CREATIVE OFFICE PROJECTS

ADAPTIVE REUSE GENERATES STAGGERING RETURNS FOR INVESTORS
Creative office properties generally have the common characteristics of newer workplace design: open floorplans, natural lighting, exposed interiors such as brick walls and bow truss ceilings, informal common spaces for closer collaboration, amenities such as cafes and rec rooms and increased focus on sustainability. Although they've received a lot of attention recently, creative office conversions are not new; take for example, Chelsea Market in New York City or the Ferry Building in San Francisco, both delivered more than a decade ago with high-profile office components. What is new this cycle is the sheer volume of creative office exits nationally at core/core plus pricing.

Not all creative office properties adhere to a strict profile; some are single-tenant buildings, some are multi-tenant campuses and some are mixed-use projects with major retail, residential or even hotel components. Usually the composition is determined by whatever mix of uses appeals to the developer financially. No matter the mix, in many cases, the renovation/conversion of a major creative office project helps kick off increased property and business investment in the neighborhoods in which they are located and attract hundreds or thousands of high-paid workers to the area. This is the case with Twitter in San Francisco’s Market Square/Tenderloin neighborhood and Google in Chicago’s Fulton Market/River West submarket.

Based on staggering exit pricing of some major creative office projects around the country, this type of value-add strategy – on this large scale – is now being considered by many local/regional/national developers, either via direct investment or joint-venture partnerships with equity partners. Conversely, stabilized creative office properties are now on the radar of many national and international institutional buyers who are paying traditional trophy Class A pricing for these types of assets, usually based on the credit-worthiness of the tenant, as well as the location of the project.

The term “creative office” is a subset of value-add adaptive reuse which typically encompasses the conversion of a property from non-office (e.g., industrial or retail use) to office use. It has become an increasingly popular value-add strategy due to two primary drivers:

One, TAMI (technology, advertising, media and information) sector companies and coworking operators have led the charge on office leasing and net absorption this cycle, compared to FIRE (financial services, insurance and real estate) companies a decade ago. TAMI sector companies are increasingly millennial-focused and look at differentiated office product for branding, recruiting, employee retention and perceived authenticity. And while TAMI companies have led this demand, traditional office users in the professional and business services sectors are beginning to take notice, as well.

Two, compared to the previous cycle which was primarily driven by suburban growth, office leasing and absorption has mostly returned to cities where tenants can take advantage of live/work/play environments. With the decline of manufacturing nationally, many functionally obsolete industrial properties have been targets for creative office conversion due to their urban location. That said, suburban properties have seen creative office conversions, as well, assuming the right mix of tenant demand, project cost and local business incentives exist.

Adaptive reuse generates staggering returns for investors

March 2017

“What is new this cycle is the sheer volume of creative office exits nationally at core/core plus pricing.”
This decommissioned power plant was converted to a mixed-use project, comprising 152,834 square feet of creative office and 56,342 square feet of retail/restaurant space. Approximately 112,000 square feet is leased to athenahealth, Inc., while the retail space is anchored by Trader Joe’s and Under Armour.

This former Fulton Market cold storage warehouse was renovated to creative office space and leased to Google for the company’s Midwest headquarters. Other tenants include SRAM International and Sandbox.

This vacant manufacturing facility was renovated to creative office space. It is leased to Hillshire Brands (formerly known as The Sara Lee Corporation).

This former back-office flex call center for Citibank was renovated to creative office. Current tenants include Facebook and Onicom Media.
**The Reserve**

- **Size:** 399,373 square feet
- **Year built:** 1971
- **Original sale date:** July 2011
- **Original sale price:** $43.9M, $116/sf
- **Year renovated:** 2013
- **Exit sale price:** $316M, $791/sf
- **Exit sale date:** January 2015
- **Buyer:** Invesco
- **Seller:** Shorenstein Properties and Worthe Real Estate Group

This former U.S. Postal Service sorting facility was renovated to creative office space. It is leased to Microsoft, Verizon, TMZ and Sony PlayStation.

