

Webinar

Behind the Facade: The Feasibility of Converting Commercial Real Estate to Multifamily

Date: February 22, 2023

00:00:02 --> 00:00:06: Good afternoon. Thank you to everybody for joining us for
 00:00:06 --> 00:00:10: the webinar that accompanies the release of the ULI and
 00:00:10 --> 00:00:15: NHC Research Foundation report behind the facade, this
 report really
 00:00:15 --> 00:00:18: digs into the nuts and bolts of how to do
 00:00:18 --> 00:00:23: adaptive reuse, umm converting commercial to multifamily
 looks at it
 00:00:23 --> 00:00:26: from a variety of angles, a variety of of of
 00:00:26 --> 00:00:29: types, hotels, office space and so we are pleased to
 00:00:30 --> 00:00:32: have with us several folks who represent.
 00:00:32 --> 00:00:36: You have the case studies that are profiled in this
 00:00:36 --> 00:00:39: report both from the developer side as well as the
 00:00:39 --> 00:00:42: local officials side. So we're going to really dig into
 00:00:42 --> 00:00:46: the financing, the interactions at the locality level to talk
 00:00:46 --> 00:00:50: through some of the benefits and potential cautions that are
 00:00:50 --> 00:00:54: that should be heated when you're when you're looking at
 00:00:54 --> 00:00:57: some of these options. So I'm pleased to be joined
 00:00:57 --> 00:01:01: myself, Caitlin Sugar Walter, Vice President of research at
 NMHC.
 00:01:01 --> 00:01:03: I've got with me, Nick.
 00:01:03 --> 00:01:07: From back, president and managing broker at Brumback real
 estate
 00:01:07 --> 00:01:11: and construction, Mark Rivers, Executive vice president at
 Lowe and
 00:01:11 --> 00:01:15: Rob Kearns, Development Division chief, city of Alexandria,
 VA. So
 00:01:15 --> 00:01:19: to get started, I'm going to ask everybody to kind
 00:01:19 --> 00:01:22: of take a couple minutes and walk through your on
 00:01:22 --> 00:01:26: your project and your interactions. We can get started with
 00:01:26 --> 00:01:26: Mark.

00:01:28 --> 00:01:29: Thanks, Caitlin.

00:01:30 --> 00:01:34: So low is a national development firm. I'm based in

00:01:34 --> 00:01:38: DC and oversee the East and we've done two conversions,

00:01:38 --> 00:01:43: completed two conversions and we're starting our third now. And

00:01:43 --> 00:01:47: so one of those was featured in this report. Maybe

00:01:47 --> 00:01:50: you can turn this slide. I'll just go through these

00:01:50 --> 00:01:54: very quick. This is a a project we did that

00:01:54 --> 00:01:56: about 10 years ago, 11 years ago.

00:01:57 --> 00:02:01: In Montgomery County, Maryland, we took a five story office

00:02:01 --> 00:02:04: building, added seven floors and converted it to residential. If

00:02:04 --> 00:02:07: you look carefully, you can kind of see some of

00:02:07 --> 00:02:09: the old building there.

00:02:10 --> 00:02:14: We did a pretty good job of disguising the addition

00:02:14 --> 00:02:17: and and that one performed very well for us. And

00:02:18 --> 00:02:21: then if you go to the next, this is what

00:02:21 --> 00:02:24: we call Park and Ford. It's what was called Park

00:02:24 --> 00:02:29: Center in Alexandria, VA, an 80s era building. We converted

00:02:29 --> 00:02:33: these two fourteen story towers to multifamily as you can

00:02:34 --> 00:02:38: see involving reskinning the facade and then we've got a

00:02:38 --> 00:02:39: couple more slides.

00:02:40 --> 00:02:45: And here we converted surface parking to outdoor amenity space

00:02:45 --> 00:02:48: and then the next one just softened up Baron Plaza

00:02:49 --> 00:02:53: with outdoor grilling, dining, lounging spaces. So that's just a

00:02:54 --> 00:02:57: park and Ford is the one that will be using

00:02:57 --> 00:03:00: sort of as the basis of today's discussion.

00:03:01 --> 00:03:02: Thank you.

00:03:04 --> 00:03:07: I have come back. Oh, I'm sorry. Go ahead.

00:03:09 --> 00:03:10: You go ahead and get started. Thanks.

00:03:11 --> 00:03:15: Perfect. Thank you. Nick Brumback, I'm the president of Brumback

00:03:15 --> 00:03:19: real estate and construction, where we're a regional developer based

00:03:19 --> 00:03:22: in Spokane, WA. If you're not familiar, we're on the

00:03:22 --> 00:03:26: east side of Washington State, Spokane Coeur, d'alene Metro area.

00:03:27 --> 00:03:28: Umm.

00:03:29 --> 00:03:34: We're a we're a highly vertically, vertically integrated company. We

00:03:34 --> 00:03:38: believe in you know, ownership and as the developer we

00:03:38 --> 00:03:43: do the general contracting, construction management and then to the

00:03:43 --> 00:03:45: project management of the project.

00:03:46 --> 00:03:49: So on on the project why I'm here. This is

00:03:49 --> 00:03:53: our first adaptive reuse project. It's called the 508 W.

00:03:54 --> 00:03:58: You can go ahead and go to the next slide.

00:03:58 --> 00:04:02: So this was a division was a conversion to a

00:04:02 --> 00:04:04: multifamily property.

00:04:05 --> 00:04:09: We purchased building 2019. It was a nine story medical

00:04:10 --> 00:04:15: office, very underutilized and it the building was essentially falling

00:04:15 --> 00:04:15: apart.

00:04:16 --> 00:04:19: And it also a very unique part about the structure.

00:04:19 --> 00:04:23: It hadn't attached structure that was a 14 story elevated

00:04:23 --> 00:04:27: parking garage and and it's a, it's a broader story,

00:04:27 --> 00:04:30: but it never really worked. It was shuttered and it

00:04:30 --> 00:04:33: was just empty space in the building and a great

00:04:33 --> 00:04:37: part about this property, why we lock, why we really

00:04:37 --> 00:04:40: liked it. It was right next to the CBD of

00:04:40 --> 00:04:43: Spokane and it sat right next to two Regional Hospital

00:04:43 --> 00:04:46: centers. So you can go and go to the next

00:04:46 --> 00:04:46: slide.

00:04:47 --> 00:04:50: So these you can go through fairly quickly, Nolan. I

00:04:50 --> 00:04:54: just wanted to give the audience kind of an idea

00:04:54 --> 00:04:57: of the scope where where you see the windows on

00:04:57 --> 00:05:01: that previous slide that was the old Medical office building

00:05:01 --> 00:05:05: and then where you see those horizontal openings that was

00:05:05 --> 00:05:08: the previous parking garage. So as we move forward, you

00:05:08 --> 00:05:12: can just see the progression of the structural rebuild in

00:05:12 --> 00:05:16: the in the post tension concrete portion which was the

00:05:16 --> 00:05:17: garage and the office.

00:05:17 --> 00:05:22: Side was more of a traditional demo. Bring it down

00:05:22 --> 00:05:26: to the bones. We left the precast cladding, but everything

00:05:27 --> 00:05:28: else is brand new.

00:05:29 --> 00:05:32: And as we move forward, you can see the progression

00:05:33 --> 00:05:36: to where we're at today in the project, which is,

00:05:36 --> 00:05:40: you know, the skin is beginning to be finished on

00:05:40 --> 00:05:44: the building on both sides, Windows going in. And to

00:05:44 --> 00:05:47: make it more difficult on ourselves, we decided to add

00:05:48 --> 00:05:51: a tenth story to the project. But it's going to

00:05:51 --> 00:05:55: be highly amenitized beautiful view of the city, Common area

00:05:55 --> 00:05:59: lounge. So you know this. I appreciate being on here.

00:05:59 --> 00:06:03: Um, you know, this has been a great project for

00:06:03 --> 00:06:06: us, but I think it, it can really show how

00:06:06 --> 00:06:10: you can take a very creative approach to a building

00:06:10 --> 00:06:15: that's straightforward or even unique and deliver really quality housing

00:06:15 --> 00:06:18: and areas you know that want and need that housing

00:06:18 --> 00:06:21: and bring it in for a lower cost.

00:06:24 --> 00:06:27: Thanks, nick. And so, rob, Mark already mentioned one of

00:06:27 --> 00:06:31: your projects of adaptive means you've done in Alexandria, but

00:06:31 --> 00:06:34: can you talk a little bit about the city of

00:06:34 --> 00:06:37: Alexandria's history? You all seem to have one of the

00:06:37 --> 00:06:40: more sophisticated experience levels with this.

00:06:41 --> 00:06:44: Sure. Thanks Caitlin. Yeah, me and my team, we are

00:06:44 --> 00:06:49: responsible for working with developers on new and and adaptive

00:06:49 --> 00:06:52: reuse construction in the city and yet we were pleased

00:06:52 --> 00:06:55: to work with marks firm low on Park and Ford

00:06:56 --> 00:06:59: that was they just wanted an award this fall and

00:06:59 --> 00:07:02: they have award for the excellence on that project. It

00:07:03 --> 00:07:05: was it's a really fine project to feature.

