

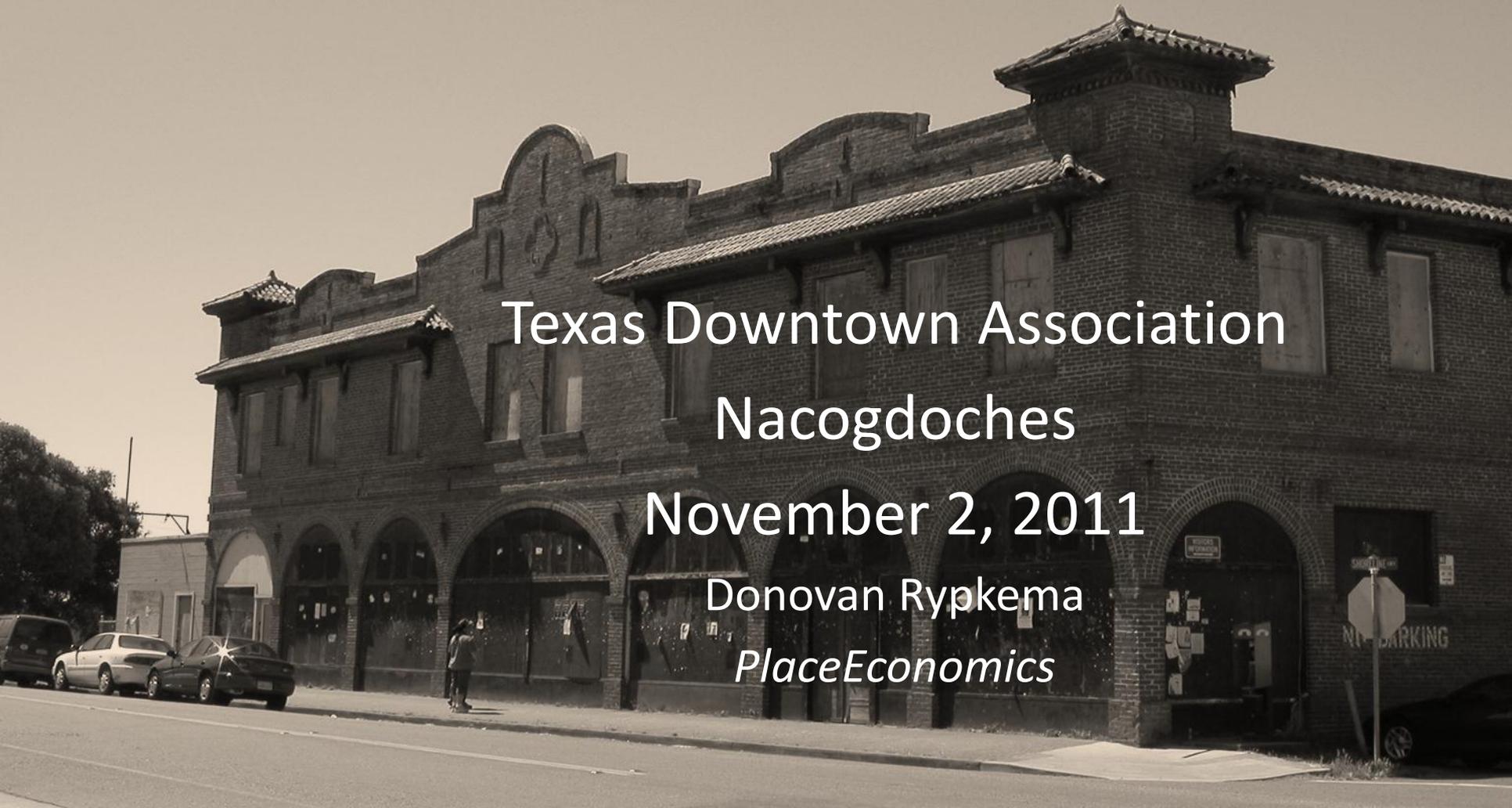
The White Elephant Journey

Texas Downtown Association
Nacogdoches

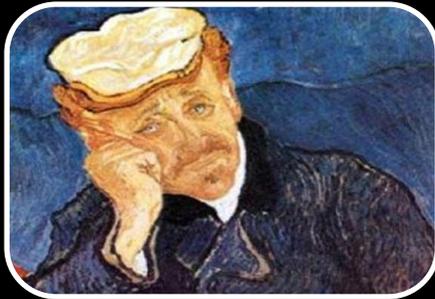
November 2, 2011

Donovan Rypkema

PlaceEconomics



A Problem for Whom?



