



An Urban Land Institute Advisory Services Panel February 2013

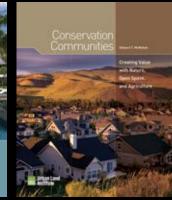
About the Urban Land Institute

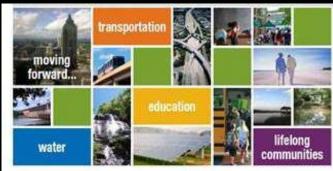
- Provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.
- Nearly 30,000 members, worldwide representing the spectrum of real estate development, land use planning and financial disciplines, working in private enterprise and public service.
- What the Urban Land Institute does:
 - Conducts Research
 - Provides a forum for sharing of best practices
 - Writes, edits and publishes books and magazines
 - Organizes and conducts meetings
 - Directs outreach programs
 - Conduct Advisory Services Panels









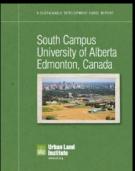


The Advisory Services Program

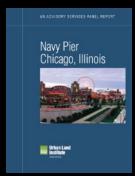
- Since 1947
- 15 20 panels a year on a variety of land use subjects
- Provides independent, objective candid advice on important land use and real estate issues
- Process
 - Review background materials
 - Receive a sponsor presentation & tour
 - Conduct stakeholder interviews
 - Consider data, frame issues and write recommendations
 - Make presentation
 - Produce a final report













The Panel

Chair

Charles Long Properties , Oakland, California

Panelists

Daniel Brents, FAIA, AICP

Daniel Brents Consulting, Houston, Texas

Ron Gerber City of Walnut Creek, Walnut Creek, California

Art Malito Context Landscape Architecture & Land Indianapolis, Indiana

Michael Reynolds The Concord Group, Newport Beach, California

Steven Spillman Pacifica Companites, Mission Viejo, California

Student Volunteer
Kristen Gabriele
M.Arch Candidate, 2014, University at Buffalo



ULI Staff

Daniel Lobo Manager Awards and Publications, Advisory and Education Group

Caroline Dietrich Logistics Manager, Advisory and Education Group

Questions to be addressed by the panel

Building use:

- What is the highest and best use for the complex?
- Does the proposed mixed use plan make sense?
- Are there other uses to consider?

Public Sector involvement

What roles should the public sector play going forward?

Public Access

 How would you open up the building to the public to help insure its success going forward.



What is the best means of achieving the best revitalization plan for the HSBC building and site?

Especially: How to address two challenges:

- 1. Lack of <u>market value</u> to <u>support cost</u> of revitalization?
- 2. Loss of cash flow and ability to refinance the existing loan prior to a required balloon payment?



Our presentation today:

- 1. Shaping the vision of what could happen at the site Daniel Brents, Arthur Malito
- 2. Market challenges and realities *Michael Reynolds*
- Managing the asset management issues Steven Spillman
- 4. Crafting a valid public private partnership Ron Gerber
- 5. Summary Charles Long



Shaping the Vision



Shaping the Vision

- Challenges
- Opportunities
- Vision
- Steps Forward



Challenges



Challenges

- Forbidding presence
- Costly upkeep and maintenance
- Barrier between the CBD and the waterfront
- Potential drag on public finances
- Reducing surrounding impacts







Opportunities



Opportunities

- Strategic location and visibility
- Unique high-rise offering
- Abundant parking
- Collaborative public bodies







Vision



Vision

- Asset for stakeholders
- Catalyst for integration
- Transformation



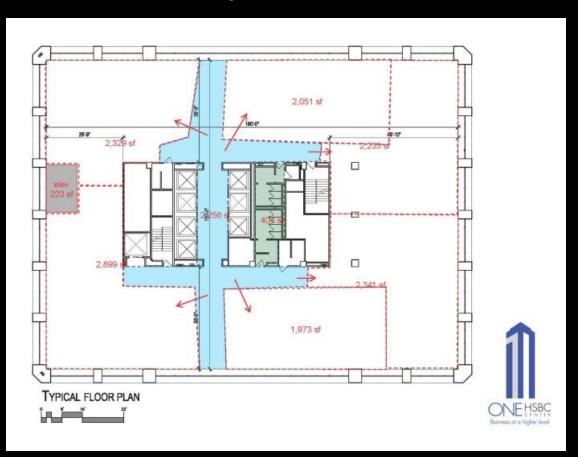
A positive asset for stakeholders

Flexibility to respond to market dynamics





Owners: Competitive market niche



Residential Conversion
Plan
Image courtesy of HHL
Architects



Owners:

