rare to find someone with that combination of training, experience, youthful vigor, and capital," Hull explains. "Often they lack something — usually capital."

With these capital infusions, Clubhaus transformed the former Piggly Wiggly and craft supplies store into the only LEED-certified fitness center in the South. The build-out, which was completed in September, illustrates the crucial link between sustainability and adaptive reuse. In addition to reclaiming the building's high-quality wood, the health club owners used recycled glass and recycled rubber for countertops and floors. Clubhaus also opted to provide an outdoor bicycle rental service rather than purchase a fleet of less sustainable stationary bikes. And in a particularly innovative move, the U of A Laundry next door will handle the club's towel service. For Hull, who didn't know much about green building, this project was an education.

But before earning his CCIM designation, Hull had learned a thing or two about urban renewal as a city planner. "Rents have

Clubhaus Fitness Center, Fayetteville, Ark.

Richard Lewis

Craig F. Hull, CCIM

to sink before redevelopment can begin," he says. "That's one of the key ingredients." In secondary and tertiary markets across the country a precipitous drop in rents has diversified the tenant pool for strategically located properties, allowing leasing agents like Hull to choose the right tenant for the space — not just the highest bidder.

On Dickson Street, Clubhaus found not only a "bargain in the woodpile" but also a way to transform a nightlife-centered retail strip into a 24-hour destination. "Rents would have been nearly double for the space three years ago, and if they hadn't dropped we likely would have seen another failed nightclub there," Hull explains. Instead, the university community gained an environmentally friendly health club that looks as good in the sunshine as it does in the dim glow of a neon bar sign.

A Creative Legacy

"With adaptive reuse projects, what you see is rarely what you get," says Becky Blair, CCIM, principal of Blair Commercial Real Estate in Long Beach, Calif. In Blair's market, the first two building conversions — from office to residential space — were more than 100 percent over budget. "The final sales of the units brought little profit to the developers for their visionary efforts," she explains. It was an important lesson for any broker, let alone Blair, who later would assist with one of downtown Long Beach's most culturally significant adaptive reuse projects.

More than two years ago, Blair listed a three-building, 26,500-sf warehouse complex in Long Beach. Most recently the property had served as the distribution headquarters for the punk rock record label SST. The company, which in its heyday released albums by Black Flag and Sonic Youth, among others, also hosted concerts on the property until it was listed for sale. The creativity emanating— quite loudly, one suspects — from the complex helped spark a slow but steady renewal in the surrounding neighborhood, which was rezoned to accommodate a burgeoning arts scene.

East Village Creative Offices, Long Beach, Calif.

Richard Lewis

"The owner recognized the complex's conversion potential but couldn't facilitate the project himself," Blair says. When a group of investors expressed interest in using the property for an adaptive reuse project last year, however, the owner offered to fund the transaction. The $3.4 million sale, which closed escrow in January, would have been impossible without the owner's support. "In our market, investor financing is 50 percent loan to value," Blair says. "We were only able to close on this because we had carryback financing."

After the sale the buyer asked Blair and her colleague Greg Williams to assist with the next phase. At that point all options were on the table: Rehab and sell the entire property; rehab and lease the space; or rehab and sell the individual units as office condominiums. The team knew that Long Beach's creative class — scientists, entertainers, engineers, and others — needed affordable office space, and the project's neighborhood was a perfect fit.

Market stats favored an office-condo conversion: Ninety percent of the class A office space was occupied, and only 50,000 sf of the 4.2 million sf of office space in the market was composed of office condos, Blair explains. The limited competition, availability of SBA financing, and owner's desire to create a unique project constituted a strong argument. "Once the new owners committed to office condos, they never looked back," Blair says.

When construction on the newly christened East Village Creative Offices began, the owners discovered that what they saw was not exactly what they got — it was better. Under a thick layer of stucco on one of the buildings, workers found a rare art deco façade from circa 1923. The Long Beach Redevelopment Agency took

In Financing Limbo

"It's the classic story of a property that's been affected by the changing circumstances in the financial world," says E. Gibson Kerr, CCIM, managing director of Sperry Van Ness in Kansas City, Mo. Kerr discovered the recently gutted 117,000-sf Argyle Building in downtown Kansas City in 2007, and he approached the owners with a plan for a boutique hotel. "It's near the Sprint Center sports arena, the city's nightlife hub, and the convention center," he explains. "Those are big demand generators." Enamored with the property's location, Conrad Property Corp. purchased the Argyle Building for $4.2 million in summer 2008 and began the search for redevelopment financing.

