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EVENT COVERAGE

Redevelopment is About Preservation, Reinvention

By Carrie Rossenfeld | Los Angeles

During the panel discussion, Chuck Fancher talked about the reinvention of malls.

LOS ANGELES—**Adaptive re-use** and **redevelopment** are ways to preserve the value of a property in addition to responding to what the marketplace wants, said speakers at **RealShare Los Angeles**'s "Re-use and Redevelopment: Reinventing Space" panel here last week. The panel dealt with the best approach when considering these opportunities—when to jump in and when to walk away.

Moderator **Wayne D'Amico, CCIM**, 2013 president/chairman of **CCIM Institute**, asked the panel, "How do you look to do these opportunities when there has to be room for something you're not sure of? There has to be a significant upside, right?" **Chuck Fancher**, a principal with **Fancher Partners LLC**, said redevelopment is necessary, that it's about "preservation and being watchful of the outcome if you don't upgrade. The top **mall** producers had properties that needed upgrading, and they either did it or walked away."

Rob Paratte, EVP, leasing and business development, for **Kilroy Realty Corp.**, said, "We will spend the money to redo lobbies to help us retain tenants. It's an ongoing effort property by property to keep them current." D'Amico pointed out that the outcome of redevelopment is "often the same product, but it needed a complete reengineering to make it current."

Paratte pointed out that improvements to a property often have to do with a whole lifestyle change that tenants are demanding today.

Michael Hackman, founder and CEO of **Hackman Capital Partners**, said you have to plow forward, and you're supposed to make your money on the buy, so buy cheap. "I'm concerned because so many people are buying marginalized property. They're heading toward repeating what we did before, and people are making the same mistakes."

D'Amico asked the panelists which geographic markets they are targeting and what they are looking for so they know what to buy. Paratte said, "We are focused on San Diego, Los Angeles and Seattle. We want to find properties where we have a critical mass or something off-market I markets we're in. Beverly Hills is tough to build and convert property; when you know the markets, discipline comes in when you know when to walk away from a deal."

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Fancher said, "We are losing 25 to 40 malls a year; they are turning into dead malls. It's not a matter of finding a patch of ground to do the work, but you have to be focused, and each deal has to be dealt with separately. Some malls are losing their anchors, and malls are driven by their anchors, so if **Sears** falls, all Sears-anchored malls fall."

D'Amico said malls are long-term plays, "but these projects take a lot of patience." Hackman said, "You need to put yourself in a position to be successful. We lost so many deals because I thought people were paying too much, but they weren't."

Paratte said in Downtown San Francisco, demand exceeds supply, and there's a cap on the amount of space that can be built, "but the problem is it takes two years to entitle, two years to build and get a tenant, so today you have to wonder, 'Are they going to be booming in 2018?' It takes discipline."

Paratte gave **One Paseo** in San Diego as an example of a California project that took his firm seven years to entitle. "Once you get the entitlements, the reward is there."

D'Amico asked, "But is it the same deal as when you started?" and Paratte answered, "It's smaller, and there are a lot more traffic lights" than when the firm started the entitlement process.

The discussion shifted to redevelopment for best use of the property—not necessarily the highest bidder. Hackman gave the example of a **Campbell's Soup** plant in Sacramento that spanned an entire city block. His company was not the highest bidder for redevelopment of the project, but "we were selected because they knew we would be a good steward for the property by keeping the sewer-credit situation and bringing jobs back to the community."

Fancher asked how much pre-development expense Hackman was incurring in the Campbell's Soup project, and Hackman said, "$18 million, but we also bought the equipment" from the plant.

Fancher said, "I'm a small developer, and it's expensive and risky to front that money, but I need to be in California." While larger development firms have deeper pockets, it's hard for the small developer to compete, he added.

Hackman said, "If there's a market [for a project], someone will figure it out. Capital will come for an opportunity if it is good."