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TRASH
OR
Treasure?

BY STEVE LEWIS | SPONSORED BY SIOR FOUNDATION



When it comes to redevelopment, there are certainly no guarantees that what you envision will lead to ultimate success, but there are definitely some key factors SIORs say you should take into consideration when deciding whether a “trash” project can be turned into a “treasure.”

Not surprisingly—as in all real estate—location must be of prime concern. “It’s still about location,” says Dan Sight, SIOR, president of Sight Commercial Realty in Leawood, Kan. Sight, who has done several redevelopment projects, is currently redeveloping a 19,000 square foot, 90-year-old historic “Film Row” building in Kansas City that he is “hoping at the end of the day will be a treasure.”

It’s important, he continues, to take a long-range outlook when considering the location. “You have to look at what the area’s going to be 10, 20, or 30 years from now,” Sight says. “No matter how cheap the property is, if it’s really cheap there is a reason. Is the arrow going up or down on the area? You have to be very cautious.”

“Look for good bones,” advises David Liebman, SIOR, managing broker, Merit Partners, LLC, Chicago, whose partner recently bought a 1.5 million square foot building—a multi-story warehouse built in 1929 on the west side of Chicago. “The structure must be solid; this one had

18-inch thick floors, and newer windows installed in 2001,” says Liebman.

“From an architectural standpoint, we really look for properties that have the basic characteristics that would lead to a new use or redevelopment, as in overall size, location, access, etc.,” says Lisa Metzger, project architect with Galloway in Greenwood, Colo. “Sites and buildings that check all of the boxes are obvious potential treasures, but most of the time we find ones that only check a few. It’s more about how easily the ones not checked could be updated or changed.”

Tom de Jong, SIOR, senior vice president, National Self Storage Group, Colliers International in Reno, Nev., has very specific considerations. “I’ve seen a fair amount of obsolete big-box industrial warehouse and retail converted to storage,” he says. “I have a listing in Reno for an old Wells Fargo operations and call center with limited parking. They tried for five months to market it as an office building or call center, with no traction.”

Now, he says, it has been repurposed for storage. “It’s an ideal site for U-Haul, open warehouse store U-boxes, and truck rental from just under a 1-acre yard,” he explains. “In the warehouse industry, we see buildings with minimal or no docks with low clear height that have limited use as industrial-warehouse space, and we see some of

that converted to self-storage.” Others, he notes, can be converted to “maker’s” space—small manufacturers of jewelry, small machine shops, or prototyping.

Trash Will Be Trash

Con the other side of the coin, what could convince you that “trash” was always going to remain “trash?” “The biggest deal breakers are those items that cannot be easily changed,” says Metzger. “In most cases, access to a site is that deal breaker. If access is not appropriate for the new intended use, then the redevelopment is dead before it starts. In addition, another deal breaker is the municipal or neighborhood resistance. They also will be in control of how the redevelopment will form, its pace, and overall cost. If you don’t have their support, it will be a very tough road ahead.”

“You have to be careful or you’ll make bad choices,” adds Liebman, noting poor location, or bad bones. “There are also environmental issues—costs can ratchet up very quickly,” he says. “With these loft buildings, you sometimes have to sandblast the wood down to the point where you could probably hurt the structure of the building.”

“It’s all about the numbers,” says Sight. “What’s it going to take to make it rentable today or usable in 2020? It’s a fine line you have to cross.”

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For de Jong, however, it's a different story. "Certainly, any type of property could be salvaged with the right user intel," he asserts.

Marketing the “Dream”

What are the key elements to focus on when marketing a redevelopment project? "Focus on the dream," says Metzger. "You need to show a well thought out concept of what the site could be and do some due diligence on whether it is possible. If you market something that won't be supported by the neighborhood or municipality, then a good buyer will discover this in due diligence. Have a team that could help you research and develop a few ideas if possible."

"There are 123 loft apartment spaces having the finishing touches put on them that are being marketed to a community of middle-class Hispanics," notes Liebman, adding that he and his partner sold the building in October 2018. "It's going through gentrification, with price points higher than typical rents, which has a tendency to put residents out of the area."

At the same time, he notes, the new developer has joint ventured with another residential developer. "They're marketing it as brand new, high-end space, with brand new appliances, and

well-located transportation," he shares. "It's a nice alternative to being stuck downtown, and it's on the Northwest side, so getting to places is relatively easy here." Because it cuts off the last 20-30 minutes of drive time, he adds, "it does attract people from the Northwest suburbs."