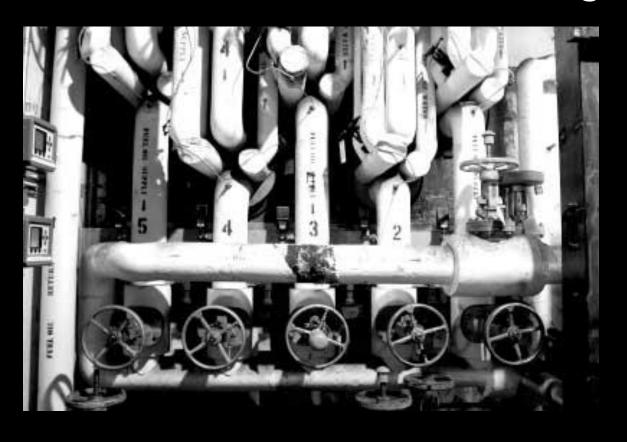
Profitable

investment

for owners



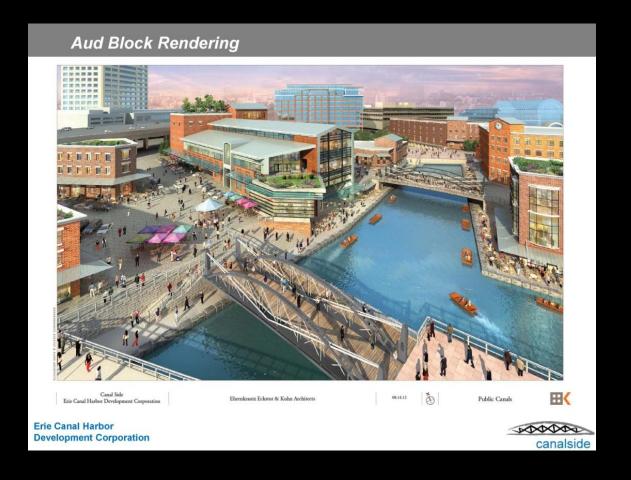
Owners: Enhanced building efficiency



General Public: Upgrade of public open space



General Public: Waterfront activities anchor





General Public:

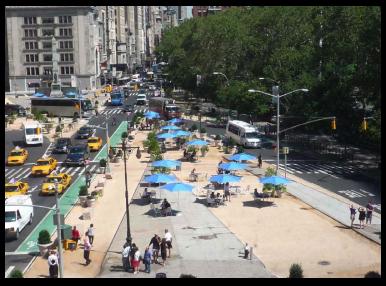
Welcoming environment



General Public

24-hour activity





General Public

"Green" facilities



General Public: Public parking



Government

- Generator of tax revenues
- Multiplier effect on surroundings
- Model for public/private cooperation