Property Owner



City



Adjacent Property
and Business Owners



Current or Potential
Tenants



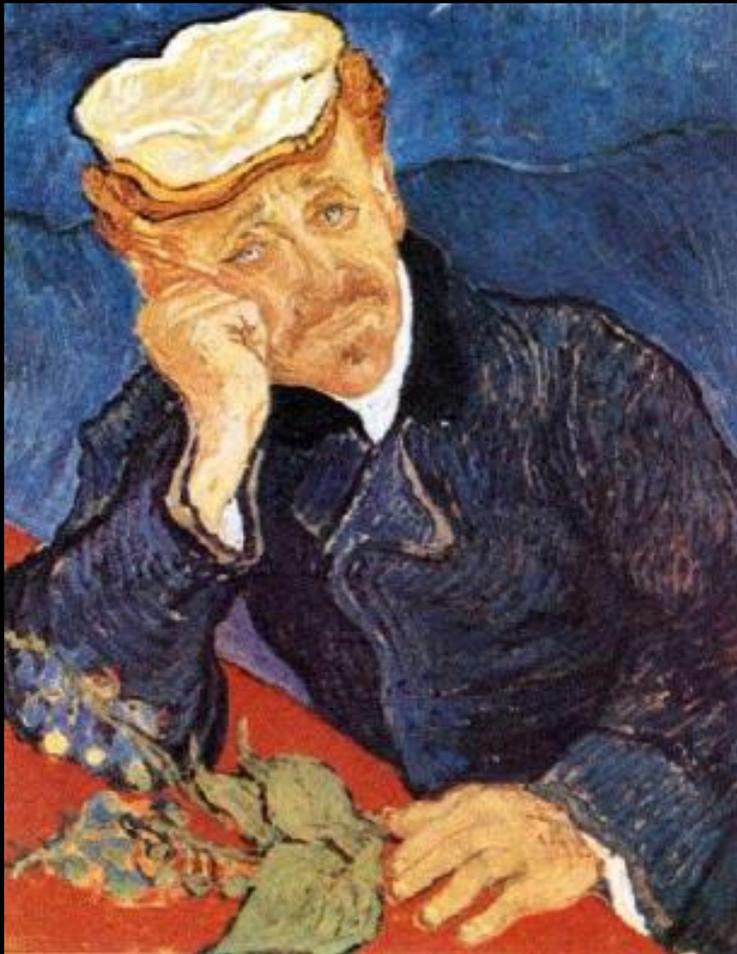
Downtown
Revitalization Efforts



Others

For whom is *the White Elephant Building* a Problem and How is it a Problem?

Property Owner



- Income loss (real or potential)
- Loss of tenants (real or potential)
- Financial Statement
- Operating costs
- Maintenance
- Legal Liability
- Financial Liability
- Reputation
- Peer pressure

For whom is *the White Elephant Building* a Problem and How is it a Problem?

City



- Property tax revenues
- Sales tax revenues
- Underutilization of infrastructure
- Public liability
- Complaints from public/other property owners
- *Image of the city*
- *Eyesore*

For whom is *the White Elephant Building* a Problem and How is it a Problem?

Adjacent Property and Business Owners



- Negative impact on property values
- Negative impact on rents
- Reduced pedestrian movement
- Adverse impact of vacancy
- Sense of failure
- *Broken Window* syndrome
- Image of all businesses

For whom is *the White Elephant Building* a Problem and How is it a Problem?

Current or Potential Tenants



- Negative impact on business of building condition
- Potential liability
- Potential impact on inventory
- Image of the business
- “Properties that get rented are properties that are ready to be occupied”

For whom is *the White Elephant Building* a Problem and How is it a Problem?

Downtown Revitalization Efforts



- More difficult to attract good tenants to nearby buildings
- Increased public criticism “Why don’t you do something about that?”
- Negative overall impact on downtown
- Image
- Ongoing sense of failure

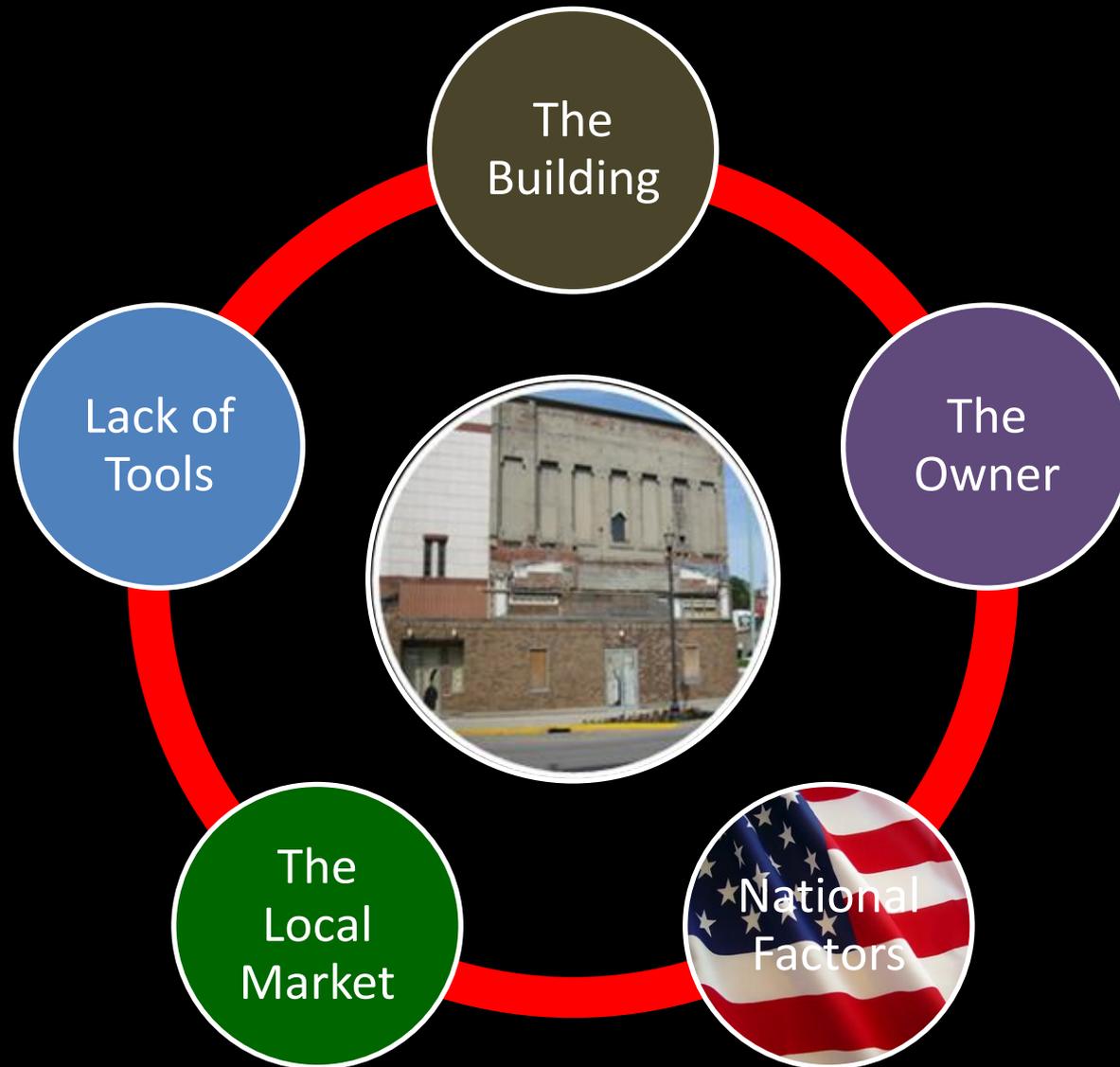
For whom is *the White Elephant Building* a Problem and How is it a Problem?