00:07:07 --> 00:07:10: We seem to be on sort of the early wave

00:07:10 --> 00:07:14: of these types of projects. You know, our experience goes

00:07:14 --> 00:07:16: back to 2011, 2012.

00:07:17 --> 00:07:17: Where?

00:07:18 --> 00:07:22: The Orinoco, which was on on the water in Old

00:07:22 --> 00:07:26: Town Alexandria. It was a private office, was converted to

00:07:26 --> 00:07:28: very high end condos.

00:07:28 --> 00:07:32: And it's so that was sort of an early project

00:07:32 --> 00:07:35: that there was a lot of flexibility and a lot

00:07:35 --> 00:07:39: of tinkering with EYA's looking at that project and it's

00:07:40 --> 00:07:44: been, it's been wildly successful and and people look at

00:07:44 --> 00:07:47: it as as you know comps for other projects on

00:07:47 --> 00:07:52: the waterfront and Alexandria. But you've also just sort of

00:07:52 --> 00:07:56: had projects of all shapes and sizes, you know everything

00:07:56 --> 00:07:59: from low to smaller, you know just 25.

00:07:59 --> 00:08:03: 3545 thousand square foot you know, adaptive reuse

00:08:03 --> 00:08:04: projects and

00:08:05 --> 00:08:09: in Old Town.

00:08:05 --> 00:08:09: But what has been happening more recently is more

00:08:10 --> 00:08:14: established

00:08:14 --> 00:08:16: class B&C office spaces in what I would call established

00:08:16 --> 00:08:20: neighborhoods in the city.

00:08:20 --> 00:08:24: That seems to be important that there are mixes of

00:08:20 --> 00:08:24: uses around these buildings so they provide amenities,

parks, food
 00:08:24 --> 00:08:28: access and other things that allow these projects to connect
 00:08:28 --> 00:08:29: to convert fairly easily.
 00:08:30 --> 00:08:32: I'd also say these projects.
 00:08:33 --> 00:08:37: One of the earlier projects Elaws actually right next to
 00:08:37 --> 00:08:40: a park and Ford. They just had a plethora of
 00:08:40 --> 00:08:43: parking and they were also able to the zoning allows
 00:08:43 --> 00:08:47: for housing and all these districts already. So they're by
 00:08:47 --> 00:08:51: right in most cases, which is important to to the
 00:08:51 --> 00:08:53: developers usually look at the at these.
 00:08:55 --> 00:08:58: And they also have room often it's on their parking
 00:08:58 --> 00:09:01: decks or their roofs as Mark showed to do open
 00:09:01 --> 00:09:05: space amenities. That's another important factor when you're
 switching to
 00:09:05 --> 00:09:08: residential to be able to offer you know these amenities
 00:09:08 --> 00:09:11: and and and and have the room to for parking
 00:09:11 --> 00:09:14: and and amenities for these new these new residents.
 00:09:15 --> 00:09:15: Umm.
 00:09:16 --> 00:09:21: In terms of just issues we've worked with, clearly we're
 00:09:21 --> 00:09:23: seeing these conversions as possibly.
 00:09:25 --> 00:09:28: A solution for the housing shortages we're facing in the
 00:09:28 --> 00:09:31: DC region right now, as well as affordable housing.
 00:09:31 --> 00:09:35: With some of these conversions and you know, clearly
 they're,
 00:09:35 --> 00:09:39: they're a green choice with the embodied carbon in these
 00:09:39 --> 00:09:43: buildings. So, you know, Alexander's very excited to to see
 00:09:43 --> 00:09:46: this trend. There was some pushback at first about too
 00:09:46 --> 00:09:48: many offices converting.
 00:09:48 --> 00:09:52: Um, but in terms of tax base, they're actually a
 00:09:52 --> 00:09:52: winner for us?
 00:09:54 --> 00:09:57: There's no, there's been no concern in terms of how
 00:09:57 --> 00:10:01: that's affecting our taxes based negatively as another
 another consideration
 00:10:01 --> 00:10:04: that we've been dealing with over the past couple of
 00:10:04 --> 00:10:04: years.
 00:10:06 --> 00:10:08: And so Nick and Mark, could you talk about your
 00:10:08 --> 00:10:13: experiences? Obviously, Mark, you dealt with Alexandria
 specifically, but you
 00:10:13 --> 00:10:15: know the appetite for this type of?
 00:10:15 --> 00:10:19: Of projects and how the experience with working with the
 00:10:19 --> 00:10:20: local officials went.
 00:10:21 --> 00:10:24: Yeah. So let me let me follow up on Rob's
 00:10:24 --> 00:10:28: comment there. So we were fortunate in that when we

00:10:28 --> 00:10:33: were pursuing this as an opportunity, the Alexandria Economic Development

00:10:33 --> 00:10:38: Partnership had already been working with the City Council to

00:10:38 --> 00:10:42: talk about those issues that Rob just highlighted, which is

00:10:42 --> 00:10:47: shoring up the office inventory that is a prioritizing that

00:10:47 --> 00:10:51: inventory that is good and figuring out how to repurpose.

00:10:51 --> 00:10:55: That inventory which was not and the net benefit of

00:10:55 --> 00:10:58: that has been a a huge boost for the tax

00:10:58 --> 00:11:01: base tax basis in the in the city. And so

00:11:01 --> 00:11:04: when we went to meet with the City Council to

00:11:04 --> 00:11:07: make sure we would have support they were all sort

00:11:07 --> 00:11:11: of prepped already. They they knew a bunch of the

00:11:11 --> 00:11:14: language they knew the issues and so it was it

00:11:14 --> 00:11:18: was a very predictable process for us. So that was

00:11:18 --> 00:11:21: and and as developers we love predictability.

00:11:21 --> 00:11:25: And So what we're finding is that in the core

00:11:25 --> 00:11:29: markets and the more in the densifying markets, in most

00:11:29 --> 00:11:34: cases zoning is, you know, flexible enough that it'll accommodate

00:11:34 --> 00:11:38: the, the conversion. What we're finding as we get a

00:11:38 --> 00:11:42: little farther out into the suburbs and into some pocketed

00:11:42 --> 00:11:46: neighborhoods of the of the urban areas that it's not

00:11:46 --> 00:11:50: the case and you know that just adds risk and

00:11:50 --> 00:11:51: uncertainty.

00:11:52 --> 00:11:55: And whether or not to make that investment. So I

00:11:55 --> 00:11:59: think that you know, congratulations to Alexander for having you

00:11:59 --> 00:12:02: know the foresight to to prepare for that and I

00:12:02 --> 00:12:06: know that a lot of other jurisdictions are doing the

00:12:06 --> 00:12:09: same thing. So it's it's a really important issue.

00:12:11 --> 00:12:13: Nick, how about out in Washington?

00:12:14 --> 00:12:18: Yeah my my experience city Spokane you know we're we're

00:12:18 --> 00:12:22: a second third you know tier city and size and

00:12:23 --> 00:12:27: I've just found that you know that general size the

00:12:27 --> 00:12:31: the city planning and and government in general is

00:12:32 --> 00:12:37: really trying to incentivize development. It's it's a it's a

00:12:37 --> 00:12:41: very large goal of you know making that city core

00:12:41 --> 00:12:44: more vibrant and and and dense housing.

00:12:44 --> 00:12:49: Uh, you know, good quality housing is very, very important.

00:12:49 --> 00:12:53: So specifically city of Spokane, they were great. I I

00:12:53 --> 00:12:56: built a lot in the city, not as much in

00:12:56 --> 00:13:00: the CBD. But when we brought this project, one way

00:13:00 --> 00:13:04: you can look at it is it was exactly what
 00:13:04 --> 00:13:08: they wanted, you know. So sometimes you know a city
 00:13:08 --> 00:13:12: and and the developer does align and and program wise
 00:13:12 --> 00:13:15: they have you know, historical designations.
 00:13:16 --> 00:13:19: They have a multifamily tax exemption for property taxes.
 You
 00:13:19 --> 00:13:21: have to qualify and it's limited.
 00:13:22 --> 00:13:26: And then they have some other utility incentives for ground
 00:13:26 --> 00:13:30: up, new construction. And so my experience, you know, from
 00:13:30 --> 00:13:33: working in the city quite a long time knowing, knowing
 00:13:33 --> 00:13:36: the people down at City Hall, it was the first
 00:13:36 --> 00:13:40: time they said we love your project, let's meet here
 00:13:40 --> 00:13:42: our options. And so for me that was a real
 00:13:42 --> 00:13:46: positive because, you know, on the developer side, you don't
 00:13:46 --> 00:13:50: always get that. You know, warm fuzzy feeling when you
 00:13:50 --> 00:13:53: go to City Hall and say, you know, here's my
 00:13:53 --> 00:13:53: next.
 00:13:53 --> 00:13:56: Project, you know, so that was a big lesson for
 00:13:56 --> 00:13:59: me is 1, it has to align with, you know,
 00:13:59 --> 00:14:03: what the developer wants. But you know, you can look
 00:14:03 --> 00:14:06: at any market and say, well, what does the city
 00:14:06 --> 00:14:09: want and is that valid? In this case, it is.
 00:14:09 --> 00:14:13: What the city is doing is incentivizing this type of
 00:14:13 --> 00:14:17: dense housing. You know, there's, and this is, you know,
 00:14:17 --> 00:14:20: off memory. But in the last three years or three
 00:14:20 --> 00:14:23: years, there's probably been, you know.
 00:14:23 --> 00:14:26: North of 500 Class A and Class B units coming
 00:14:27 --> 00:14:31: into the city, we're seeing the same situation with office
 00:14:31 --> 00:14:36: vacancies down older building the whether it's economic or
 just
 00:14:36 --> 00:14:40: incentive for owners, they're not able to reinvest you know
 00:14:40 --> 00:14:45: the money into office structures right now. So we're seeing
 00:14:45 --> 00:14:49: it like every other place across the country and so
 00:14:49 --> 00:14:52: as far as the city goes where we're building this,
 00:14:52 --> 00:14:53: they didn't.
 00:14:53 --> 00:14:57: Excellent job. They've worked with us through the entire
 project
 00:14:57 --> 00:14:59: and and honestly part of the IT will be part
 00:15:00 --> 00:15:02: of the success because they helped us and they did
 00:15:02 --> 00:15:05: not try to hurt us at all and that was
 00:15:05 --> 00:15:05: a real positive.
 00:15:06 --> 00:15:10: And so one thing we'll get into the actual financing,
 00:15:10 --> 00:15:13: how you how you did the financing but Nick on