Available parking



Transit destination





Pedestrian and vehicular linkages



Visual gateway





Functional and attractive public open space







Weather protected approaches and public spaces

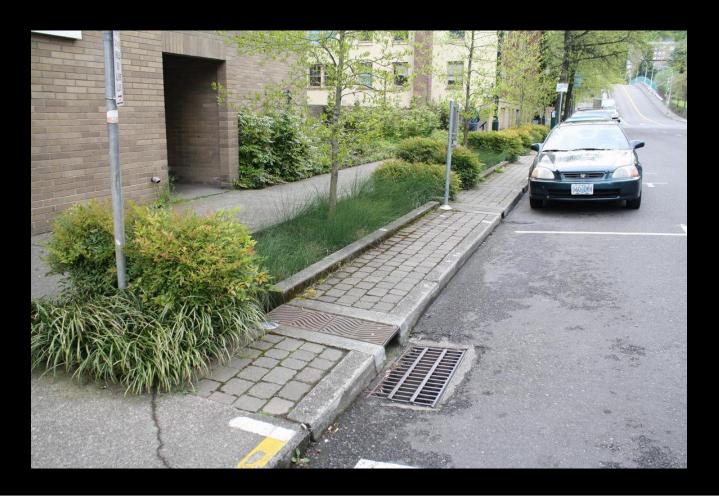




Attractive edge boundaries



Welcoming landscape at street level



Active, supportive and unique public uses





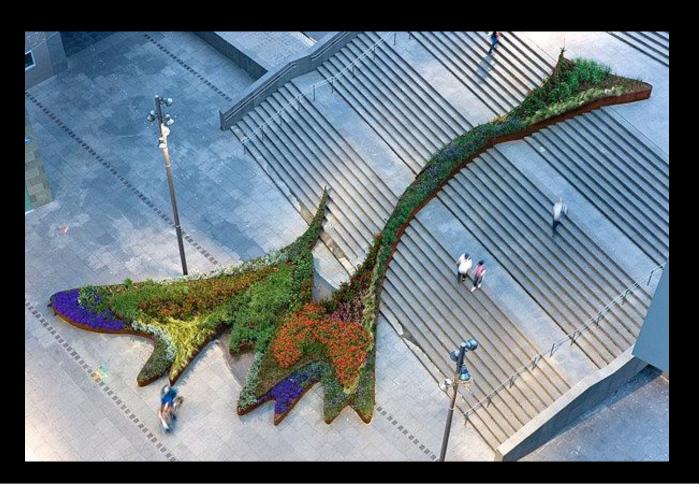


Modernized façade





Human scale landscape, public art





Dynamic relationships between exterior and interior



Unobtrusive security









Upgrade and modernize the facilities



Improve the surrounding infrastructure



Centralized parking management

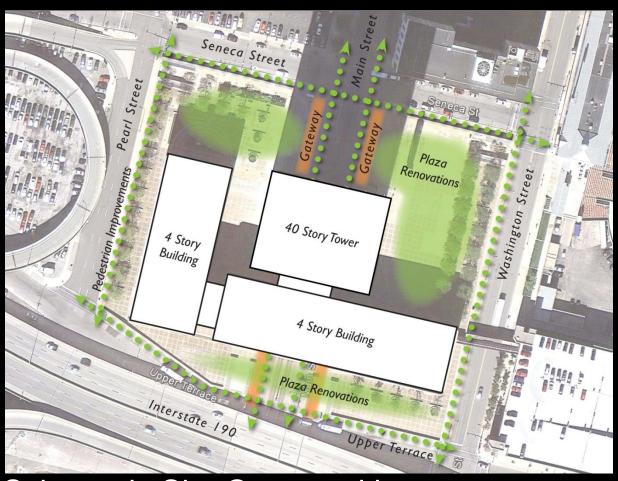






Invest in public-oriented environmental upgrades





Schematic Site Opportunities



- Program, design, collaboration, media
 - Project for Public Spaces
 - ULI Urban Open Space Award
 - Local and regional collaboration
 - Social media and mobile technology







Plaza Precedents

- Seasonal diversity
- Economic and environmental similarities



Campus Martius - Detroit, MI

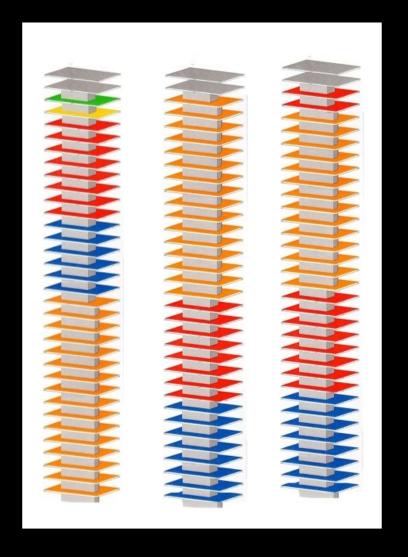
Plaza Precedents

- Superior programming and social media
- Flexible design features
- Active edges



Bryant Park, Manhattan, NYC

- SOR has completed a good first step
- The next steps require collaboration
- Beginning of a process for recovery and renewal

