

Challenged Downtown RE

Downtown Institute

1/21/2015

(An exercise in preaching to the choir, which will hopefully lead to a thoughtful discussion)

Intro: (5 mins)

- I. Dick Snow - Lemont History (5 mins)
- II. Lemont - back of napkin (10 mins)
- III. Intervention needed (5 mins)
- IV. Main st. future (5 mins)

Discussion (15 mins)

I. Let's face it, in the last 50 years our Downtowns have seen some stiff competition



And in many cases the local economy just flat out stinks



which can lead to lower rents and dangerous deferred maintenance



And obvious code violations



which can lead to lots of guys (and now girls) going defensive instead of offensive



And in worst case situations it can all lead to this

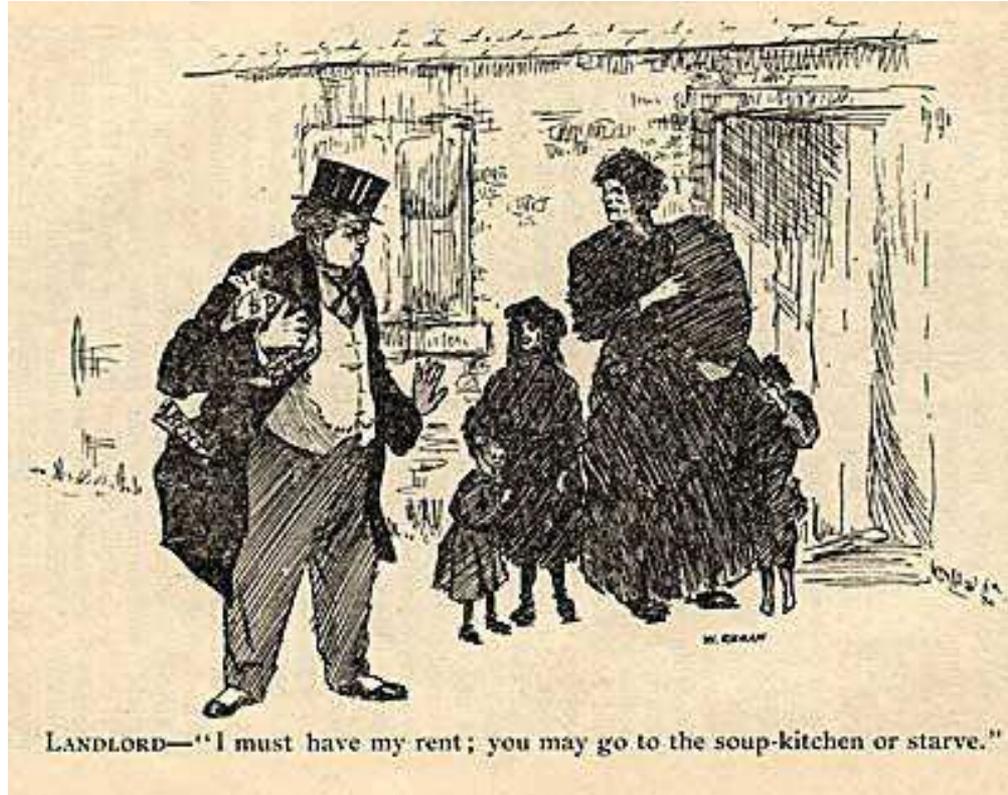


Georgetown, SC 2013

Or just this...