00:15:13 --> 00:15:16: your on this project specifically on 508, can you talk
 00:15:17 --> 00:15:20: a little bit about some of the incentives that you
 00:15:20 --> 00:15:24: have gotten from the city and how that looks affordability
 00:15:24 --> 00:15:26: for the solving the affordability issue?
 00:15:27 --> 00:15:31: Although they're great to work with, they didn't give me
 00:15:31 --> 00:15:34: any discounts on permits and fees. So but one of
 00:15:34 --> 00:15:36: the things that really helped us.
 00:15:37 --> 00:15:40: In in the risk you know called the risk on
 00:15:40 --> 00:15:43: of a project like this is you know you're you're
 00:15:43 --> 00:15:47: looking at well what can mitigate that and they have
 00:15:47 --> 00:15:51: a program you know I mentioned at the multifamily tax
 00:15:51 --> 00:15:55: exemption we did take advantage of that. We got approved
 00:15:55 --> 00:15:58: for it and it comes neither A8 year or a
 00:15:58 --> 00:16:02: 12 year exemption and it's not all property taxes but
 00:16:02 --> 00:16:06: it's a good majority. You do have to hit a
 00:16:06 --> 00:16:07: a metric that.
 00:16:07 --> 00:16:10: You know has to do with medium rents and and
 00:16:10 --> 00:16:13: they they look at the broad spectrum you know of
 00:16:13 --> 00:16:17: what the rents are in the marketplace. So you do
 00:16:17 --> 00:16:20: have to hit you know a a rent factor to
 00:16:20 --> 00:16:24: obtain the the the tax deferment or not deferment that
 00:16:24 --> 00:16:27: the tax abatement you know on an annual basis.
 00:16:28 --> 00:16:32: You know, so that's just preventing you know the the
 00:16:32 --> 00:16:35: developer coming in trying to take advantage of the city
 00:16:35 --> 00:16:39: and building extremely high end stuff that's pricing out you
 00:16:39 --> 00:16:44: know your workforce housing you know type demographic,
 they don't
 00:16:44 --> 00:16:47: want that. I think it's a smart thing to have
 00:16:47 --> 00:16:50: in there. So for us that was the incentive we
 00:16:50 --> 00:16:53: took advantage of and from once that building's put into
 00:16:53 --> 00:16:56: service what that does for us as far as free
 00:16:56 --> 00:16:58: cash flow, you know it's huge.
 00:16:58 --> 00:17:00: For the project and.
 00:17:01 --> 00:17:04: You know starting out for our long term financing once
 00:17:04 --> 00:17:07: we take out the construction piece, but just for to
 00:17:07 --> 00:17:10: compensate for the risk of the project. So you know
 00:17:10 --> 00:17:13: I can speak, I can't speak to the other incentives
 00:17:13 --> 00:17:15: because I haven't taken advantage of them yet.
 00:17:17 --> 00:17:20: And and Mark I think you said Park and Ford
 00:17:20 --> 00:17:23: also delivered you know kind of workforce.
 00:17:24 --> 00:17:24: Umm.
 00:17:25 --> 00:17:32: Yes. So on the incentives, we didn't receive any incentives.

00:17:32 --> 00:17:36: We offered 10 affordable units at 70% AMI.

00:17:38 --> 00:17:42: We weren't required to do it, but we thought it

00:17:42 --> 00:17:47: was appropriate and when we underwrote the project we found

00:17:47 --> 00:17:52: that, you know, the renting at workforce levels would work

00:17:52 --> 00:17:55: for us. And so you know that was you know

00:17:55 --> 00:18:00: just the economics of the deal worked pretty well for

00:18:00 --> 00:18:03: us. Of course the the market has.

00:18:04 --> 00:18:09: Been good, the product that we delivered has been well

00:18:09 --> 00:18:15: received and so we're we're definitely outperforming our underwriting but

00:18:15 --> 00:18:20: the economics of the deal were were quite attractive going

00:18:20 --> 00:18:24: in and and it's outperformed our underwriting.

00:18:25 --> 00:18:28: So can you talk a little bit about the financing

00:18:28 --> 00:18:30: for for this project?

00:18:31 --> 00:18:36: So we had about a two year gap between acquisition

00:18:36 --> 00:18:39: and being able to as we call it get to

00:18:39 --> 00:18:44: our business plan which was begin the renovation and we

00:18:44 --> 00:18:47: had about 25 tenants in the building.

00:18:48 --> 00:18:52: Including an anchor tenant of about 270,000 feet in the

00:18:52 --> 00:18:56: GSA and its people say it's really hard to get

00:18:56 --> 00:18:59: the GSA to come into your building and it's even

00:18:59 --> 00:19:03: harder to get them out. So they were in holdover

00:19:03 --> 00:19:06: or about to go into holdover when we closed. So

00:19:06 --> 00:19:10: we were able to negotiate A2 year hold over with

00:19:10 --> 00:19:13: them so that once we understood the end of their

00:19:13 --> 00:19:18: term, we were able to negotiate lease terminations with the

00:19:18 --> 00:19:19: other tenants.

00:19:19 --> 00:19:23: So that, umm, you know, the building would essentially, you

00:19:23 --> 00:19:26: know sort of come to a soft landing with all

00:19:26 --> 00:19:30: the tenants vacating around the same time. And that worked

00:19:30 --> 00:19:33: out very well for us in that we had a

00:19:33 --> 00:19:37: lot of income during the preconstruction. We were able to

00:19:37 --> 00:19:41: be very deliberate with our investigation work that is, you

00:19:41 --> 00:19:44: know we had a couple empty floors were able to

00:19:44 --> 00:19:49: strip those out, understand exactly what we were building to.

00:19:49 --> 00:19:53: Uh, do some uh, you know computer laser reading of

00:19:53 --> 00:19:57: all the conditions and then go through our permit you

00:19:58 --> 00:20:03: know design, permitting, bidding process so that you know there

00:20:03 --> 00:20:08: was very little downtime between the building becoming vacant and

00:20:08 --> 00:20:13: and then beginning the renovation. So for that two year.

00:20:13 --> 00:20:17: We had a bridge loan, we identified our equity partner very early on.

00:20:17 --> 00:20:19: It was USAA real estate and so we had to

00:20:19 --> 00:20:22: you know so we got a bridge loan for the

00:20:23 --> 00:20:26: acquisition. They didn't fund any of the pre development costs,

00:20:26 --> 00:20:31: you know permits, design etcetera. And then when we

00:20:31 --> 00:20:36: were ready to begin the renovation we refinanced with a

00:20:36 --> 00:20:41: construction loan that allowed us to then go forward with

00:20:41 --> 00:20:46: the renovation and what's interesting is.

00:20:46 --> 00:20:49: That that bridge loan and we still see it today

00:20:49 --> 00:20:53: whether they be owners, investors, special servicers

00:20:53 --> 00:20:59: etcetera, they want

00:20:59 --> 00:21:03: to preserve that income that's in place. So that first

00:21:03 --> 00:21:07: lender wouldn't let us terminate any leases. So we negotiated

00:21:07 --> 00:21:12: options because they wanted to preserve the income if for

00:21:12 --> 00:21:17: whatever reason then we didn't go forward with the renovation.

00:21:17 --> 00:21:20: And so it's an interesting dynamic that.

00:21:21 --> 00:21:24: You know, you actually want to eliminate the income from

00:21:24 --> 00:21:28: your asset. It's not often in real estate. So investors,

00:21:28 --> 00:21:32: lenders, they're just not accustomed to that way of thinking.

00:21:32 --> 00:21:35: And so it's counterintuitive that we, Oh no, is that

00:21:35 --> 00:21:39: we're actually adding value by emptying the building and frankly

00:21:39 --> 00:21:42: that's one of the more difficult aspects of these

00:21:42 --> 00:21:46: conversions as being able to get to that business plan.