The planned hotel conversion already was bolstered by government support. Federal and state tax credits would cover 45 percent of the project's cost. Plus, Conrad received 25 years of tax abatement from Kansas City's municipal government. "It was a great package," Kerr says. By that time, however, *staycation* had entered the lexicon of recession-weary travelers, and hotel occupancy rates across the country had dwindled to 50 percent.

After more than a year, Conrad still has not been able to arrange redevelopment financing. But with a little luck, Kerr expects the loan to come through before 2010.

notice of the historically significant design and contributed $350,000 to the project. The development team will use the funds to restore the façade and incorporate it into the property's redesign.

The property's creative legacy —from art deco walls to art punk music — is beginning to attract Long Beach's creative class. "We've received offers on three units and expect to be 50 percent sold by year-end," Blair says. She admits that uncertainty in the market has sidelined a significant portion of potential owner-users, but that won't necessarily foil their plans: "Selling multiple units to one user or leasing some of the spaces are still viable alternatives at this point." No matter how Blair's team fills those offices, they can take comfort in the fact that, thanks to their visionary efforts, an important part of Long Beach's past will now be part of its future.

An Owner's View

Tom Way, CCIM, executive director of Ferguson Land Co. in Huntington, W.Va., knows the value of an office with a river view. In 1992 Way and a partner purchased a seven story, 56,000-square-foot mixed-use property in Huntington overlooking the Ohio River that they planned to convert into class A office space. "The property had been vacant for 19 years," Way says. "When we bought it, there was marlite on the broken front windows."

In addition to being co-owner, leasing agent, and resident manager, Way oversaw $2.3 million in building renovations as general contractor. "I had a crew knock out 66,000 bricks, install new windows, and remove a 5,500 pound-capacity freight elevator and its shaft, which had [partially] blocked the view of the river," he explains. Way also had to coordinate asbestos removal and purchase custom-built fire escapes since the building's stories were not uniformly constructed. Fortunately for Way and his partner, the project qualified for approximately $350,000 in federal and state tax credits. As renovations neared completion, River Tower was born.

Way initially attracted tenants using what he refers to as "the Wizard of Oz" technique. "We put a lot of money into fixing up the office lobby, which gave prospective tenants a great first impression," says Way, who has consulted on other regional adaptive reuse projects over the years. Wooed by the marble lobby and scenic view, the General Services Administration leased 45 percent of River Tower the year it opened. During the following decade, the building reached full occupancy.

After several fruitful years, the project entered what Way calls "phase two." In 2003 the federal government imposed new minimum office space requirements on certain federal agencies. The GSA needed 20,000 sf on one floor, and Way couldn't provide the space. "We were mathematically eliminated," he says. With that one fell swoop, he lost nearly half of his tenant base.

In marketing the newly available space, Way emphasized the building's identity as both prime office real estate and a historically significant adaptive reuse project. He used the slogan "Huntington's correct business address" and prominently featured the building's National Register of Historic Places plaque in the promotional materials. When the FBI — a government agency that could legally occupy the property — was looking for office space in 2007, they chose River Tower in part because, as a building on the National Register, it received a 10 percent bid advantage.

As the real estate market began to sour, Way offered tenants incentives and customized accommodations. When St. Jude Children's Research Hospital's regional marketing group leased a portion of the old GSA space he paid for its moving expenses, and he gave another tenant two rent-free months. Way also assembled a construction crew and oversaw build-outs for new stock brokerage and government tenants. The fact that the building already was equipped with three to four cooling units per floor instead of a centralized unit appealed to the FBI and other new tenants that required reliable heating, ventilation, and air-conditioning systems for their computer server rooms. "It's more expensive — about 40 cents per sf more in utility costs — but it's better for the tenants," Way explains.

Down to its most intricate details, River Tower reflects Way's dedication to the project and its tenants. Decorative flourishes such as crown molding, 12-foot ceilings, and the black marble tiling in the bathrooms are nice amenities, but they also serve a more important function. "Several tenants have told me that when they're in the building, they feel like they're at home," Way says. ■

Tom Way, CCIM

River Tower, Huntington, W. Va.