

Challenges in Repurposing Commercial Projects

► With the desire by many Arizona residents to experience a more urban lifestyle, the repurposing of commercial buildings and areas has become very popular over the last seven years. As evidenced in Phoenix by the Seventh Street Corridor, Roosevelt Row and ASU's downtown campus, these projects can thrive, but it is important to note that real estate development involving repurposing requires thorough due diligence, significant time and a relatively large scope of review.

The good news is that most of the due diligence items to be considered are common to any real estate project. The bad news is that the failure to investigate and evaluate the risks might leave an investor with limited prospects for salvaging the initial investment.

If redevelopment will be pursued by a prospective purchaser, great care is required to identify and assess risks. The following are among many issues to be addressed.

Title Review: Reviewing the title, including an ALTA/NSPS survey, is essential. Obtaining title insurance in the amount of the purchase may not adequately address the scope of the risk, where the "fully developed" value is projected to be worth more than the cost of the land. (Consider obtaining "subsequent issuance" endorsements.) Among potential problems are covenants of record, access issues, easements, use restrictions, architectural approvals and other burdens, including sharing of amenities, such as parking, with third parties.

Zoning and Entitlements: The regulatory powers of the local municipality must be vetted. Even with the support of a project by city staff, the neighbors may have an opportunity to intervene. Zoning and building codes will control all aspects of a development, including the use, architectural guidelines, density, access, parking and landscaping. Decisions regarding whether to demolish and reconstruct or to scrape and build could be swayed based on grandfathering of non-conforming uses, applicable fees and rights of neighbors to object.

Offsite Infrastructure: Great care is required where a repurposed use will result in a different impact on the offsite services (e.g., utilities, traffic, drainage, etc.). There is no shortcut to engaging civil engineers to thoroughly evaluate the requirements for the repurposed project and the capacity of the "in place" improvements, or, alternatively, the determination of any necessary additional offsite improvements.

Environmental: "Legacy" projects often have legacy problems, whether in the form of asbestos, underground storage tanks, chemical residue from agricultural uses, or even septic tanks. The environmental consultant will need to review the historical use of the property, as far back in time as possible, regardless of the applicable ASTM standard. ■
—**James B. Connor**, shareholder with Gallagher & Kennedy, PA (www.gknet.com), practices corporate finance and real estate law, representing local and national real estate developers, lenders and investors with commercial real estate matters



HISTORIC REDEV HONORED

Lincoln Property Company earned the 2017 Best of NAIOP "Redevelopment Project of the Year" for Luhrs City Center, a National Historic Landmark that incorporates 157,735 square feet of office and retail space, along with a Class A parking garage, at the southwest corner of 1st Avenue and Jefferson Street in the heart of downtown Phoenix. "Between its mixed-use elements, original Art Deco styling and Spanish Colonial influences, Luhrs is not only an aesthetic symbol of downtown Phoenix's early years, but is what tenants are once again looking for in a premier creative work environment," says Doug Klocke, Lincoln Property Company Director of Development and Construction Management. lpcphx.com

GET REAL

by Mike Hunter



Camelback Luxury

District at Biltmore is the latest luxury apartment community in the Camelback Corridor from Kaplan Management Company and Simpson Housing® LLLP. The four-story luxury mid-rise is conveniently located within walking distance to the Biltmore Fashion Park, and offers 227 elegant one- and two-bedroom apartments. Among its one-of-a-kind amenities are a large fitness center that includes an additional studio with virtual trainer, an on-site dog park and a rooftop lounge.

The property is managed by Simpson Property Group®, which has received the sought-after National Multifamily Customer Service "A List" Award for Excellence in Customer Service for the past 14 years. simpsonpropertygroup.com



Canadian Investment

Canadian-based Western Wealth Capital continues to add to its Arizona rental portfolio; it is the third largest multifamily owner in the Phoenix area. The real estate investment company and its partners recently acquired Tierra Santa, a 274-unit rental building, for US\$13.4 million.

WWC considers Phoenix a highly prospective rental market owing to robust population and employment growth. "The material growth of our company's asset base is attributable to the execution of a precise business model applied to a market that presents extensive opportunity," says Janet LePage, chief executive officer of WWC. westernwealthcapital.com



Net-Zero Townhomes

Real estate investment firm Caliber - The Wealth Development Company has partnered with one of the nation's leading Net Zero Energy (NZE) developers, MODUS Development, on their second project, Eclipse, which officially broke ground and has begun development. This is Scottsdale's newest environmentally sustainable townhome community, designed with Zero Energy Star® certification for maximum energy efficiency.

The gated, circular designed, green solar community, located on 1.46 acres on Granite Reef Road just south of McDowell Road, is a \$9.1 million, 20-unit NZE townhome project that will infuse game-changing technology innovations like Apple/Google integration into a luxury residential lifestyle. eclipsescottsdale.com