00:21:46 --> 00:21:49: So umm, so bridge loan to a construction loan, we're

00:21:49 --> 00:21:50: still in lease.

00:21:50 --> 00:21:54: Up to that construction loan still in place, it's performing

00:21:54 --> 00:21:57: well and we're about 75% lease. So we'll look to

00:21:57 --> 00:22:01: go to permanent financing hopefully sometime later this year.

00:22:03 --> 00:22:07: Depending upon how the markets perform over the next 10

00:22:07 --> 00:22:08: months.

00:22:09 --> 00:22:11: And Rob, when did your team get brought in? Mark

00:22:11 --> 00:22:14: just talked about it seems like it was a quite

00:22:14 --> 00:22:16: a years long process where it was kind of still

00:22:16 --> 00:22:19: an office space but kind of in permitting. Where do

00:22:19 --> 00:22:21: you all, where did your team come in?

00:22:22 --> 00:22:27: I think, Mark, you had probably started the discussions with

00:22:27 --> 00:22:28: your tenants.

00:22:29 --> 00:22:31: But we we came in, you know.

00:22:33 --> 00:22:36: Probably in in that in that two year window somewhere.

00:22:37 --> 00:22:39: Because you had to get the in Alexander, you have
00:22:39 --> 00:22:42: to get a preliminary approval and then the final approvals
00:22:42 --> 00:22:45: and building permits are all administrative. So there's only
one
00:22:45 --> 00:22:45: approval.
00:22:46 --> 00:22:49: So we had to come in very early because I
00:22:49 --> 00:22:52: believe yours was not a buy right approval mark.
00:22:52 --> 00:22:53: That's correct.
00:22:53 --> 00:22:55: There had to be a hearing and and mark you
00:22:56 --> 00:22:59: had to have certainty before you could sort of finalize
00:22:59 --> 00:23:01: some of those tenant deals.
00:23:02 --> 00:23:05: Yeah, that's exactly right. We, we, we ours was not
00:23:05 --> 00:23:08: by right, but it was those early discussions with City
00:23:08 --> 00:23:11: Council that gave us confidence to take the risk, go
00:23:11 --> 00:23:15: ahead, acquire the building with the confidence that we
would
00:23:15 --> 00:23:16: get the approvals we needed.
00:23:16 --> 00:23:20: And ours was a little more complicated in that we
00:23:20 --> 00:23:23: had three buildings sitting on one lot. We wanted to
00:23:23 --> 00:23:26: be able to subdivide those so we could exit and
00:23:26 --> 00:23:30: and reallocate one building remained office and we had to
00:23:30 --> 00:23:34: reallocate parking. So that required a whole new you know
00:23:34 --> 00:23:38: green space calculation etcetera. So that was a quite
involved
00:23:38 --> 00:23:41: process and then you know it had been 40 years
00:23:41 --> 00:23:44: since these buildings had been developed and so it was
00:23:45 --> 00:23:46: an opportunity for the city.
00:23:46 --> 00:23:50: To relook at all the site conditions and so for
00:23:50 --> 00:23:53: example we had a A4 lane Rd. passing over an
00:23:53 --> 00:23:57: easement on our property that you know everybody wanted
to
00:23:57 --> 00:24:00: slow down that traffic and so we narrowed it to
00:24:00 --> 00:24:04: two lanes at its curbside parking added up but you
00:24:04 --> 00:24:07: know relocated a bus stop and added one and so
00:24:07 --> 00:24:11: those were opportunities added a turn lane. So those were
00:24:11 --> 00:24:15: all opportunities for the city to take a fresh look
00:24:15 --> 00:24:16: at at this node and.
00:24:16 --> 00:24:19: Work with us to as as part of that approval
00:24:19 --> 00:24:22: process. And so yeah that was, yeah that was during
00:24:23 --> 00:24:26: that D tenanting process which you know if we were
00:24:26 --> 00:24:29: ready to go we would have been really frustrated about
00:24:29 --> 00:24:32: but you know we had that two year. And and
00:24:32 --> 00:24:34: so it was a very smooth process.

00:24:36 --> 00:24:39: And Nick, you have a complete, you guys did a

00:24:39 --> 00:24:43: completely different financing method, if you could talk about that?

00:24:44 --> 00:24:48: We did, you know, we we took the approach.

00:24:49 --> 00:24:53: You know and and also the way you know structurally

00:24:53 --> 00:24:57: you know probably one of the differences between the way

00:24:57 --> 00:25:01: we'll do Mark's company and my company and we're we're

00:25:02 --> 00:25:05: a lot smaller and we work in the capital markets

00:25:05 --> 00:25:08: and and some and in mezzanine but we don't we

00:25:08 --> 00:25:12: don't rely on it as a funding source and so

00:25:12 --> 00:25:17: coming from the smaller you know developer perspective we decided

00:25:17 --> 00:25:20: to make strength to make strength in the deal.

00:25:20 --> 00:25:25: Ultimately to get construction financing, we took the approach. We

00:25:25 --> 00:25:27: paid cash for the acquisition.

00:25:28 --> 00:25:32: And very similar you know to mark situation, you know

00:25:33 --> 00:25:37: a benefit of that interim to starting construction is you

00:25:37 --> 00:25:41: do have income when you can pay cash for the

00:25:41 --> 00:25:41: asset.

00:25:43 --> 00:25:47: Although you you you need to have the ability to

00:25:47 --> 00:25:51: perform you know to to purchase with cash. But what

00:25:51 --> 00:25:54: it does do it gives you a lot of breathing

00:25:54 --> 00:25:58: room. You do have some income coming from the property

00:25:59 --> 00:26:03: and for us we started the design process immediately and

00:26:03 --> 00:26:07: we also have some you know more tenant improvement type

00:26:07 --> 00:26:11: demolition permit. So, so as as we're as we're doing

00:26:11 --> 00:26:14: the full design of the project.

00:26:14 --> 00:26:18: In tandem with working on our our financial package to

00:26:18 --> 00:26:23: lead to our construction financing because of cash flow and

00:26:23 --> 00:26:26: and some other equity we put into the project we

00:26:26 --> 00:26:30: were we were able to kind of you know really

00:26:30 --> 00:26:33: do multiple things at once you know design to get

00:26:33 --> 00:26:37: to permit in. We weren't able to start some small

00:26:37 --> 00:26:41: you know demolition or in in one big improvement we

00:26:41 --> 00:26:44: did make is there's two existing elevators.

00:26:45 --> 00:26:49: They needed to be modded regardless. And so we made

00:26:49 --> 00:26:52: the decision very early on to do the modernization of

00:26:53 --> 00:26:57: the two elevators before financing and before permitting. So that

00:26:57 --> 00:27:00: was a good benefit if if the deal is structured

00:27:01 --> 00:27:04: right and you have the right you know environment and

00:27:04 --> 00:27:08: the building, you can kind of have the best of

00:27:08 --> 00:27:10: both worlds for that interim.

00:27:11 --> 00:27:15: We had some similar mark. We had some difficulties with

00:27:15 --> 00:27:19: a few major tenants, but we work through those from

00:27:19 --> 00:27:24: acquisition to start a construction full construction empty building was

00:27:24 --> 00:27:26: about a year and a half.

00:27:27 --> 00:27:31: And and that's when we put in our what would

00:27:31 --> 00:27:35: be just traditional construction financing the the one difference is

00:27:36 --> 00:27:38: you know at the time, so this was 20.

00:27:39 --> 00:27:42: 202021 as as as we were finishing this financing package

00:27:43 --> 00:27:46: and things were still very strong in general in the

00:27:46 --> 00:27:49: market. So you were seeing you know for for good

00:27:49 --> 00:27:54: quality multifamily construction packages. You know at this level in

00:27:54 --> 00:27:58: the business you're seeing banks, credit unions going to 75%

00:27:58 --> 00:27:59: loan to value.

00:28:00 --> 00:28:03: But the bank we ended up going with, they did

00:28:03 --> 00:28:08: take more conservative approach because of the risk level of

00:28:08 --> 00:28:12: the project and you know which which I don't blame

00:28:12 --> 00:28:15: them, I think it's smart. So we did end up

00:28:15 --> 00:28:20: with about a 60% LTV traditional construction financing from Washington

00:28:20 --> 00:28:25: Trust Bank, Regional Bank headquartered in downtown Spokane. So and

00:28:25 --> 00:28:29: that's where we sit today is with the construction piece

00:28:30 --> 00:28:31: that we have moved out.

00:28:31 --> 00:28:36: To 2025 as we stabilize towards fourth quarter we moved

00:28:36 --> 00:28:40: it out to 2025 on the interest only construction piece

00:28:40 --> 00:28:44: because of all the uncertainty going on right now. As

00:28:44 --> 00:28:48: we all know the the the mortgage market is is

00:28:48 --> 00:28:52: an interest rates is really volatile right now. So that

00:28:52 --> 00:28:56: was our what we did we just did that to

00:28:56 --> 00:29:00: kind of protect ourselves you know based off our long

00:29:00 --> 00:29:01: term financing.

