Halcyon Ltd Development Advisors

Whitepaper: Nine Step Repositioning Process

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Commercial-property markets often slowly improve, yet some properties continue to underperform --- due to anchor and tenant erosion, poor architectural configuration, site/access issues, or distressed image. By developing Strategic Plans to Reposition Problem Properties, owners can improve the image of these assets, attract tenants, and increase property values.

The Asset-Repositioning process emulates the "Product Development Cycle" of the consumer industry. Through repositioning campaigns, manufacturers and marketers of consumer products attempt to increase market share, accelerate sales and rejuvenate product lines, within strategic goals. Likewise, in the Real Estate industry, owners can use Repositioning Strategies to increase the long-term value of their assets.

Creating new value requires a disciplined, strategic approach to asset repositioning. Halcyon Ltd has created a Nine-Step plan to achieve these strategic objectives:

1. **Conduct a Site "Capacity" Test**

A realistic assessment of site capacity to accommodate changes is accomplished through a complete "physical" audit of the asset and its specific site. This "Capacity Test" includes existing buildings and excess land parcels to determine full capacity:

◊ *Identifying* Site Access and how to improve vehicular and pedestrian linkages.

◊ *Analyzing* Current Zoning, Density, Coverage and Parking requirements.

◊ *Investigating* Utility Infrastructure, including capacity to handle upgrades or use conversions.

Pitney Bowes

Suburban Research Center at left above had Site Capacity to accommodate significant consolidation with new shared parking garage and new innovation studios and senior management office facilities, seen right above, grouped to form a new campus center.

Swanke Hayden Connell architects

2. Search for local market support

Brilliant re-use concepts alone cannot create a market any more than elegant packaging can sell a consumer product without demand. Specific Retail "niche" market support for the concept is fundamental to the turnaround process. To define this support, owner's consultants need to:

⇒ *Identify* specific income, age, and employment Demographics of the local market, such as significant centers of employment or drive times, as well as the project's retail potential "niche share" for a unique concept.

⇒ *Conduct* User Group Surveys to determine the "best" of competitive projects. Identify key market Voids including amenities and features that satisfy user needs. Such comparables, including revenues and absorption rates, serve as Benchmarks for the better-performing, preferred projects.

⇒ *Establish* "Psychographic Profiles", and sort by known user types such as "family-oriented", "Nighthawks" and "Trendies" (who search for evening pursuits), "home improvers," or concentrated student populations, all arranged by lifestyle preferences and leisure activities. Identify at least one Retail Concept-Driven solution that addresses unique needs of the Psychographic profile.

3. Establish Current property operations baseline

This "Baseline" is essential in reevaluating re-use scenarios. It drives the investment analysis by providing incremental performance which are measures contrasted with the owner's current yield. It should include:

⇒ *Current revenues vs. expenses*

Includes hidden common area maintenance costs and probable vacancies.

⇒ *Tenant Mix & Performance* Includes current building layouts Tenant sales performance

⇒ *Deferred Maintenance*

Major Capital Expenditure Costs must be noted, along with unusual mechanical constraints, that may apply to re-use scenarios. Consider economies to be achieved by salvaging existing systems.

⇒ *Compare operating performance*

Regional and national performance standards, such as those published by BOMA, LLIL/or ICSC, must be compared to local measures --- such as sales per square foot --- Benchmarked against projects of similar quality.

⇒ *Review property staffing*

Property staffing should be compared against the competition. This analysis includes security promotion and maintenance capabilities that could adversely influence the Turnaround concepts.

4. Create alternative re-use scenarios

New Turnaround alternatives should include a wide range of re-use "Scenarios" such as:

⇒ New Retailer tenant requirements and configuration changes

⇒ Reductions in Common Area through recapture of Leasable Spaces.

⇒ Supporting Entertainment and Recreational components to attract visitors and differentiate the project.

Do not discard seemingly “wild” ideas, particularly on conversions. Explore a number of possibilities. An idealized solution – a “Quick Fix” – is also a mistake. Keep the process exploratory.

Each re-use scenario must embody a strong organizing principle to discriminate that concept from others. The objective is to find enough ideas to “matrix” a series of re-use scenarios, which are then subjected to architectural, financial, and programmatic evaluation.

⇒ *Search* for concepts that “brand” the site with land uses and operators that have succeeded elsewhere. Determine how these uses can share expensive architectural features.

⇒ *Identify* an image with unique appeal to target users. Ask for architectural design response to observations gleaned in target user interviews. Role-play the user to see if changes are easily perceived.

