

IN OFFICE SPACE, MILLENNIALS DRIVE DECISION-MAKING

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June 2014

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Real Estate Forum Digital Edition: [www.forum.globest.com](http://www.forum.globest.com)

REUSE OF SPACE REMAINS A SIGNIFICANT SEGMENT OF THE DEVELOPMENT COMMUNITY IN LAND-CONSTRAINED SOUTHERN CALIFORNIA. HERE, THE BENEFITS AND CHALLENGES OF ENGAGING IN REDEVELOPMENT WORK IN THIS MARKET.



# The Realities of Redevelopment

**I**n Southern California, where land is both scarce and expensive, redevelopment has been a natural and smart way to introduce new product. The practice offers scores of benefits for developers, local governments and residents, not to mention the environment, and has been a method for keeping the development community running during the recession and well into subsequent recovery.

But redevelopment is not without its challenges. With the recent dissolution of redevelopment agencies in California, developers have struggled to get some projects moving due to the removal of this support system. Some projects have been shelved because they simply don't pencil. In addition, those who choose to renovate vs. building from the ground up face a series of other issues not for the faint of heart.

## By Carrie Rossenfeld

REAL ESTATE FORUM spoke with several development executives and those with extensive experience in redevelopment to discuss the pros and cons to the practice. What they revealed is both enlightening and encouraging for the industry as a whole.

### PRO: It Can Make Financial Sense

There's no denying the numbers: redevelopment can make an enormous amount of financial sense in a market that is especially expensive in which to build. "You can still buy existing buildings at a lower replacement cost than ground-up development," Rob Guthrie, CEO and founder of Guthrie Development, tells FORUM.

The ROI on redevelopment also makes

sense, says Blaine Annett, co-managing partner of Stream Realty Partners. "The developer can take an asset that's currently generating a nominal amount of income to having it generate far more income."

Redevelopment can be far less costly than new construction because the foundation and framework are already in place, not to mention some permitting costs are already paid. In addition, certain tax breaks may be available to those who redevelop, and construction methods that may not be acceptable for new construction may be allowable in existing properties.

### PRO: No Land to Worry About

The scarcity of developable land in Southern California is no secret, so redevelopment is often the only viable option for introducing new product to the market.

Earlier this year, Stream Realty oversaw the \$1.5-million rebranding effort for Von Karman Tech, formally known as Von Karman Business Park and located at 16842 Von Karman Ave. in Irvine. The building façade was updated, modernizing and brightening the property. Branded building signage is now visible from the street and throughout the building. A pedestrian boardwalk surrounds the complex, creating a campus-like experience and unifying each entrance to the 100,892-square-foot building. Lobbies and common areas were updated and enhanced with the addition of new creative-space elements, including polished fixtures and industrial floors.

“Taking assets that are well located and redeveloping or repositioning them makes sense from a land perspective,” says Annett. “It’s not so much why redevelop when you can just build a new building—often the land is built out. If you like the location, it makes sense to redevelop and reposition.”

In fact, much of the existing product in Southern California is very well located, so redevelopment can take advantage of great locations, Robert Brunswick, CEO and

founding partner of Buchanan Street Partners, tells FORUM. “You want to improve existing office or commercial stock if you can. You also don’t have to deal with the arduous and onerous entitlement and design-approval process.” He adds that capital is a lot more accessible for redevelopment than for ground-up projects. “There’s very little ground-up office development. Capital hasn’t wanted to put its foot in that pond currently.”

Ground-up opportunities are becoming increasingly common in outlying areas, which may not be as attractive to investors, says Guthrie. “The best locations have already been developed, so they have better parking, circulation and function. A house built 30 years ago tends to be on a bigger lot in a nice neighborhood; today, they’re crammed onto smaller lots. The good locations are usually picked over.”



Christopher Myers  
President and Chief Executive Officer,  
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“  
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**BLAINE ANNETT**  
Stream Realty Partners

**PRO: Outside Support**

Communities are often in favor of redevelopment, as are the local governments in which the sites exist. “Cities where this is going on are excited and supportive of redevelopment,” Colby Annett, co-managing partner of Stream Realty Partners, tells FORUM. “The tax base will be higher, and it reenergizes micro-submarkets of a community. A perfect example of this is in Irvine in the Irvine Business Center, where obsolete industrial buildings are being leveled to make way for more multifamily, which spurs more retail and more traffic. Also, converting old warehouses into office space feeds upon itself once it takes place.”

Sandy Sigal, CEO and president of NewMark Merrill Cos.—whose redevelopments number about half of all its development projects—tells FORUM that communities often see the upside of redevelopment. “If the community has accepted what is in place, anything we can do to improve it is seen as a positive.”

Creating jewel-box components in an area that is already appreciated helps make

redevelopment welcome in a community, John Miller, founder and CEO of DJM Capital Partners, tells FORUM. His firm is redeveloping Lido Marina Village in Newport Beach, an iconic property that is beloved but in need of revitalization. “We’re taking an amazingly beautiful part of Newport Harbor and the beach, and changing the landscaping and hardscaping to usher in restaurants, shops and cool bookstores that will serve the community.”