00:29:01 --> 00:29:05: But you know regardless of time length, what we will

00:29:05 --> 00:29:08: do exactly as as you know Mark will do when

00:29:08 --> 00:29:13: they're stabilized and is we'll go into the secondary market

00:29:13 --> 00:29:17: and refinance out the construction piece to long-term money.

00:29:18 --> 00:29:22: And we're looking at HUD, Fannie Mae, Freddie Mac, we'll

00:29:22 --> 00:29:27: look at other secondary markets like insurance or pension out

00:29:27 --> 00:29:31: there. You know what, one note that we did decide

00:29:31 --> 00:29:35: early on, we did consult with a company and they're
00:29:35 --> 00:29:39: actually based in Virginia and what they did for us
00:29:39 --> 00:29:42: is they're able to certify the building to a green
00:29:42 --> 00:29:43: standard.
00:29:44 --> 00:29:49: And that was important for multiple reasons. But on the
00:29:49 --> 00:29:52: financing piece specifically, it's HUD.
00:29:53 --> 00:29:56: HUD gives you a rate break if you have this
00:29:56 --> 00:30:00: green building standard certification. So even if we don't go
00:30:00 --> 00:30:04: with HUD, we wanted that as a potential backup for
00:30:04 --> 00:30:04: financing.
00:30:06 --> 00:30:09: And that's a good jumping off point to get to
00:30:09 --> 00:30:12: sustainability. So Rob, do you all prioritize any, any sort
00:30:12 --> 00:30:16: of certifications? Do you look at sustainable projects in a
00:30:16 --> 00:30:18: different way in Alexandria?
00:30:19 --> 00:30:22: Yeah, the the city has a green building policy.
00:30:23 --> 00:30:26: And it it has been interesting with the office conversions
00:30:26 --> 00:30:27: we've had to be.
00:30:29 --> 00:30:32: Some are creative and work with the the the developers
00:30:32 --> 00:30:33: because you know.
00:30:35 --> 00:30:38: No one of these office conversions is that is identical.
00:30:39 --> 00:30:42: You have to look at what the the building construction
00:30:42 --> 00:30:46: is you know what are the parking open space assets,
00:30:46 --> 00:30:50: what are the, what are the, what's the building envelope
00:30:50 --> 00:30:52: system like and so it.
00:30:53 --> 00:30:56: It's it's a really interesting area just to sort of
00:30:56 --> 00:30:59: work with each of these different projects to to achieve
00:30:59 --> 00:30:59: energy.
00:31:00 --> 00:31:04: Water and and indoor air quality performance standards and
our
00:31:04 --> 00:31:07: green building policy try, you know tries to do either
00:31:07 --> 00:31:09: a lead or a lead equivalent to to.
00:31:10 --> 00:31:12: To our lead, silver.
00:31:13 --> 00:31:16: And I I believe most of all these projects have
00:31:16 --> 00:31:19: been able to achieve in in some fashion or equivalency
00:31:19 --> 00:31:22: to that standard. Like I said, we've had to be
00:31:22 --> 00:31:25: somewhat creative and interpreting things at times, but.
00:31:26 --> 00:31:29: It's it's worked out quite well, and these projects have
00:31:29 --> 00:31:32: been able. Not only are they agreeing to begin with
00:31:32 --> 00:31:36: because the recycling buildings, but they're also then
achieving these
00:31:36 --> 00:31:39: certifications at the city's green building policy expects.
00:31:40 --> 00:31:43: And Mark, can you talk a little bit about you

00:31:43 --> 00:31:46: know what is the savings from just not you know
 00:31:46 --> 00:31:49: building from ground up and then also are there may
 00:31:49 --> 00:31:52: be some benefits that the financing folks see to you
 00:31:52 --> 00:31:55: know sustainability might be related to their SG goals?
 00:31:56 --> 00:32:00: Yeah, savings can be measured in a lot of ways.
 00:32:00 --> 00:32:04: Cost savings, right. I mean just the we paid less
 00:32:04 --> 00:32:07: for this property than it would cost to build all
 00:32:08 --> 00:32:12: the structured parking. Now we wouldn't build all that parking
 00:32:12 --> 00:32:16: today, but just to give you a sense, we saved
 00:32:16 --> 00:32:21: a year of construction. But then regarding the sustainability,
 we
 00:32:21 --> 00:32:26: did meet Silver National Green Building standard. We in fact
 00:32:26 --> 00:32:27: we just delivered.
 00:32:27 --> 00:32:32: 1906 school converted that to a museum. We achieved gold
 00:32:32 --> 00:32:35: DB on that. And so it can definitely be done
 00:32:35 --> 00:32:41: because we're repurposing obsolete assets. So the energy
 systems are
 00:32:41 --> 00:32:45: really getting redone anyhow for the most part. And so
 00:32:45 --> 00:32:50: we're actually finding that we're able to achieve a pretty
 00:32:50 --> 00:32:54: good levels of of energy efficiency, but for park and
 00:32:55 --> 00:32:57: Ford specifically, we measured that.
 00:32:58 --> 00:33:03: They saved 18,000 tons of CO2 emissions alone, 800,000
 gallons
 00:33:03 --> 00:33:08: of potable water by saving the existing structure and 62,000
 00:33:08 --> 00:33:13: tons of materials that did not go into the landfill.
 00:33:13 --> 00:33:17: And then about 63,000 tons of of resources that we
 00:33:17 --> 00:33:22: didn't have to use to rebuild that structure and all
 00:33:22 --> 00:33:26: the precast and so on. So there's a tremendous amount
 00:33:26 --> 00:33:28: of savings and.
 00:33:28 --> 00:33:30: We think we save a lot of risk. I think
 00:33:30 --> 00:33:35: given that we've been repurposing buildings now for over 30
 00:33:35 --> 00:33:38: years, we've got a very good eye for, you know
 00:33:38 --> 00:33:41: what we need to be looking for, what buildings are
 00:33:42 --> 00:33:45: good candidates and where the risks lie. And so we've
 00:33:45 --> 00:33:49: been able to, you know, develop a very good track
 00:33:49 --> 00:33:53: record for overall savings of the project. And that is
 00:33:53 --> 00:33:57: we think that there's less risk in delivering a finished
 00:33:57 --> 00:33:58: product less.
 00:33:58 --> 00:34:01: Of cost overrun than there is in building new. So
 00:34:01 --> 00:34:04: savings comes in a lot of ways for us. And
 00:34:04 --> 00:34:09: so ultimately right we're investors and so that that investment
 00:34:09 --> 00:34:13: timeline becomes condensed because we're saving a lot of
 time

00:34:13 --> 00:34:17: in the approval process and the construction process and and

00:34:18 --> 00:34:21: and because the structures there were able to focus on

00:34:21 --> 00:34:25: building out the amenity spaces so we can deliver the

00:34:25 --> 00:34:30: building in phases. So typically when you're building bottom up.

00:34:30 --> 00:34:33: You've got a lot of amenities on the top and

00:34:33 --> 00:34:37: it's you know really, really difficult to deliver the amenity

00:34:37 --> 00:34:40: set with the first phase of units. So it's hard

00:34:40 --> 00:34:43: to begin, it's hard to affect the phase delivery, but

00:34:44 --> 00:34:48: because the structures there you're able to to accelerate that

00:34:48 --> 00:34:52: amenity construction so you can deliver the building in phases.

00:34:52 --> 00:34:56: So not only is the overall construction. Shorter, but the

00:34:56 --> 00:34:59: the the ability to deliver the building and begin lease

00:34:59 --> 00:35:00: up earlier.

00:35:00 --> 00:35:04: And ultimately just compress that total investment period is very,

00:35:04 --> 00:35:05: very valuable.

00:35:06 --> 00:35:09: And so I think that's actually kind of counterintuitive to

00:35:10 --> 00:35:12: what a lot of people might think when they think

00:35:12 --> 00:35:16: about adaptive reuse. And so I am monitoring the questions

00:35:16 --> 00:35:18: for the audience. And so there seem to be two

00:35:18 --> 00:35:22: different questions. One was related to financing. The other is

00:35:22 --> 00:35:24: how the heck do you do this with all these

00:35:24 --> 00:35:27: uncertainties? So could you all talk about, you know, how

00:35:28 --> 00:35:31: do you approach a project knowing that there's going to

00:35:31 --> 00:35:34: be uncertainties? How do you manage potential cost overruns and

00:35:34 --> 00:35:37: what have your big hurdles been and then?

00:35:37 --> 00:35:39: Rob, how do you work with developers to to make

00:35:40 --> 00:35:41: sure that everybody is?

00:35:42 --> 00:35:45: Not dealing with cost overruns, but still delivering a product

00:35:45 --> 00:35:46: that everybody is happy with.

00:35:47 --> 00:35:49: So I guess, Nick, do you want to start?

00:35:52 --> 00:35:55: I mean that that's a that's a big question. Let

00:35:55 --> 00:35:58: me try to just start and then we'll we'll see

00:35:58 --> 00:36:00: where it goes from there.

00:36:00 --> 00:36:01: Umm.

00:36:01 --> 00:36:06: You know, specifically for us because because we.