**Falchi Building**

- **Size:** 281,294 square feet
- **Year built:** 1909
- **Original sale date:** November 2012
- **Original sale price:** $75.8M, $269/sf
- **Year renovated:** 2014
- **Exit sale price:** $335M, $1,191/sf
- **Exit sale date:** August 2014
- **Buyer:** New York REIT
- **Seller:** Atlas Capital Group

This former vacant warehouse was originally built for Siegel Cooper department store. It was renovated to creative office space and is now leased to Twitter.

**Twitter NYC**

- **Size:** 1.1 million square feet
- **Year built:** 1937
- **Original sale date:** March 2011
- **Original sale price:** $120M, $112/sf
- **Year renovated:** 2013
- **Exit sale price:** $917.4M, $859/sf
- **Exit sale date:** August 2015
- **Buyer:** JP Morgan Asset Management
- **Seller:** Shorenstein Properties

This former wholesale furniture mart was renovated to creative office and now serves as the corporate headquarters for Twitter. In September 2015, the property was subsequently traded to TIAA for $307 million, or $691/sf.

**Market Square**

- **Size:** 444,000 square feet
- **Year built:** 1920
- **Original sale date:** May 2011
- **Original sale price:** $36.5M, $82/sf
- **Year renovated:** 2013
- **Exit sale price:** $185.9M, $419/sf
- **Exit sale date:** May 2014
- **Buyer:** Beacon Capital Partners
- **Seller:** Vantage Property Investors

The former San Francisco Gift Center & Jewelry Mart was renovated to creative office and is leased to AirBNB for its corporate headquarters. In September 2015, the property was subsequently traded to TIAA for $307 million, or $691/sf.
PROJECTS UNDER DEVELOPMENT

Atlanta Dairies
ATLANTA
777 Memorial Drive
Size: 200,611 square feet
Year built: 1945
Developer: Pace Properties
Project: Former Atlanta Dairies Cooperative being renovated to creative office and multifamily.

Ponce City Market
ATLANTA
675 Ponce de Leon Avenue NE
Size: 2 million square feet
Year built: 1926
Developer: Jamestown Properties
Project: Former Sears Roebuck & Co. factory and distribution facility renovated to mixed-use creative, retail and residential. Leased to athenahealth, Inc., MailChimp and Cardlytics.

Saint Elmo Market District
AUSTIN
4323 Congress Avenue
Size: 140,000 square feet
Year built: 1954
Developer: Maker Bros.
Project: Former school bus warehouse and office furniture store. Proposed renovation to mixed-use space with 100,000 square feet of creative office and a 40,000-square-foot food hall.

New GE Headquarters
BOSTON
5 & 6 Necco Court
Size: 410,000 square feet
Year built: 1907
Developer: General Electric
Project: Former Boston Wharf Company warehouses being converted to General Electric’s new corporate headquarters. Project includes a new 293,000-square-foot office building.

Innovation & Design Building (iDB)
BOSTON
21-25 Drydock Avenue
Size: 825,552 square feet
Year built: 1918
Developer: Jamestown Properties
Project: Former warehouse for the South Boston Army Base is being renovated to mixed-use creative office.

The Brewery Building
DALLAS
703 McKinney Avenue
Size: 180,000 square feet
Year built: 1890
Developer: Provident Realty Advisors
Project: Former brewery being converted to creative office with a new high-rise apartment tower next door.

Factory Six03
DALLAS
603 Munger Avenue
Size: 215,440 square feet
Year built: 1903
Developer: Granite Properties
Project: Former Brown Cracker & Candy Co., Sunshine Biscuit Factory and West End Marketplace building renovated to creative office with 25,000 square feet leased to Blue Cross Blue Shield Innovation.

INDUSTRY RiNo Station
DENVER
3825 Lafayette Street
Size: 145,945 square feet
Year built: 1969
Developer: Clarion Partners and INDUSTRY Denver
Project: Former cold storage warehouse property being renovated to creative office.

Imperial Market
HOUSTON
198 Kempner Street
Size: 855,000 square feet
Year built: 1950
Developer: Imperial Market Development LLC
Project: Former Imperial Sugar Refinery being renovated to mixed-use retail, creative office, residential and hotel.