Yonkers MXD

For underutilized city center site in Yonkers New York within walking distance of the Hudson River rail Road, and a 25 minute commute to Grand Central station, a number of schemes were generated to reflect an opportunity for Back-Office Workplace development with a Mercado and Community Retail Center. The objective of the alternatives was to show site densities from a Village scenario with a commercial grocery store, to much higher density Mixed-Use, Residential, and Community Retail

5. Assess re-use technical impact

Frequently, a Development Advisor/Consultant will assist the owner in conducting workshop reviews of alternative scenarios. For each alternative, the owner's team of the Development Advisor, Architect, and Construction Manager must assess the technical impact on building systems including electrical or site utilities as well as mechanical systems, and operating cost "constructability" -- or cost effectiveness of particular building modifications. These workshops should be highly participatory and consider multiple viewpoints:

⇒ Analyze new code requirements and traffic impact on the site plan.

⇒ Establish unit costs for major site and building systems, along with a value engineering assessment of cost savings.

⇒ Constraints on existing site infrastructure or building modifications such as structure, fire packages, and mechanical systems that are too expensive to modify.

6. Test turnaround financial feasibility

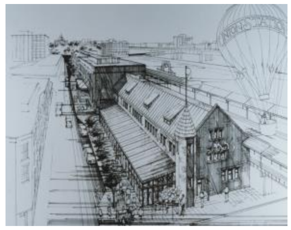
As the turnaround process move forward, so does the financial modeling process. Planning sketches develop re-use scenarios with defined architectural character. Simultaneously, schematic financial pro formas test lease-up and revenue streams of each scenario:

⇒ *List* all financing assumptions including discount and capitalization rates and hurdle rates for equity. Create a matrix "sensitivity analysis" at 10%, 15%, and 20% variables for selected assumptions, based on a range of expected return-on-investment returns.

⇒ *Project* realistic scenarios with modest bumps in rental rates at lease rollover horizons as pro formas are extremely sensitive to future increases in revenue. Establish add-on percentage rent premiums for unique concepts.

Identify public/private financing potentials and include these in modeling for eligible costs. Do not rely on public funds for development gaps unless such funds are reasonably pre-committed.

Hartford's Historic Union Station


Tai Soo Kim Architect

A Public-Private Partnership with The Greater Hartford Transit District and Halcyon Ltd private developer, special financing from the syndicate of local area life insurance companies, and cooperation of the City of Hartford and the State Historic Preservation Officer for enabling the Historic Tax Credits and to allow additional square footage to be added to the 2 ½ block long brownstone structure, in the form of copper roof Clip-Ons for Destination restaurants and Foodhall, as well as a new floor in one of the existing brownstone wings and Glass Office pavilions within the two and half story waiting room to create additional leasable space. Cooperation from a number of entities including United States Department of Transportation, City of Hartford, and State of Connecticut made the restoration of this historic structure as a Mixed-Use Office/Retail/Transit Center possible.

7. Establish a strategic property plan

After a review and selection of a turnaround concept, the chosen strategy must "visualize" the property's new architectural image. This is particularly critical for repositioned projects, as the developer is trying to achieve a new market identity --- and a perceived architectural change is one way of achieving that recognition.

⇒ *Identify* the project's "flagship" or core image components.

The purpose is to create dramatic project illustrations of unusual site or building character features.

⇒ *Create* a walk-through series of sketches or model fragments.

These move through the repositioned components of the project in much the same way as a target tenant or customer would.

8. Create management decision matrix

The next step is to evaluate the selected turnaround scenario based on defined financial/managerial criteria.

Every owner has constraints on capital --- or sets performance hurdle rates. The chosen scenario must balance risk with the maximization of asset value, often in extraordinarily negative circumstances.

⇒ *Analyze* expected tax consequences and potential for attracting joint ventures to share risks. Pre-select financial institutions key Retail tenants new to the area who could co-sponsor a repositioning effort.

⇒ *Assess* capital resources including midstream funding required because of decreased revenues during repositioning.

⇒ *Evaluate* scheme for best image and contribution to perceived value. Weigh reaction of targeted financing groups to new image.

9. Adopt an implementation schedule

The turnaround team creates a Written Strategy that addresses all necessary actions. These include:

⇒ *Creating* an overall development schedule, including approval lead time, pre-leasing objectives, design and marketing horizons, and intended completion/occupancy dates.

⇒ *Establishing* joint venture options and the steps required to encourage interest of compatible equity and/or institutional investors. Identify the full development team required to execute the turnaround plan.

⇒ *Identifying* public/private stakeholders and the steps necessary to ensure a favored position for commitment of funds or special approvals. Identify business, government and user groups who could oppose or support re-use.

Summary and Conclusion

Establishing a strategic asset repositioning plan involves a series of segmented tasks:

- Reviews current property performance
- Assesses alternative re-use scenarios
- Examines technical and financial impact of turnaround scenarios
- Balances investment hurdles and implementation constraints

This methodology for creation and evaluation of multiple scenarios establishes a clear, trackable method for determining highest property value that can withstand the owner's "Triad Test" --- retail concept strength, financial feasibility, and competitive implementation, In summary, a Strategic Asset Re-Positioning Plan provides the best framework to test alternative densities and uses, assess investment risk, maximize underutilized Property assets, and reposition poorly performing centers.