00:36:07 --> 00:36:11: We take every level you know as the owner, developer,

00:36:11 --> 00:36:12: GCCM.

00:36:13 --> 00:36:17: We we are maybe looking at a building differently from
00:36:17 --> 00:36:21: the start and we're asking different questions than a
traditional
00:36:21 --> 00:36:24: approach from the very start. And what I mean by
00:36:24 --> 00:36:26: that is first walk through.
00:36:27 --> 00:36:27: Umm.
00:36:28 --> 00:36:30: So, you know, that's my approach and I can speak
00:36:31 --> 00:36:33: to that. You know, maybe I'll leave more of a
00:36:33 --> 00:36:34: traditional.
00:36:35 --> 00:36:39: Traditional approach you know to mark to speak to is
00:36:39 --> 00:36:42: what what it allows us to do because we have
00:36:42 --> 00:36:46: because we have all the experience at each level is
00:36:46 --> 00:36:49: we can go into a building from First walk and
00:36:49 --> 00:36:53: really identify you know the big red flags you know
00:36:53 --> 00:36:56: what what is going to be the cost overruns the
00:36:56 --> 00:37:00: unknowns and try to identify that right away I wish
00:37:00 --> 00:37:03: I could say I have 100% track record we don't
00:37:03 --> 00:37:05: the the moral is no matter.
00:37:05 --> 00:37:09: You know how integrated you are or how experienced you
00:37:09 --> 00:37:12: are. These type of projects are going to have you
00:37:12 --> 00:37:15: know some type of issue, some type of unknown and
00:37:15 --> 00:37:16: cost overruns.
00:37:17 --> 00:37:20: Where you know, I could see in in Mark's experience
00:37:20 --> 00:37:23: they have 30 years at this, you know, so they
00:37:23 --> 00:37:26: brought, they've been there, done that for us. We have
00:37:26 --> 00:37:28: a lot of construction knowledge.
00:37:29 --> 00:37:32: And so we were able to just adapt that to
00:37:32 --> 00:37:37: this project. So on the construction side, beyond my team,
00:37:37 --> 00:37:41: it's it's your design team like you need.
00:37:42 --> 00:37:47: You need non traditional design professionals and and.
00:37:48 --> 00:37:51: And I work with, you know, all all types of
00:37:51 --> 00:37:55: design professionals and what I mean by that when you
00:37:55 --> 00:37:59: when you have a a reuse project or very difficult
00:37:59 --> 00:38:02: one like in the case of our project, what I
00:38:02 --> 00:38:06: needed especially on the engineering side, the SES side was
00:38:06 --> 00:38:11: a very out-of-the-box thinker. When you're dealing in our
case
00:38:11 --> 00:38:16: with you know, two independent structures connected to a,
you
00:38:16 --> 00:38:18: know, a centered concrete.
00:38:18 --> 00:38:20: Amazing wall you had.
00:38:21 --> 00:38:26: You had a steel skeleton, precast walls, pandect and
concrete

00:38:26 --> 00:38:30: floors on the garage side. You had you know, a
00:38:30 --> 00:38:35: post tension, you know, concrete system. And so without
diving
00:38:35 --> 00:38:40: into the technicals of that, the beyond your own capability.
00:38:40 --> 00:38:44: If you do not have it, you need to find
00:38:44 --> 00:38:50: the absolute right, whether it's construction person, technical
person, but
00:38:50 --> 00:38:51: mostly.
00:38:51 --> 00:38:54: Like that, design team has to be top notch. And
00:38:54 --> 00:38:58: in my opinion, think out-of-the-box to be able to identify
00:38:58 --> 00:39:01: ahead. Because the worst thing you're going to do is
00:39:01 --> 00:39:04: be into a project and have not only one miss,
00:39:04 --> 00:39:08: but when you have multiple, multiple misses, you know that's
00:39:08 --> 00:39:12: what's going to make a project like that. You know,
00:39:12 --> 00:39:13: unsuccessful.
00:39:13 --> 00:39:17: And and tied to to the financing piece, this is
00:39:17 --> 00:39:21: where you you cannot go into a project over leveraged
00:39:22 --> 00:39:26: or undercapitalized. If if you take that approach it's going
00:39:26 --> 00:39:31: to bite you eventually. And so I'd highly suggest if
00:39:31 --> 00:39:35: you're going to do this you know on the financing
00:39:35 --> 00:39:39: and capitalization piece is whether it's you know you small
00:39:40 --> 00:39:44: partner group or financing partners that you have.
00:39:44 --> 00:39:48: That experience and you're capitalized to be able to take
00:39:48 --> 00:39:51: on those unknowns in our case.
00:39:51 --> 00:39:55: You know, we, we absolutely had some unknowns, but we
00:39:55 --> 00:39:58: were able to rely on you know, a good financing
00:39:58 --> 00:40:02: partner when there's a couple, you know, problems that
arose
00:40:02 --> 00:40:07: and also a strong capital reserve because we anticipated
potentially
00:40:07 --> 00:40:10: having you know, some issues with the project like this.
00:40:14 --> 00:40:18: Nick, yeah, Nick mentioned structure and I would say the
00:40:18 --> 00:40:21: structure is probably the most important.
00:40:23 --> 00:40:27: Piece of the evaluation and it sounds simple, but for
00:40:27 --> 00:40:32: example, our two towers were built for years apart. One
00:40:32 --> 00:40:38: was conventional, conventionally reinforced, the other had
post tension and
00:40:38 --> 00:40:42: so that and those tendons cannot be cut. And so
00:40:42 --> 00:40:45: we had to lay out our units. So we mapped
00:40:45 --> 00:40:49: the floor, we gutted the floor, mapped it and had
00:40:49 --> 00:40:53: a good idea where the tendons would be on.
00:40:53 --> 00:40:57: You know assuming they would be relatively consistent, we
laid

00:40:57 --> 00:41:00: out our units such that we knew that as we
00:41:00 --> 00:41:03: went floor to floor, we would need to be able
00:41:03 --> 00:41:08: to shift our riser penetrations and drain penetrations you
know
00:41:08 --> 00:41:11: within a foot. And so when we ran into those
00:41:11 --> 00:41:15: situations, we already had that flexibility built in the contractor
00:41:15 --> 00:41:19: knew where to make those offsets and working with the
00:41:19 --> 00:41:23: the architect in the field, but it's also things like.
00:41:23 --> 00:41:27: Drop heads, you know these buildings sag, right? I mean,
00:41:27 --> 00:41:31: after 40 years, you you get sag. So there's a
00:41:31 --> 00:41:35: lot of floor leveling that's involved. On the positive side,
00:41:35 --> 00:41:41: the office buildings are generally engineered to withstand
about 100
00:41:41 --> 00:41:45: pounds of of load and residential only requires about 40.
00:41:45 --> 00:41:49: And so there's a lot of flexibility there. Often if
00:41:49 --> 00:41:53: it's conventionally reinforced, we can take some slabs.
00:41:53 --> 00:41:57: Outdoor and create double height space or in some cases
00:41:57 --> 00:42:02: we're adding multiple floors on top of the existing structure.
00:42:02 --> 00:42:06: So that's. Yeah. And and then you know the blessing
00:42:06 --> 00:42:10: about this is we know what we're building to right.
00:42:10 --> 00:42:14: We everything is there, the box is there. So we
00:42:14 --> 00:42:18: know what we're building to. It's when you get into
00:42:18 --> 00:42:22: trying to salvage a lot that it becomes much more
00:42:22 --> 00:42:23: complicated, you know?
00:42:23 --> 00:42:27: Even if it's sprinkler system, sometimes you get pin holes
00:42:27 --> 00:42:30: in a 4050 sixty year old sprinkler system. So just
00:42:31 --> 00:42:35: being very very diligent about the building condition survey
and
00:42:35 --> 00:42:39: being honest with yourself quite frankly about OK, it's it's
00:42:39 --> 00:42:42: OK Now maybe five years. But you know what what's
00:42:42 --> 00:42:46: my investment horizon? What's my eggs that look like? Am
00:42:46 --> 00:42:48: I looking to exit at A at a discounted cap
00:42:48 --> 00:42:51: rate or not. And so I think just being honest
00:42:51 --> 00:42:53: with what what's the real.
00:42:54 --> 00:42:54: Um.
00:42:56 --> 00:43:00: You know, useful life of all the systems that are
00:43:00 --> 00:43:03: left. And then the other part of it is like
00:43:03 --> 00:43:07: always who is my audience, who, who is my renter,
00:43:07 --> 00:43:12: who's my tenant and understanding what that renter, what
that
00:43:12 --> 00:43:16: resident values and finding a way to say, OK, I've
00:43:16 --> 00:43:19: got this building, what can I turn it into that
00:43:19 --> 00:43:23: would be really valuable to that demographic and so.

00:43:24 --> 00:43:29: As Rob mentioned earlier, we had abundant outdoor space, so

00:43:29 --> 00:43:32: we created a dog park where it next door to

00:43:32 --> 00:43:37: Shirlington, Virginia, which I think is the most dog populated

00:43:37 --> 00:43:40: you know village in the country and so we knew

00:43:40 --> 00:43:41: that we would.