The Ford Building
LOS ANGELES
777 S. Santa Fe Avenue
Size: 257,028 square feet
Year built: 1914
Developer: Shorenstein Properties
Project: Former Ford Motor Company factory being renovated to creative office. Property is 100% pre-leased to Warner Music Group, which will be relocating from Burbank.
Columbia Square

Los Angeles

6121 W. Sunset Boulevard
Hollywood

- Size: 635,000 square feet
- Year built: 1938
- Developer: Kilroy Realty
- Project: Former CBS Studios renovated to mixed-use creative office and residential campus. Site is new West Coast headquarters of Viacom and NeueHouse.

The Press

Los Angeles

1340-1360 S. Coast Drive
Costa Mesa

- Size: 350,000 square feet
- Year built: 1965
- Developer: Tribune Company & Kearny Real Estate
- Project: Former Los Angeles Times printing press facility being renovated to creative office campus.

Bell Works

New Jersey

101 Crawfords Corner Road
Holmdel

- Size: 1.3 million square feet
- Year built: 1962
- Developer: Somerset Development
- Project: Former Bell Labs R&D campus being renovated to mixed-use creative office, retail and hotel. Approximately 350,000 square feet of office leased to iCIMS.

77 Flushing Ave.

New York

Brooklyn Navy Yard, Building 77
Brooklyn Navy Yard

- Size: 1.2 million square feet
- Year built: 1940
- Developer: Brooklyn Navy Yard Development Corporation
- Project: This windowless storage facility is being renovated to creative office and will be the future location of the Brooklyn Brewery.

Watchtower Building

New York

25, 30, 50 & 58 Columbia Heights and 55 Furman Street
Brooklyn Heights

- Size: 739,000 square feet
- Year built: 1924
- Developer: Kushner Companies, LIVWRK and CIM Group
- Project: Former Jehovah’s Witnesses buildings being renovated to creative office.

The HUB

Phoenix

2701 E. Ryan Road
Chandler

- Size: 290,785 square feet
- Year built: 2009
- Developer: Walton Street Capital
- Project: Former Covance Laboratories lab building being renovated to creative office campus.

Meier & Frank Building

Portland

621 SW 5th Avenue
Central Business District

- Size: 208,520 square feet
- Year built: 1908
- Developer: Sterling Bay Companies and KBS Realty Advisors
- Project: Proposed renovation of building’s first five floors to creative office. Space is currently a Macy’s department store that will be closing.

Pearl

San Antonio

200 E. Grayson Street
Midtown

- Size: 1 million square feet
- Year built: 1883
- Developer: Silver Ventures
- Project: Former Pearl Brewery industrial complex renovated to mixed-use creative office, retail, multifamily and hotel.

Maritime Building

Seattle

911 Western Avenue
Pioneer Square/Waterfront

- Size: 211,722 square feet
- Year built: 1910
- Developer: Beacon Capital Partners
- Project: Former Pacific Warehouse building being converted to creative office and recently leased to Big Fish Games for its new corporate headquarters.

Uptown Station

SF Bay Area

1955 Broadway
Oakland Central Business District

- Size: 370,000 square feet
- Year built: 1929
- Developer: Uber & Lane Partners
- Project: Vacant Sears department store being renovated to creative office for Uber, which acquired the property for $123.5 million in September 2015 for its new corporate headquarters.
NO SIMPLE FORMULA FOR SUCCESS

Based on these examples, it may appear that a conversion to creative office is an easy recipe for high returns. However, many of these projects were acquired and developed under very different economic conditions than exist today. Rising land, building and construction costs – especially in hot neighborhoods – may add more risk when compared to a few years ago, when we were at a different point in the real estate cycle.

Other factors that should weigh into project analyses include:

- **Undertaking adaptive reuse can result in all sorts of hidden costs** not considered when modeling a project financially. Issues such as structural retrofitting and upgrading older or non-existent HVAC systems can add significant dollars and time to a project.

- **Location still matters**, and while there is nothing wrong with being a first-mover into a submarket that is expected to change, developers and their financial partners need to perform appropriate due diligence to determine if existing and/or future tenant demand is real.

- **Creative office build-outs highly modified by users may be difficult to market** if the tenant moves on to a bigger space or, conversely, downsizes.

- **There is more creative office space in the market today** due to the popularity of the concept, and landlords who own existing office buildings or are doing ground-up development must increasingly consider strategic property enhancements and creative office-associated tenant amenities to stay competitive in the marketplace.