Others



- Preservationists
- Police department
- Industrial recruitment office
- Garden club/women's clubs
- Insurance agency
- Property sellers
- Financial institutions with mortgages downtown
- Downtown residents
- Others

What is the Source of the Problem?





- Worldwide Economic chaos
- Continuing Uncertainty
- Residential real estate values down 20% to 40%
- Banks overburdened with mortgages
- Commercial real estate problems over next 3-4 years
- Institutional investors in real estate mortgages now over reacting
- Strong credit rating and track record no longer sufficient to obtain loan
- Even if rates are good, loan terms, loan to value ratios, and debt coverage ratios will much MUCH less favorable
- Very conservative appraisal environment



What can you do about the
National Factors?

Not a damn thing!



Since influencing the National Factors is beyond your control...

1. Work on the problems on which you can have an impact
2. Refuse to take the blame for factors you cannot influence
3. Use this time to plan and prepare for when the national factors are more favorable
4. Make sure you have (or are assembling) the tools needed to address *the White Elephant Building* when that opportunity arises
5. Make sure you understand the variables that affect the problem



The Owner

Why wouldn't an owner
reinvest in his/her building
when you think they
should?

- 1) They don't have the money
- 2) They don't know what to do
- 3) The avoidance of hassle
- 4) The project is not within their risk tolerance

The
Building





Four Facts of Life about Historic Buildings

1. There are far more historic buildings worthy of preservation than can be made into museums

Four Facts of Life about Historic Buildings

2. Not the richest of governments have the financial resources to preserve all the historic buildings.





Four Facts of Life about Historic Buildings

3. Historic buildings are most at risk when:
 - a) There is no money
 - b) When there is lots of money

Four Facts of Life about Historic Buildings

4. In the end,
historic buildings
are real estate



***Functional
Obsolescence!***



***Functional obsolescence* may exist when:**

- The use for which a building was built no longer exists
- The use for which a building exists no longer exists in that form
- The systems (heating, electrical, plumbing, etc.) don't meet current needs
- When the spatial configuration of the building is extremely inefficient



What are our options?

1. Do nothing
2. Tear down
3. Reinsert old use
4. Museum
5. Manage as a ruin
6. Adaptively reuse



Do Nothing



Tear Down



Reinsert old use



Museum



Ruins



Adaptive Reuse



What are our options?

~~1. Do nothing~~

~~2. Tear down~~

~~3. Reinsert old use~~

~~4. Museum~~

~~5. Manage as a ruin~~

6. Adaptively reuse

Adaptive Reuse is
the response to
loss of utility
(functional
obsolescence)



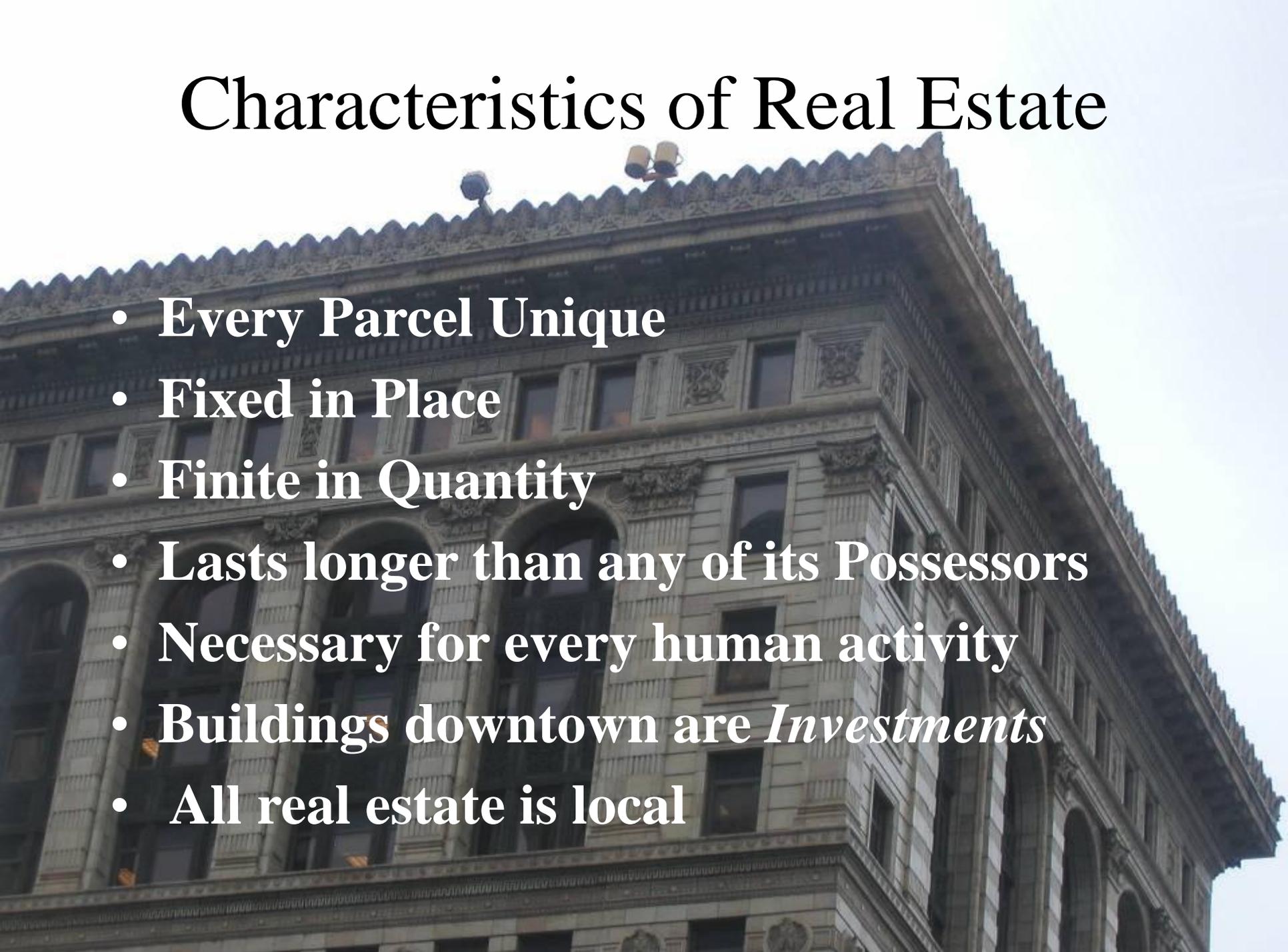
Michael Henry's *Factors that Influence a Building's Utility*