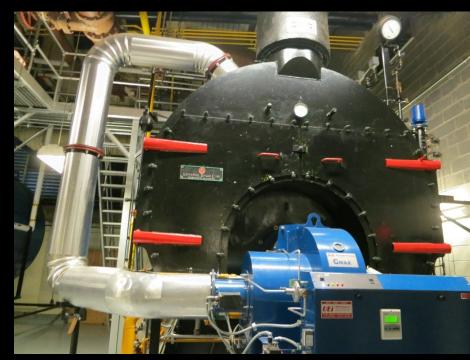


Market Potential Surrounds HSBC



"Do Nothing" Is Not an Alternative

- Dated Spec and Design building no longer competitive "A" space
- Large size and operational inefficiencies will require deeply discounted lease rates
- Cannibalization of Downtown office market
- Damaging to Waterfront Redevelopment Efforts



Viability of Alternative Uses

- Building too Large to Support Single Use
- Mix of Opportunities:
 - ✓ Office Improved, Class A
 - ✓ Residential
 - ✓ Hotel
 - ✓ Retail Ground Level
- Scale Determined by Market Potential
- Financial Viability Follows Market





Competitive Environment

Forces of Growth

- ✓ Investment To Date \$1B+
- ✓ Buffalo Billion
- ✓ Targeted Growth Industries (ranked by 20-year growth)
 - Professional Services
 - Eds / Meds
 - Leisure / Hospitality
- ✓ New Downtown Housing
- ✓ Recreation / Casino Uses
- ✓ Canadian Investment

Impediments to Financial Viability

- ✓ Scale of Market
- ✓ Top Line Revenue Limitations Relative to Costs



Multi-Family Apartments

- Strengths
 - ✓ Tight Market
 - ✓ National trend Live/Work/Play
 - ✓ Casino / Med School / Sports Venue
- Challenges
 - ✓ Limited scale (<80 permits/year)
 </p>
 - ✓ Zimmerman Study 100-200/year
 - ✓ Suburban SFD vacancy
- Financial Viability
 - ✓ Top of Market Rents \$1.30 PSF
 - ✓ Rents Unsupportive of Redevelopment
 - ✓ Public Gap Financing





Ownership Condominiums

- Strengths
 - ✓ Limited supply Downtown
 - ✓ Aging of the Boomers



- Challenges
 - ✓ Absorption Luxury depth is limited
 - ✓ Avant and Pasquale sold <1 per month</p>
- Financial Viability
 - ✓ \$300 PSF covers cost
 - ✓ Low absorption limits scale and
 - ability to obtain construction financing



Hotel

- Strengths
 - ✓ High occupancy 70% (STR)
 - ✓ Successful delivery of recent projects
 - ✓ Increased Downtown activity



- ✓ Pipeline
- ✓ Scale of employment
- ✓ Timing of Downtown Redevelopment
- Financial Viability
 - ✓ Top of Market \$175 per night
 - ✓ Limited upside ADR potential
 - ✓ Rehab costs outweigh capitalized value





Office – Class A

- Strengths
 - ✓ Iconic Building
 - ✓ Elevation / View
 - ✓ Large Floorplate Size
 - ✓ Redevelopment Nearby
- Challenges
 - ✓ Limited Market Absorption
 - ✓ Shortage of large-scale tenant
- Financial Viability
 - ✓ Glass ceiling of \$24 PSF
 - ✓ Rehab costs outweigh cap value