00:43:41 --> 00:43:42: Have.

00:43:42 --> 00:43:45: Yeah, dogs and kids. So we knew that we would

00:43:45 --> 00:43:48: have a lot of dogs in the building. So we

00:43:48 --> 00:43:51: have a 5000 square foot dog park, which we would

00:43:51 --> 00:43:54: never build new. It was, you know, there was an

00:43:54 --> 00:43:55: old surface lot.

00:43:55 --> 00:43:58: And umm, so we took advantage of me. It's big

00:43:58 --> 00:44:01: enough. We've got a section for big dogs and small

00:44:01 --> 00:44:04: dogs, so and then a a tot lot for kids.

00:44:04 --> 00:44:07: So it it's you know, we thought that would be

00:44:07 --> 00:44:10: value. We had an abundance of parking, so we were

00:44:10 --> 00:44:14: able to create about 10,000 square feet of retail space

00:44:14 --> 00:44:18: to accommodate a daycare user they have off street parking.

00:44:18 --> 00:44:22: They've got direct secured access to outdoor play areas because

00:44:23 --> 00:44:25: our target demographic we're aging.

00:44:25 --> 00:44:28: Millennials moving out of the city, wanting a little more

00:44:28 --> 00:44:32: space, thinking about having kids. And you know how it

00:44:32 --> 00:44:35: is with daycare. I mean, it's really hard to get

00:44:35 --> 00:44:38: on that weight list. So our residents have the ability

00:44:38 --> 00:44:41: to jump the line. And so we thought that would

00:44:41 --> 00:44:44: be a valuable amenity. And so it's really just thinking

00:44:44 --> 00:44:48: about what, what do the bones of this building provide

00:44:48 --> 00:44:51: in terms of opportunity to allow us to outperform the

00:44:51 --> 00:44:53: market is kind of the way we look at it.

00:44:56 --> 00:44:59: If you don't mind just a couple other you know

00:44:59 --> 00:45:02: adds as Mark was talking thinking of you know he

00:45:03 --> 00:45:06: said floor load things that I would look for. Yeah,

00:45:06 --> 00:45:09: your typical office building past 1960 IVC is is going

00:45:09 --> 00:45:13: to have an adequate floor load for residential like in

00:45:13 --> 00:45:16: our case we had adequate floor load on the existing

00:45:16 --> 00:45:19: on the old office space but the garage was built

00:45:20 --> 00:45:22: at you know ??30 you know so, so that's one

00:45:22 --> 00:45:25: thing right there is, is your entire structure.

00:45:26 --> 00:45:28: You know, just in the case of the example, the

00:45:28 --> 00:45:32: four load load adequate for the code that you have

00:45:32 --> 00:45:35: to build under. There could be things like stairwells and

00:45:35 --> 00:45:38: again I'm going to go to 1960 IBC because that

00:45:38 --> 00:45:41: was a big break point in the building code. If

00:45:41 --> 00:45:45: I was looking for another adaptive reuse personally it would

00:45:45 --> 00:45:48: be 1960 and above because I know for instance my

00:45:48 --> 00:45:51: stairwells are going to hit 44 inch width and meet

00:45:51 --> 00:45:55: egress. So I'm not going to have to rebuild stairwells.

00:45:55 --> 00:45:56: I know that my.

00:45:56 --> 00:46:00: Vertical mechanical chases are likely going to be big enough

00:46:00 --> 00:46:04: to accommodate you know new ducting for say your central

00:46:04 --> 00:46:07: portion air exchange you need to do in lobbies or

00:46:07 --> 00:46:11: things like that. So that's the little things that I

00:46:11 --> 00:46:14: would be looking at when I was looking at a

00:46:14 --> 00:46:18: building you know to purchase is, is those little things

00:46:18 --> 00:46:21: will add up and and will really get to you

00:46:21 --> 00:46:23: at the end of the project if you and your

00:46:24 --> 00:46:26: team is not thinking kind of inside out.

00:46:27 --> 00:46:30: Rather than, you know, building a building new, you have

00:46:30 --> 00:46:32: to kind of think inside out.

00:46:33 --> 00:46:35: And Rob, how are you all looking at this? I

00:46:35 --> 00:46:38: obviously you have to have a lot of technical expertise

00:46:38 --> 00:46:40: on your team as well. Are there when you look

00:46:40 --> 00:46:43: at a project, are there certain ones where you're just

00:46:43 --> 00:46:45: like, oh, that's not going to work, that's never going

00:46:45 --> 00:46:47: to work, you know, how do you look at it?

00:46:48 --> 00:46:50: Um, we uh.

00:46:50 --> 00:46:52: You know, we really try and focus on the outside

00:46:53 --> 00:46:55: of the building and the environment that these buildings are

00:46:55 --> 00:46:56: creating.

00:46:58 --> 00:47:02: So that the the the potential investors coming to us.

00:47:02 --> 00:47:05: So in terms of how we try and make this

00:47:05 --> 00:47:06: process more doable.

00:47:08 --> 00:47:11: For investors as we try and upfront be very direct

00:47:11 --> 00:47:14: with, we think that this conversion is going to be

00:47:14 --> 00:47:15: as supportive or not.

00:47:17 --> 00:47:19: As you know because there are there are some buildings

00:47:19 --> 00:47:22: that we still want to retain as office in the

00:47:22 --> 00:47:25: city particularly metro centric ones. But you know there's a

00:47:25 --> 00:47:28: lot of opportunities out there. But so we're trying to

00:47:28 --> 00:47:31: be very early on we try and work with investor

00:47:31 --> 00:47:33: to say do we think this is going to be

00:47:33 --> 00:47:36: possible with zoning and and city policies so that no

00:47:36 --> 00:47:37: one's wasting any time.

00:47:38 --> 00:47:41: And then secondly, we try and approach, you know, once
00:47:41 --> 00:47:44: we get through that discussion we try and approach it,
00:47:44 --> 00:47:47: you know, you know like Mark said, the developers want
00:47:48 --> 00:47:51: consistency and transparency which we, you know, we really
try
00:47:51 --> 00:47:54: and work over about a year's time to get approvals
00:47:54 --> 00:47:57: for these projects and keep them moving along. You know,
00:47:57 --> 00:48:01: have that attitude and we're going to keep you moving
00:48:01 --> 00:48:04: even though we have sometimes tough conversations and
and problems
00:48:04 --> 00:48:08: arise as both developers here have said, you know, we
00:48:08 --> 00:48:09: work through them.
00:48:09 --> 00:48:10: But we have to have.
00:48:11 --> 00:48:13: Even on the City side, we have to have a
00:48:13 --> 00:48:16: bit of a creative mindset and I'll use, you know,
00:48:16 --> 00:48:19: Park and Ford as an example. You know, when we're
00:48:19 --> 00:48:22: doing some of these outdoor spaces, they were on terrace
00:48:22 --> 00:48:25: levels, so they were above structure beneath.
00:48:26 --> 00:48:29: And so there were questions about storm water and how
00:48:29 --> 00:48:32: do we calculate stormwater in green space and there had
00:48:32 --> 00:48:35: to be some I think some creative interpretation about how
00:48:35 --> 00:48:38: some of that, some of that got through the
00:48:38 --> 00:48:41: approval process. But we all wanted to see it happen
00:48:41 --> 00:48:44: as long as we were staying within the intent of
00:48:44 --> 00:48:47: the regulations we we we kept moving and that's that's
00:48:47 --> 00:48:50: how I think some of these projects have been so
00:48:50 --> 00:48:51: successful because.
00:48:52 --> 00:48:54: You know, we we were we had a mindset as
00:48:54 --> 00:48:57: a municipality that to remove the barriers as long as
00:48:57 --> 00:48:59: they met the the larger city priorities.
00:49:00 --> 00:49:03: And so that does get to one of the issues
00:49:03 --> 00:49:06: that we haven't discussed yet. So you mentioned that park
00:49:07 --> 00:49:09: and Ford did need to go for, they were not
00:49:09 --> 00:49:12: zoned, I believe you said for residential.
00:49:13 --> 00:49:17: The residential use I believe was allowed, but there were
00:49:17 --> 00:49:21: other other elements of the project and stormwater was one
00:49:22 --> 00:49:24: of them that I think kicked them into a non
00:49:25 --> 00:49:26: by right approval tract.
00:49:27 --> 00:49:31: So to get public support, what does that look like?
00:49:31 --> 00:49:35: Because I was kind of surprised on the prep quality
00:49:35 --> 00:49:39: here that maybe not everyone is always supportive of
conversion
00:49:39 --> 00:49:41: to to residential.

00:49:42 --> 00:49:43: Nick, do you want to start?

00:49:44 --> 00:49:48: Yeah, in our case with five way West specifically we

00:49:48 --> 00:49:53: didn't have that problem. The neighborhood, the city, the hospital

00:49:53 --> 00:49:58: area every everyone really liked our project more behind us.

00:49:58 --> 00:50:01: So we we did not have that problem there. Where

00:50:01 --> 00:50:06: where we've had the problem is when we're actually building

00:50:06 --> 00:50:10: multifamily product in the suburb area and I could see

00:50:10 --> 00:50:13: you know related to converting suburban office.