- Site Relationship: pedestrian, barrier-free & vehicular access
- Geometry: are, volume, orientation, expandability
- Spatial Character: room dimensions, proportions
- Structural Character: live load capacity, spans, load paths
- Robustness: fire & storm resistance, durability, thermal efficiency
- Occupant health/safety: hazardous materials, egress
- Systems Infrastructure: efficiency, sustainability, maintainability
- External services: water, sewer, communications, power & fuel, solar access



The Local
Market

Characteristics of Real Estate



- **Every Parcel Unique**
- **Fixed in Place**
- **Finite in Quantity**
- **Lasts longer than any of its Possessors**
- **Necessary for every human activity**
- **Buildings downtown are *Investments***
- **All real estate is local**

Measures of Investment Quality

High Income

Dependable
Income Stream

Timing of the
Return

Appreciation
Potential

Favorable Tax
Treatment

Minimum Risk of
Loss

Leveragability

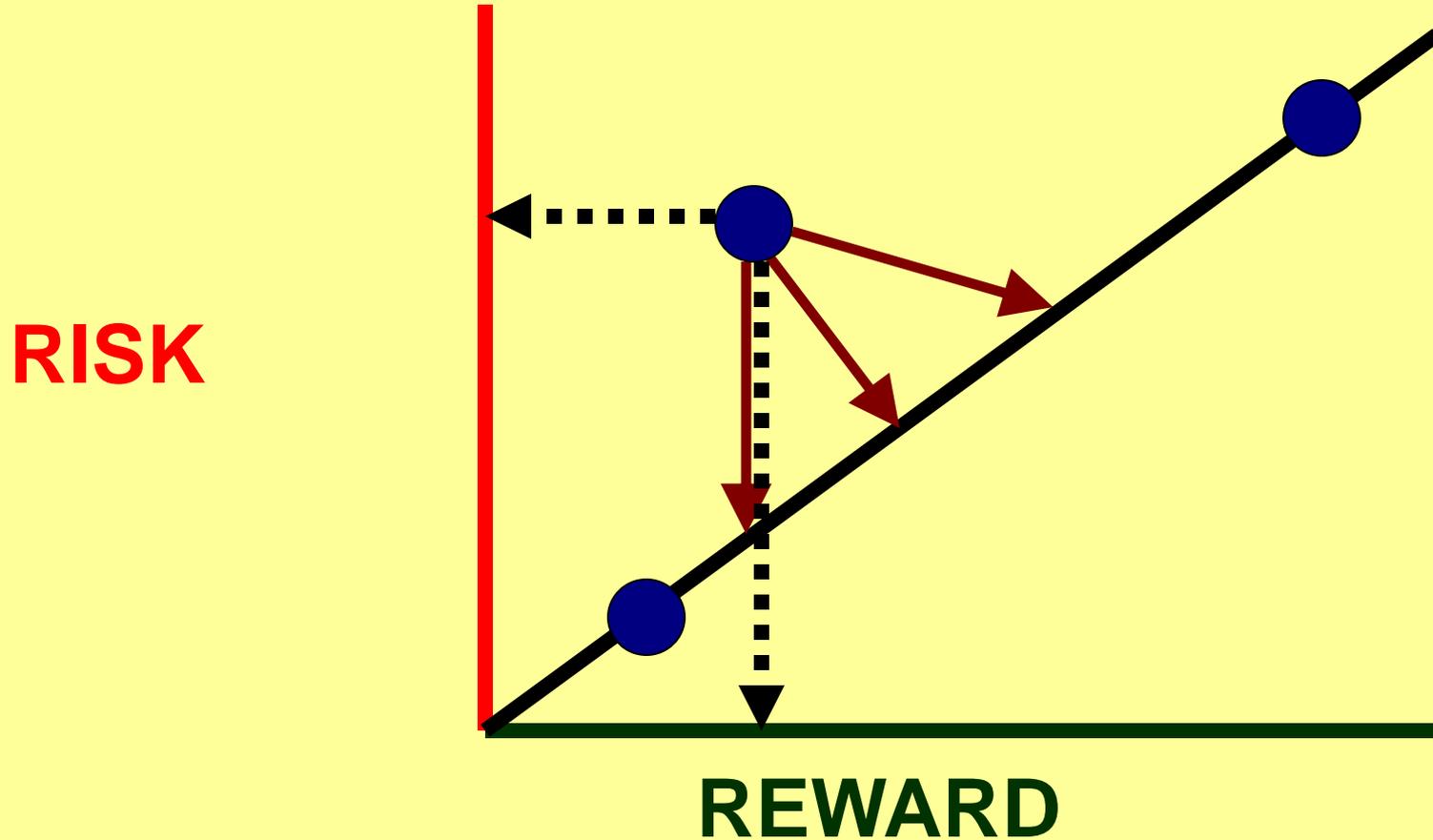
Liquidity

Ease of
Management

Investment Criteria	Excellent	Good	Fair	Poor
	4	3	2	1
High Income			●	●
Dependable Income	●			●
Timing of Return			●	●
Appreciation Potential		●		●
Favorable Taxation	●			●
Minimum Loss Risk	●			●
Leverability			●	●
Liquidity		●		●
Ease of Management	●			●