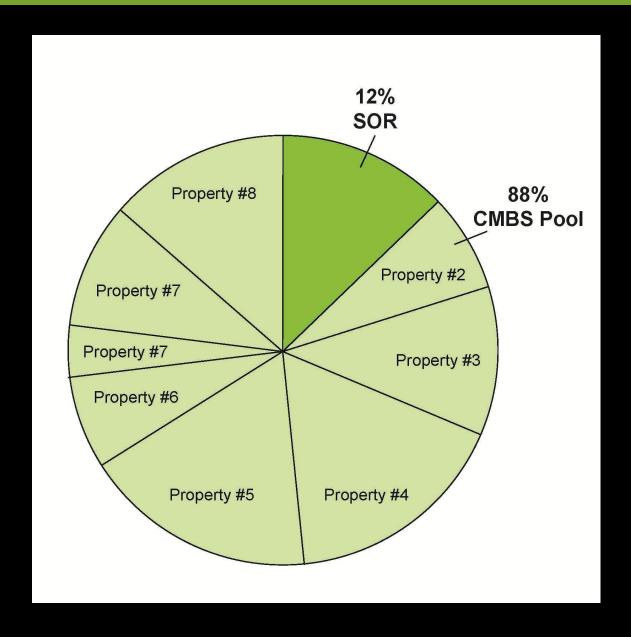




Achieving Vision Will Require Public Private Partnership

Identifying the Revenue Gap

	Class A	Multi-Family	For-Sale	
Development:	Office	<u>Apartments</u>	Condos	<u> Hotel</u>
Capitalized Value (PSF) (Stabilized, Improved)	\$160	\$168	\$350	\$184
Building Cost	\$85	\$85	\$85	\$85
Rehabilitation Cost				
Low	\$150	\$150	\$200	\$200
High	\$225	\$200	\$250	\$250
Average	\$188	\$175	\$225	\$225
Total Costs	\$273	\$260	\$310	\$310
Gap	(\$113)	(\$92)	\$40 *	(\$126)

















- Tax abatements
- Infrastructure investment
- New market tax credits
- TIF
- Condo incentives
- 2nd loan
- And maybe most importantly (due to the possible amount of needed capital) the State's \$1B regional investment fund.







What it's NOT – Not a gift, not a bailout PPP is a win-win:

 Public Sector – Obtains community short and long term community benefits such as:

A Downtown anchor that revitalizes the CBD and greater community



Construction jobs and permanent jobs

New revenues

Leverage to generate private investment (e.g. 4-to1 or 5-to 1 private to public \$)



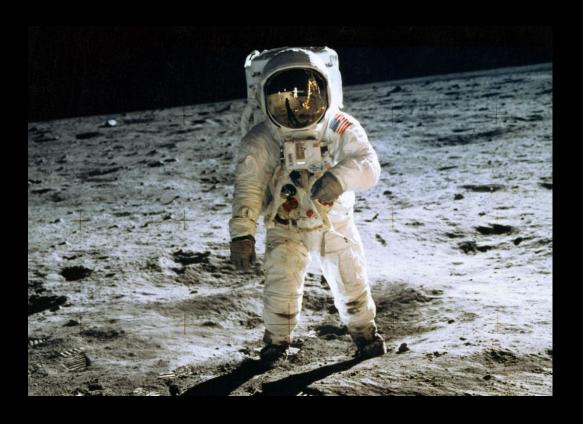




Private Sector – Achieves an acceptable market return and stabilized asset that would not be possible "But For" the PPP Financial Mechanisms:

- Tax abatement
- Hazardous materials abatement funds from Federal or State
- Billion dollars for Buffalo
- EB 5 Investment
- Co-investment/participation (e.g.in return for assistance City acquires 60% portion of site that is undeveloped or portion thereof)

Exploring the terrain



Tell the story:

Iconic Downtown high rise property- largest office high rise in NY outside of NYC

5,000 jobs > 100 apts/yr

97% office occupancy

Over half the property undeveloped (future

redev potential/ growth) Collaborative City

Gov't w/ clear path to approvals



Use the HSBC departure to catalyze revitalization.

- 40 year old building
- Mixed use enhances the downtown.
- Connect the building to the urban fabric
- Invest in building efficiency and modernization



Next Steps

- 1. Solve the balloon payment issue.
- Issue an RFQ to add a developer to the team.
- 3. Bring in real estate finance expertise for the public sector
- Finish planning the scope of revitalization.
- 5. Validate the value and cost of the revitalization program.
- Craft a public private
 partnership tied to the value of
 community benefits.



Thank You

Mayor Byron W. Brown
Seneca One Realty LLC
Buffalo Urban Development Corporation
Buffalo Niagara Enterprise
University at Buffalo, School of Architecture & Planning
All the interviewees that participated in the project, and all people that made this process possible.

A special thanks and recognition to the efforts of: Steve Fitzmaurice, David Stebbins, Dennis Elsenbeck, Yosef Goldberg, Paul Iskalo, Mark Karasick, Brendan Mehaffy, Carl Montante, Jr., Dick Mueller, Christina Orsi, Steve Palmeri, Jack Phillips, Bob Shibley, Harry Skydell, Shana Stegner Clarke Thrasher, Richard Tobe, and Ellen Warner.



Questions?