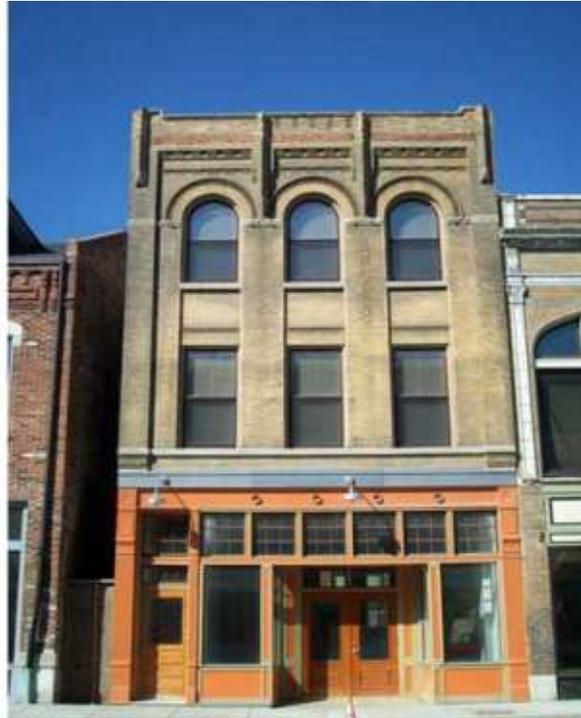
What is the challenged owner to do?



Let 'er go??.....



Or.....get creative and make the necessary improvements to make the building relevant once again



- That is the root of Main Street program....turning downtown blight into revitalized and relevant spaces in the community.
- But many of our Downtowns and the buildings in them still look pretty good as you drive through.
- **The Point:** Not all underperforming real estate looks horrific. Yet that doesn't necessarily mean it is a thriving asset either.
- To me.... that's the majority of Maine's Downtowns.... On the surface we look pretty good, but there are underlying issues that prevent us from looking great.

II. Case in Point



III. Lemont Block Building existing conditions

- 14,000 sf
- 3.5 stories
- 4000 sf per floor
- (2) two first floor tenants
(owner occupied)
- roughly 29% occupied



Upper story issues.....

- one set of illegal stairs
- obsolete fire escape
- no elevator
- no sprinkler
- old wiring
- one boiler
- hazmat?
- overall depreciation

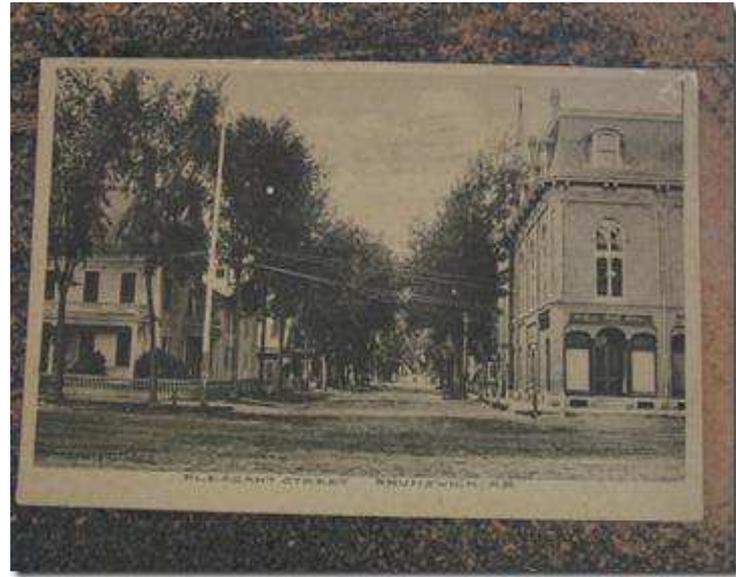
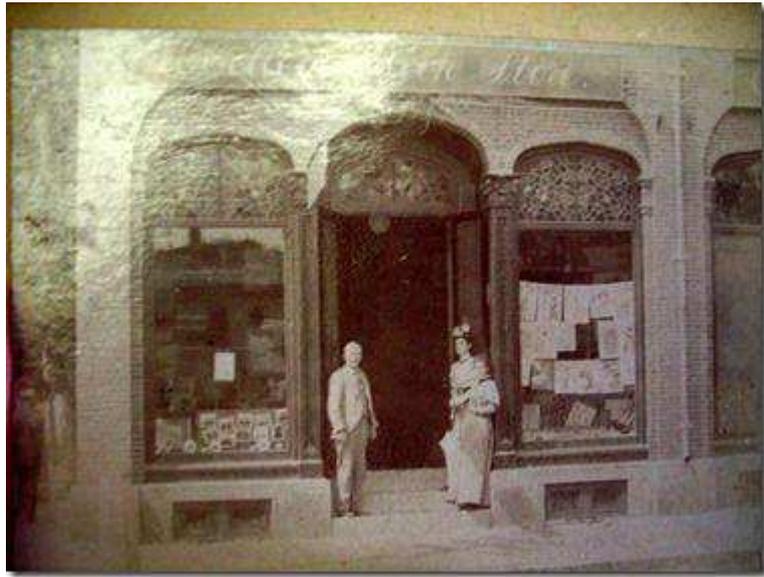