00:50:15 --> 00:50:18: That's where I could see more of, you know, called

00:50:18 --> 00:50:21: NIMBY or more just general opposition to a project is

00:50:21 --> 00:50:23: in is in the suburban area.

00:50:25 --> 00:50:26: Mark, what's your experience then?

00:50:27 --> 00:50:32: Yeah, it's it's the suburban opportunities that have where we've

00:50:32 --> 00:50:36: seen that not so much in the core in part

00:50:36 --> 00:50:37: because.

00:50:38 --> 00:50:42: Yeah, I think the zoning ordinances are are broad enough

00:50:42 --> 00:50:43: to allow it.

00:50:45 --> 00:50:48: And but in the suburbs, I mean we were in

00:50:48 --> 00:50:53: the process of of converting some malls to mixed-use, you

00:50:54 --> 00:50:58: know with added density and you know there you know

00:50:58 --> 00:51:03: we get pushback from a number of of stakeholders if

00:51:03 --> 00:51:08: you will. And the things that are always of concern

00:51:08 --> 00:51:13: is traffic. Fact of the matter is that residential generates

00:51:13 --> 00:51:15: much less traffic.

00:51:15 --> 00:51:19: An office does and therefore there's an ability and and

00:51:19 --> 00:51:24: therefore cars less need for cars. Therefore we're able to

00:51:24 --> 00:51:29: convert some of that asphalt to green space and and

00:51:29 --> 00:51:34: always a concern about overloading schools and and and

00:51:34 --> 00:51:38: and serve public services and you know I think data

00:51:38 --> 00:51:43: supports that you know for rent housing has smaller

00:51:43 --> 00:51:45: household

00:51:43 --> 00:51:45: sizes than owned housing.

00:51:45 --> 00:51:49: Etcetera. And so I mean we looked at a 20%

00:51:49 --> 00:51:54: occupied building in a suburb of Washington recently, you know,

00:51:54 --> 00:51:59: not in Rob's jurisdiction that had all 100% surface parking.

00:51:59 --> 00:52:04: That building is never going to get restabilized as office.

00:52:04 --> 00:52:08: And you know we called the, the County Council member

00:52:09 --> 00:52:13: responsible for the district and we're told that I'm not

00:52:13 --> 00:52:14: even going to.

00:52:15 --> 00:52:18: Indicate what sex it was, but said no, I'm not
00:52:18 --> 00:52:22: taking up that fight with that neighborhood not doing it.
00:52:22 --> 00:52:25: And so we didn't pursue the opportunity and I don't
00:52:25 --> 00:52:29: know what will ever become of that site, I guess.
00:52:30 --> 00:52:33: You know, I have no idea but that's you know,
00:52:33 --> 00:52:36: we we're just not able to you know, it it,
00:52:36 --> 00:52:40: it could be terrific. It's a terrific location but it's
00:52:40 --> 00:52:43: not something that we're able to spend time on with
00:52:44 --> 00:52:47: without you know, having the, you know the, the, the
00:52:47 --> 00:52:52: Council member just didn't have the political fortitude to see
00:52:52 --> 00:52:55: it through and we've seen that quite a bit.
00:52:56 --> 00:52:59: And Rob, you've mentioned that the multifamily seems to
work
00:52:59 --> 00:53:02: better from a fiscal perspective in your experience than some
00:53:02 --> 00:53:05: of the existing office. You mentioned that in the beginning,
00:53:05 --> 00:53:06: I believe.
00:53:07 --> 00:53:12: We're seeing higher assessed values with the conversions
given sometimes
00:53:12 --> 00:53:13: the age of the office.
00:53:14 --> 00:53:17: And we haven't even touched on this topic yet, but
00:53:17 --> 00:53:19: the the office foreplay is changing.
00:53:20 --> 00:53:23: So you know, we're we're getting seeing some new offices
00:53:23 --> 00:53:26: being built in the city while we're converting these older
00:53:26 --> 00:53:29: buildings to residential. So like I said, it winds up
00:53:29 --> 00:53:30: being a real estate.
00:53:31 --> 00:53:32: Winter for us.
00:53:33 --> 00:53:35: Yes I I we could go on for for hours
00:53:35 --> 00:53:39: about about all of these topics even just suburban you
00:53:39 --> 00:53:43: know conversions because it's clear that they are very
different.
00:53:43 --> 00:53:46: I want to be respectful of our of our time
00:53:46 --> 00:53:49: and just let the folks know they're putting in we
00:53:49 --> 00:53:52: are up to 57 questions. So no way was I
00:53:52 --> 00:53:55: going to be able to touch all of those but
00:53:55 --> 00:53:58: a lot of them are actually captured in the report
00:53:58 --> 00:54:01: which looks looks like this. You can get it on
00:54:01 --> 00:54:03: the NMHC Research Foundation.
00:54:03 --> 00:54:06: Site or you can go to the UI or UI
00:54:06 --> 00:54:10: members. You can go to the knowledge center Finder at
00:54:10 --> 00:54:14: knowledge.ui.org and put in either a keyword of Prasad or
00:54:14 --> 00:54:16: conversions and find it it has.
00:54:17 --> 00:54:22: A variety of projects. There are several from Alexandria
actually.

00:54:22 --> 00:54:26: It has construction cost per unit development costs. It has
00:54:26 --> 00:54:30: a variety. There's, you know, a small mill in Columbia
00:54:30 --> 00:54:34: that actually I believe that's the reuse that features a
00:54:34 --> 00:54:38: slide. It's an old mill cotton warehouse maybe, but that's,
00:54:38 --> 00:54:41: you know, a lot of what folks typically think of
00:54:42 --> 00:54:45: for adaptive reuse was the old historic reuses. I was
00:54:45 --> 00:54:47: intrigued by this panel.
00:54:47 --> 00:54:50: Because you all really did make an effort to make
00:54:50 --> 00:54:52: it not look like it what it was you I
00:54:52 --> 00:54:55: think we mentioned this on the prep call, you wanted
00:54:55 --> 00:54:57: to make it look like a brand new ground up
00:54:58 --> 00:55:00: almost project is that is that true?
00:55:01 --> 00:55:05: Yes, certainly for us it's been the case, yes. But
00:55:05 --> 00:55:10: there are some situations where the right answer might be
00:55:10 --> 00:55:13: to do you know sort of a down and dirty
00:55:13 --> 00:55:18: conversion if there's a missing opportunity in the marketplace
or
00:55:18 --> 00:55:22: missing need in the marketplace for lower cost housing. But
00:55:22 --> 00:55:26: the, the big question there is do the Windows need
00:55:26 --> 00:55:30: to open or not and that's an expensive answer, so.
00:55:31 --> 00:55:32: That's the big one.
00:55:33 --> 00:55:36: Yeah, Nikki, you all were trying to make it look
00:55:36 --> 00:55:38: brand new as well. It certainly looks out from the
00:55:38 --> 00:55:39: from the pictures.
00:55:39 --> 00:55:43: Yeah, we did the building, you know, that 60s era,
00:55:43 --> 00:55:47: you know, precast with that diamond pattern.
00:55:47 --> 00:55:51: And then you have this BLOB of a garage next
00:55:51 --> 00:55:54: to it and it was never around here like and
00:55:54 --> 00:55:58: people at at a certain point forgot the building even
00:55:58 --> 00:56:02: existed although you know, it's 120 feet in the air.
00:56:02 --> 00:56:05: And our goal was to how can we make that
00:56:05 --> 00:56:09: 60s era precast architecture look fantastic, look great and
marry
00:56:10 --> 00:56:13: it up with some, you know, modern glass. We weren't
00:56:13 --> 00:56:17: able to do a curtain wall system but how can
00:56:17 --> 00:56:18: we get that?
00:56:18 --> 00:56:21: Certain walled glass look on the garage and put them
00:56:21 --> 00:56:24: together and so the end result, you know we're very
00:56:24 --> 00:56:27: happy. We wanted a modern looking building kind of change
00:56:27 --> 00:56:28: to help change the skyline.
00:56:30 --> 00:56:33: And so yes, I think that for everybody take a
00:56:33 --> 00:56:36: look at the report, Anita Kramer and her team did
00:56:36 --> 00:56:39: a great job of creating. They've got a project in

00:56:39 --> 00:56:42: here for everybody. And so while it's clear that you
00:56:42 --> 00:56:45: really need to have take everything on a case by
00:56:45 --> 00:56:48: case basis, there are some best practices that folks can
00:56:48 --> 00:56:51: can lean on to try to figure out when they
00:56:51 --> 00:56:54: do their due diligence. With that I want to thank
00:56:54 --> 00:56:57: everybody for tuning in and thank our panelists. This has
00:56:57 --> 00:57:01: been a great discussion on the the session is recorded.
00:57:01 --> 00:57:05: So that it will be available later on and feel
00:57:05 --> 00:57:09: free to reach out to myself. See Walter at nmhc.org
00:57:09 --> 00:57:13: or Anita and her team at USLI with any questions.
00:57:14 --> 00:57:17: And thank you all for for joining us today.
00:57:18 --> 00:57:19: Thank you, Caitlin.

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