 ***Certificate of Deposit***
 ***White Elephant Building***

The Risk/Reward Relationship



The Returns from Real Estate

- Cash
- Appreciation
- Amortization
- Tax Savings

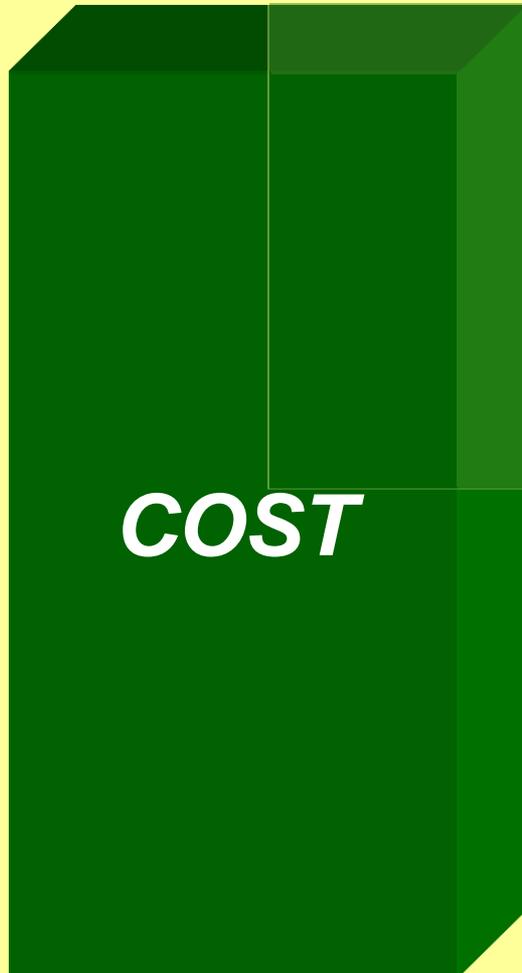


COST

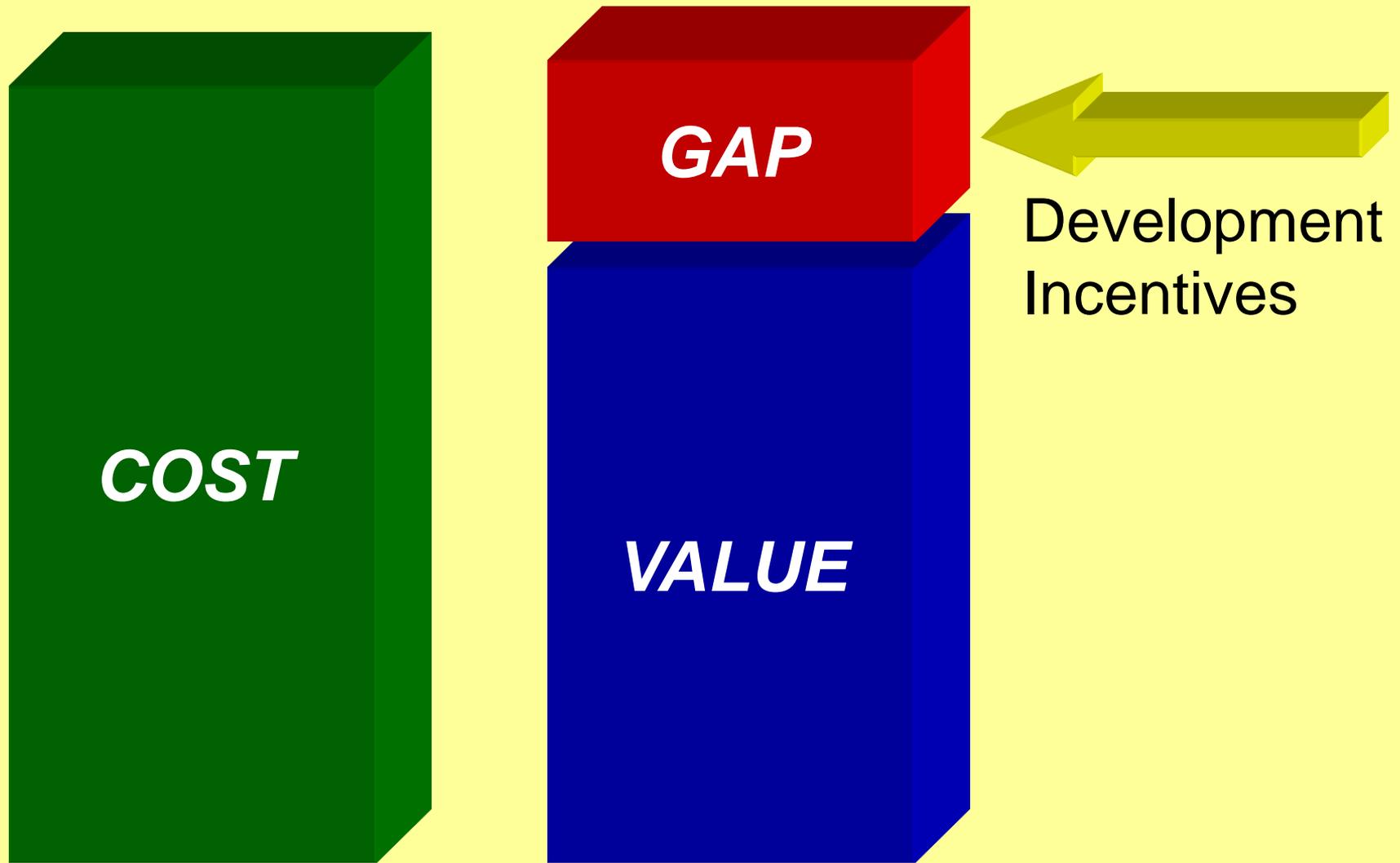