**PRO: Improved Desirability for Tenants**

While creative space is all the rage in many parts of California, redevelopment can go beyond creative space to make a building more desirable, adds Blaine Annett. “It’s taking a class B building and making it more modern, enhancing what’s there. Take a look at what Greenlaw Partners did with 18301 Von Karman—the lobby and restrooms were tired, and they came in and redid all of that. Now it shows a lot better.”

Colby Annett adds that now that the economy in Southern California is improving, landlords are spending money on their buildings once again, investing in their



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**ROBERT BRUNSWICK**  
Buchanan Street Partners

properties to accommodate the needs of their tenants. “There’s been a fundamental shift from where we were five years ago to where we are today. It’s easier to obtain financing, so owners are reinvesting in their buildings and growing their tenant bases. As a result, it’s easier to lease office and industrial space today than it was five years ago.”

**PRO: What You See Is What You Get**

Sigal says working with an existing framework eliminates a lot of the headaches that can come with ground-up development, and he likes the aspect of improving upon an in-place structure. “You’re not starting from ground zero. You can re-use portions of what’s in place, and the economics can be better for it. We love redevelopments.”

Since most redevelopment sites are in already-developed areas, you know what the competitive landscape looks like, Sigal adds. And that can give you a competitive edge with tenants. “Tenants are getting what looks like a brand-new center but without the brand-new rent associated with it. The competition’s economics are proba-

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bly worse than mine because I'm not starting from scratch. It might be half the cost or less to improve it to the next level, and that savings can be passed on to tenants."

**PRO: Reduced Time to Market**

For the most part, the amount of time it takes to deliver product to the market is much less for redevelopment than for ground-up development, and time to market is crucial for developers in this competitive region. "Southern California is a difficult place to get things done quickly," Pat Galentine, EVP and founding principal of Coreland Cos., tells FORUM. "The timing to get a project done and the risks associated with that timing are critical. Ground-up development is certainly a long-term process, whereas repositioning can work a lot quicker. Total use change is different, but repositioning is typically quicker—you can be more nimble, there's less governmental regulation and you can effect change quicker."

Brunswick says that less time to market means less risk to your capital. "You can underwrite a market today and deliver a

product in three to six months vs. 12 to 24 months. Also, in many existing properties you have what I would call current income to service debt and to pay equity while you are further enhancing the asset."

Guthrie says his firm is buying properties to redevelop as condos for individual sale, which can deliver in six months vs. the two-year ground-up permitting process.

**PRO: You're Preserving and Enhancing History**

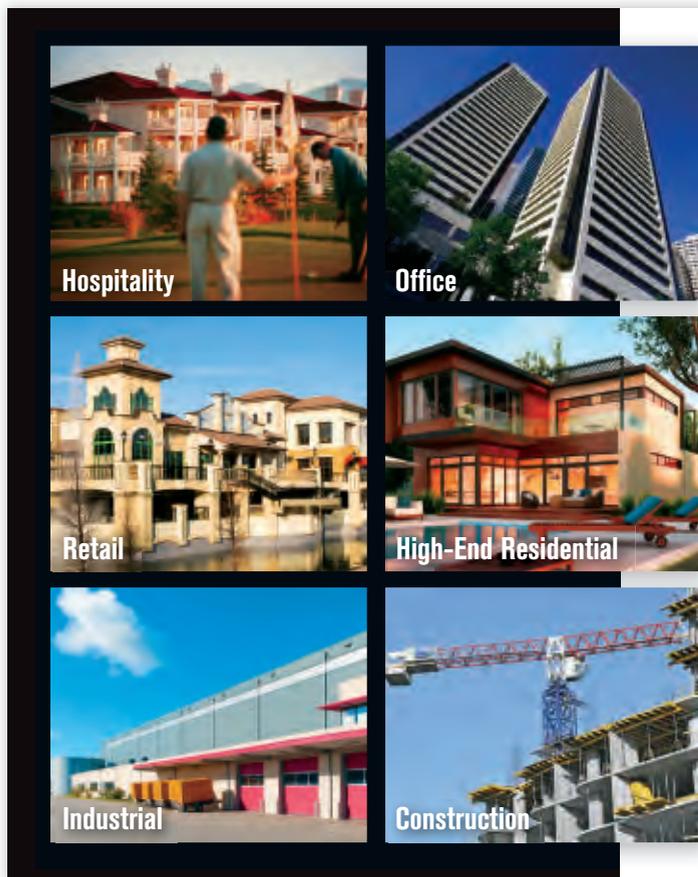
Many older buildings in Southern California have unique features that can be used to make them more attractive to tenants and buyers, Chris Fredrick, CEO of CCP Real Estate Advisors, tells FORUM. His firm, which has been involved with several Southern California redevelopment projects, including Lido Marina Village in Newport Beach, Redondo Beach Pier and a project near Great Park in the Irvine Spectrum, has seen the reuse of some old military buildings that have been falling apart as well as interesting and iconic architecture. "We want those old buildings, and we want to bring activation



“The best locations have already been developed, so they have better parking, circulation and function. The good locations are usually picked over.”