For de Jong, it comes down to what the building actually has and what it costs. "Self-storage conversions have particular metrics developers look for; it's pretty simple," he says. That includes less than 7.5 square feet of existing supply per capita, 50,000 people in a three-mile radius, and minimum average rents of \$1.50 or higher, he shares.

"I've sold a 90,000 foot yard for \$7.5 million in Campbell, Calif., to be redeveloped to self-storage," he adds. "They spent \$120 a foot to build a three-story self-storage." Steel costs are up, and "everything" is costing more than it did a few years ago, says de Jong. "The days of building single story, drive-up 'orange barns' are gone—unless you can buy the land for less than \$8 a foot; there's a little gold in 'thar' hills," he concludes.

Right Call, “Wrong” Call

You can't always get it right, and Sight notes two projects for which he has slightly different

self-evaluations. The Kansas City historic building, he notes, is located in the "crossroads arts district," which has turned into the hottest area in the city. "The stock of these old buildings has created a wonderful mixed-use community down there—and you can't recreate old," he says. "There's something about old buildings that lead themselves to great apartments and office space."

His project will be mixed use, with retail on the first floor, and "various tenants," including some who were already there, are signed. "My son is doing a boutique 10-room hotel," he adds. "It's right in the heart of all that's happening—beautiful hardwood floors, great big windows. The area is millennial—healthy and youthful, with an entrepreneurial spirit."

On the other hand, he continues, "I've probably made some mistakes by bringing a project to market too early." On a particularly challenging building, he notes, his 30-year-old son came to market "before we knew what to do with it. I don't think we lost any tenants but now that we're getting ready to rebuild, it's much clearer and more effective. In hindsight I probably would have waited."

That's not all he has learned, Sight adds. "It's been a challenge for me, though I've been a broker for 35 years," he says. "I've built from the ground up; it's a lot easier with a strip center or a more modern building." The challenge, he says, is trying to get up to code, and make the building ADA accessible. "It finally dawned on us that the best thing to do is gut the building—all the plumbing, wiring, HVAC—and bring in new systems so the building's right, and you won't have to worry for years," Sight concludes.

Liebman's company has also put a lot of money into the current project, but he is confident it will prove worth it. "We needed an entrance and exit, and new floors for the [parking] deck," he explains. "We created ramps for the second and third floor, cutting through a lot of heavy-duty floors."

However, he continues, the location, amenities, and uses in the area are big plusses. "It's close to what people want in the area," he says. "This is 1.1 miles from a four-way interchange on Kennedy Expressway." The largest tenant in the building moved in a few months ago—Crate & Barrel put their design/photography/Internet studio in the building. "We provided them not only a great building, but in terms of access for younger workers it has excellent transportation and accessibility that not a lot of other buildings might have with such large floor plates," says Liebman.

"As architects, we have not really gotten into a deal that wasn't called right," says Metzger. "Usually if that is the case, we identify that for our clients in due diligence and don't move forward. One of our more successful projects was working with a great client at converting an older high-rise office building in Denver city limits into a self-storage building. The building didn't have the floor to floor heights or ideal location to continue to be a good resource as an office building, but as storage, it was ideal. Since the city was aware of a shortage of parking and similar uses in the area, they were very supportive, and the project was extremely successful for all involved."

The Team is the Thing

Sight says one of the keys to success for him is getting good architects and contractors involved early on. "This particular building did not have

any as-built drawings, so the first thing we did was get a firm that came in and measured the building, showed where the walls are, where the bathrooms are, etc.," he says. "Also, we started looking at codes, how to add another fire escape to the upstairs, that type of thing."

Metzger agrees. "You need to have a great team behind you," she says. "Make sure you have tied up most loose ends in due diligence and are ready to hit the ground running. Have a team of architects and engineers that know how to investigate existing structures if re-use is required and be able to tackle any unforeseen issues. If you are scrapping and starting over, make sure you have a solid civil engineering and site development team that can help with the new plan and how to navigate the municipality's required permitting and review. In any redevelopment, we would recommend putting a much higher amount in contingency since there is never a perfect redevelopment and unforeseen issues will always arise." ▼

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