PRICE

VALUE

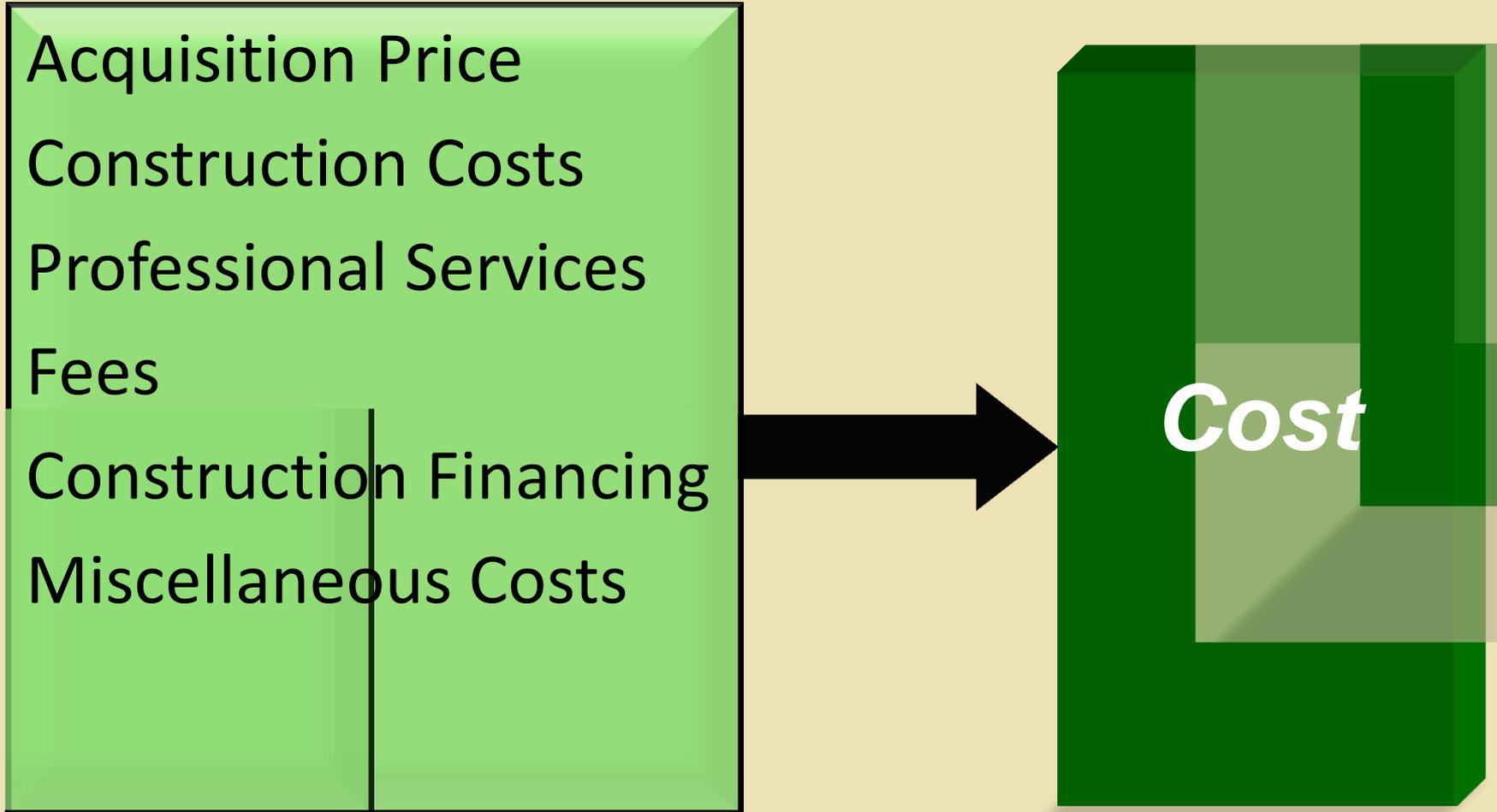
The *Cost/Value Relationship*



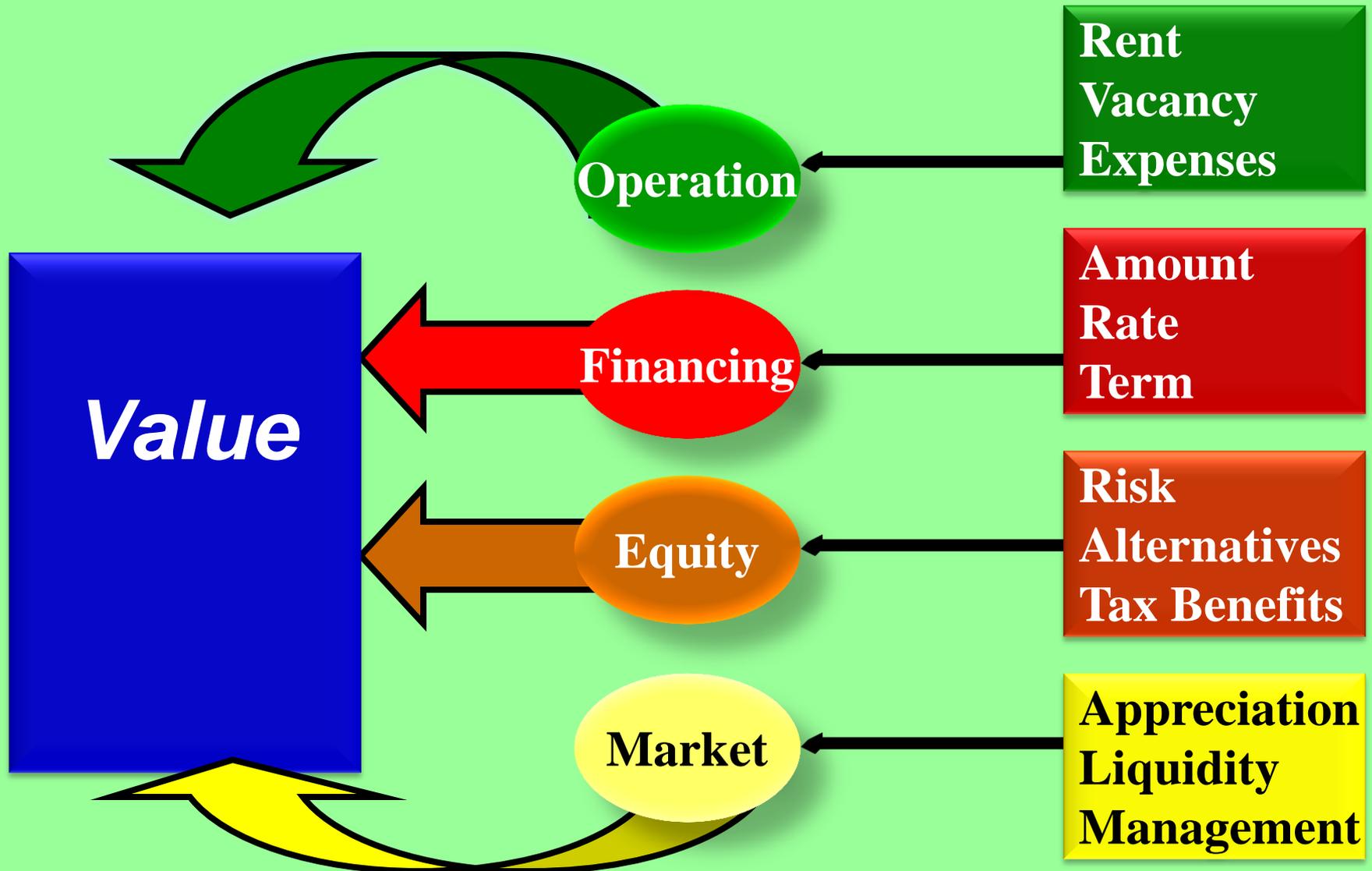
When *Value Exceeds Cost*
Capital will flow quickly to the opportunity



In real estate what makes up *COST*?