**ROB GUTHRIE**  
Guthrie Development

to it that's not the everyday typical," says Fredrick. "We like adaptive reuse a lot. It can cost a lot more if you're investing in



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very old buildings, but the class you're returning to the community is like nothing else."

Andrew Fogg, an attorney with Cox Castle Nicholson, tells FORUM that some developers/owners may also be able to get property-tax credits if they're renovating a historic structure and maintaining the historic integrity of the building. "These property-tax benefits going forward may be enough to offset some of the costs of renovating."

**PRO: Relaxed Regulations**

In some cases, incentives to repurpose properties in urban areas include relaxed parking requirements or other imposed regulations, says Fogg. Such is the case in Downtown Los Angeles, where several older buildings between seven and 12 stories high that were built before seismic standards were in place lay empty above the first floor after the turn of the millennium. The less-stringent parking standards gave developers extra motivation to retrofit the upper stories of those buildings. "No one existed in Downtown L.A.



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**PAT GALEMENTE**  
Coreland Cos.

after 5:00; it became a ghost town until after the adaptive re-use ordinance was passed," says Fogg.

“Southern California is a difficult place to get things done quickly. The

**CON: Lack of Outside Support**

Sometimes the community is not so accepting of redevelopment and creates political opposition to a project, usually because of strained resources or the perception thereof—traffic, capacity issues for infrastructure or the environment—says Guthrie. These issues are more prevalent now that good development sites are so rare. "The easy sites have been picked over, so a lot of the ones that are left are more complex," Guthrie says.

Being sensitive to the community's needs is essential if you want their support, says Miller. "Be open to negotiation and conversation with your approval agencies and attentive to the community. Listen, reach out and you'll gain insight that's invaluable."

The dissolution of the redevelopment agencies in California has also reduced outside support for some of these projects, says Blaine Annett. "The state's not in a financial position to provide incentives to developers on projects in Southern California. The answer to that is to hire the right folks—architects, engineers, consultants—with the REAL ESTATE SoCAL...continued on page 54

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## Real Estate SoCal

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experience to navigate the channels to get projects constructed. It's not hard to find a good team to put together."

### CON: The Unknowns

While you know what you can see in redevelopment, you don't know what you can't see—and therein can lie significant risk, say the experts. "We were trying to buy a property in Huntington Beach and ended up passing on it, but the people who bought it found a huge toxic/environmental issue on the sight, and it cost them a huge amount of money to fix it up," says Guthrie.

Fredrick adds that older buildings may have some restrictions that brand-new development doesn't face, which can lead to potential, unforeseen extraneous costs.

"There are unknowns that you uncover as you open walls and look at different situations, and the reality is that it's not new," says Brunswick.

Issues like asbestos or structural damage that went undiscovered before walls or ceilings were torn down can wreak havoc on a redevelopment project. "You always come across something you weren't quite expecting," says Colby Annett. "The unknown is a real factor in redeveloping a project."

Fogg recommends completing as much due diligence as possible before embarking on a redevelopment project. "Make sure you have your ESAs—phase 1 and phase 2, if needed—a good structural engineer and all your due diligence programs in place. Also, environmental insurance can mitigate some of the costs associated with retrofitting an old building to bring it up to code."

### CON: There's Hefty Competition

"There's a lot of competition for these sites and a lot of people who want to do the same thing we're doing," says Guthrie. This competition can raise the price of redevelopment sites to where it may not make sense for some developers.

### CON: Uninterested Buyers

Certain institutional buyers won't buy older vintage product, even if it's been redeveloped into something new and beautiful, says Brunswick. "You might limit your buyer side of the equation. They may fear the ongoing repairs and maintenance of an existing asset that may be higher than a newer property."

### CON: Inaccessibility to Green Features

Some older buildings may not be eligible for the same environmental features or technology that new construction is,



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rent associated with it. The competition's economics are probably worse than mine because I'm not starting from scratch.”

**SANDY SIGAL**  
NewMark Merrill Cos.

experts say. This fact can limit their ability to attract buyers and/or tenants concerned about these features.

### CON: Existing Tenants

Working a redevelopment project around existing tenants can create obstacles for developers. "You must do everything in a way that is as least disruptive to the existing tenant base as possible," says Blaine Annett. "It means how you phase the work and how you go about making those improvements. Vacant buildings don't have that problem, but with occupied buildings, you definitely have to keep that front and center."

Many developers remain bullish on redevelopment, saying the pros far outweigh the cons and finding it either preferable to, or just as viable as, ground-up development. Going into any redevelopment project with as much knowledge about the existing product and the right team behind you is the way to remain ahead of any unforeseen snags. ♦

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