Upper story assets

- landlocked jewel of a room
- amazing views of the downtown
- structurally sound
- historic attributes
- etc etc etc
- space speaks for itself



But it's a time capsule...It can't be used in its current state



Owners Constraints

- single Mom with college bound son
- she runs two businesses
- It's a VERY expensive fix
- she can afford the asset...just not full (i.e. new roof 4 yrs ago)
- upper story fix will impact first story layout



So how expensive?

Hard costs (\$120 psf):

- site work
- foundation/basement
- superstructure
- floor structure
- roof
- doors & windows
- interior construction
- plumbing
- HVAC
- electrical
- sprinklers
- conveying
- specialties
- misc



So how expensive? (cont.)

Soft Costs (\$30 psf):

- feasibility study
- architectural fees
- engineering fees
- construction period interest
- other financing fees
- permits and licenses
- project administration
- construction management
- builders risk insurance
- commissions?
- extra utilities
- contingencies
- working capital for start-up
- etc.



Estimated \$2.1 Million Dollars!!

- \$420k DP
- \$1,680,000 loan (not incl. existing debt)
 - Can you get that to appraise?
- extra \$10,591 pmt/mo. (4.5%/20 yrs)
 - Not incl existing debt, extra taxes, Insurance, CAMs before lease-up

OUCH!!!



So let's rent it...what can the local market bear?

- All office:
 - 10,000 sf new space
 - \$15 NNN space?
 - is there enough parking?
 - How long will lease-up take?
 - \$150k per year
- Apts/office
 - 4 top floor 800sf apts (1BR/2BR)
 - \$900-\$1200 per month
 - \$43.2k - \$57.6k
 - 6000 sf office (\$15 psf NNN)
 - \$90k
 - \$133.2k - \$147.6k per year
- Event Space/condos (?)



Cash Flow??

Income: \$150k

Expenses:

st fl share of exp (\$16k)

existing debt (\$24k)

utilities (\$12k)

NOI \$98k

CAP Ex (\$12k)

Debt (\$127k)

NOPE (\$41k)



Something has to give....

- there is often a gap in financing in all but the strongest markets
- Usually, the rents that the owner gets can not support the necessary debt to make these important buildings code compliant
- there are rare cases of philanthropy
- there are more cases of owner occupants who make these buildings their home
- But from an investment perspective, it's hard to take these buildings to the bank
- Thus we see either lots of vacancy or suspect occupancies in some of our most interesting spaces.



Help is Needed

Creative Sources:

- **Patient equity**
 - new owner?
 - family and friends
 - equity partners?
- **tax credit equity- (figure out small ones)**
 - **Historic**
 - New Markets?
 - LIHTC
- **local intervention**
 - Forgivable loans
 - grants
- **State Intervention**
 - CDBG?
- **Less Debt**
 - safer DCR and LTV



What if?