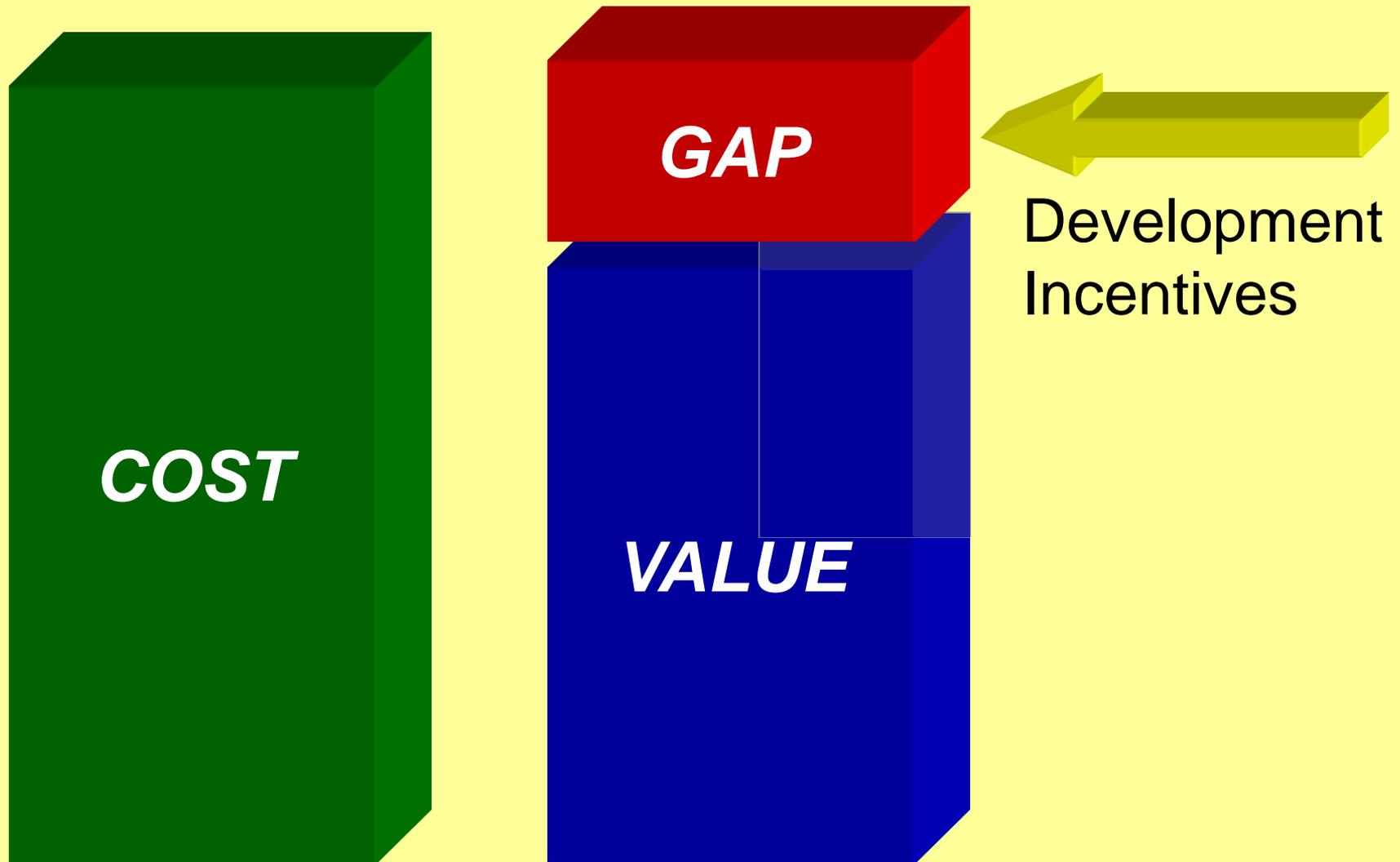


In real estate what makes up *VALUE*?





Lack of Tools



COST

GAP

VALUE

Development
Incentives

Incentives Work Best When...

Directed to a particular need

Directly related to the gap

Paired with appropriate regulations

Clearly communicated

Actively marketed

Simple in implementation