Creative Sources:

- SHTC (25%) \$525k
 - FHTC (20%) \$420K
 - Life Safety\$ 50k
 - Facade \$ 20k
 - CDBG? \$125k
 - Debt \$960k
- \$2,100,000



Income: \$150k

Expenses:

st fl share of exp (\$16k)

existing debt (\$24k)

utilities (\$12k)

NOI \$98k

CAP Ex (\$12k)

Debt (\$72k)

Cash Flow | **\$14k**



Lamb Block Snapshot, Livermore Falls

11,000 sf - \$2m improvements

Sources:

- | | | |
|----|--------------------------------------|---------------|
| 1. | Equity | \$100k |
| 2. | State Credits (CEI) | \$500k |
| 3. | Federal Credits (Kevin took himself) | \$400k |
| 4. | Communities for Maine's Future | \$400k |
| 5. | Subsidized debt (New Markets) | <u>\$900k</u> |
| | | \$2M |
| a. | Health Reach (clinics) | |
| b. | H&R Block | |
| c. | Silk screening business | |
| d. | 2nd floor office suites | |



Financial summary

- Grants - good
- Historic District - better
- More help - best
- RE pros?
 - who will put in the time?
- Who takes the Credits?
 - Local RE Pros?
 - Community Banks?
 - CEI
- Tenants?
 - need to pre-lease - T up tenants



IV. “Investing in Main Street’s Future” - *Main Street Now, Fall 2014*

Kennedy Smith

- **What’s driving the Changes?**
 - demographics- Millenials vs Baby Boomers
 - technology
 - local, green, walkable, interactive

- **Main Street of the future (successful)**
 - small industry
 - improved infrastructure
 - wired
 - interactive
 - local and global
 - tools & incentives
 - organizational flexibility
 - self sustaining
 - business development
 - nimble



5 ways to thrive

1. Tell developers what you want and back it up with a set of tools
2. Make sure local Planning and Community Land Use policy strengthen and support the Downtown District
3. Identify at least 3 overarching strategies to transform the Districts economy
4. What makes you different? Tell that story
5. Play an aggressive role in catalyzing business and property development.
 - a. (Find the right investors/developers and be a partner....help us help you)



Historically, Retail was not as prevalent.....broad mix was

- Historically retail was a small component of the downtown economy
- looking at old Sanborn Maps 75 years ago
 - lumber
 - boarding houses
 - insurance
 - banking
 - ice plants
 - wholesale
 - churches
 - hotels
 - fabricators
- the Mall movement invented the notion that the places we shop are JUST the places we shop
- Zoning laws and Building codes followed suit, nudging out upper story residential and small industry that comes with it.



Take Aways for Maine (MDL)....

“The best way to predict the future is to create it” - Peter F. Drucker

- smaller retail spaces
- More Millenials with a connection (profiling)
- owner occupants
- don't get too foodie - gets too competitive
- Build on Maine's strengths to create demand:
 - Live/work - Quality of Life
 - Creative, smaller, service oriented business
 - smaller industry
 - Arts
 - Crafts
 - Maker movement
- what makes your Town unique? Tell that story



Small Ball “In the sport of [baseball](#), **small ball** is an informal term for an offensive strategy in which the batting team emphasizes placing [runners](#) on base and then advancing them into [scoring position](#) for a [run](#) in a deliberate, methodical way. This strategy places a high value on individual runs and attempts to score them without requiring [extra base hits](#), or sometimes without base hits at all, instead using [bases on balls](#), [stolen bases](#), sacrifice [bunt](#) or [sacrifice fly](#) balls, the [hit-and-run](#) play, and aggressive baserunning with such plays as the [contact play](#). A commonly used term for a run produced playing small ball is a "manufactured run".” - Wikipedia

Maine Community Eco Devo strategy-

- Swing for the fence - Industrial Parks
- Steal bases - Stellar Events
- “manufacture” runs - forgivable loans
- hit lots of singles - small business
- aggressive baserunning - infrastructure
- base on balls - walkability



Ripe examples



Takeaways:

Sources/incentives/intervention

Stories

History (read tax credits)

Residential/mixed

Small industry/Makers/owner occ/Arts

Millenials

Small Ball