Within an overall policy objective

Depoliticized



**Common
Denominators
of Successful
Historic
Adaptive
Reuse Projects**

Common Denominators of Successful Historic *Adaptive Reuse* Projects

**Imaginative
catalyst**



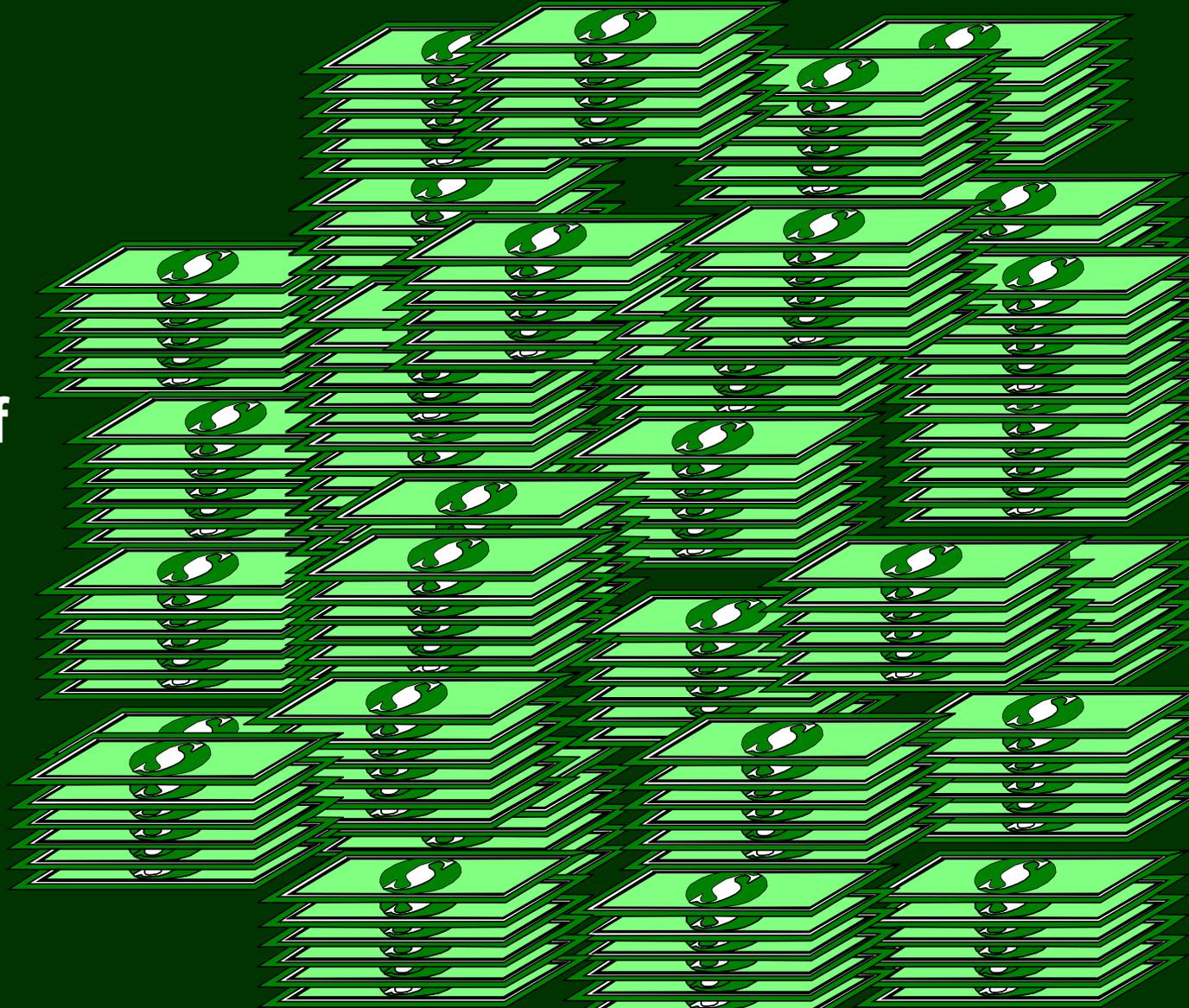
Common Denominators of Successful Historic *Adaptive Reuse* Projects

**Public sector
participation**

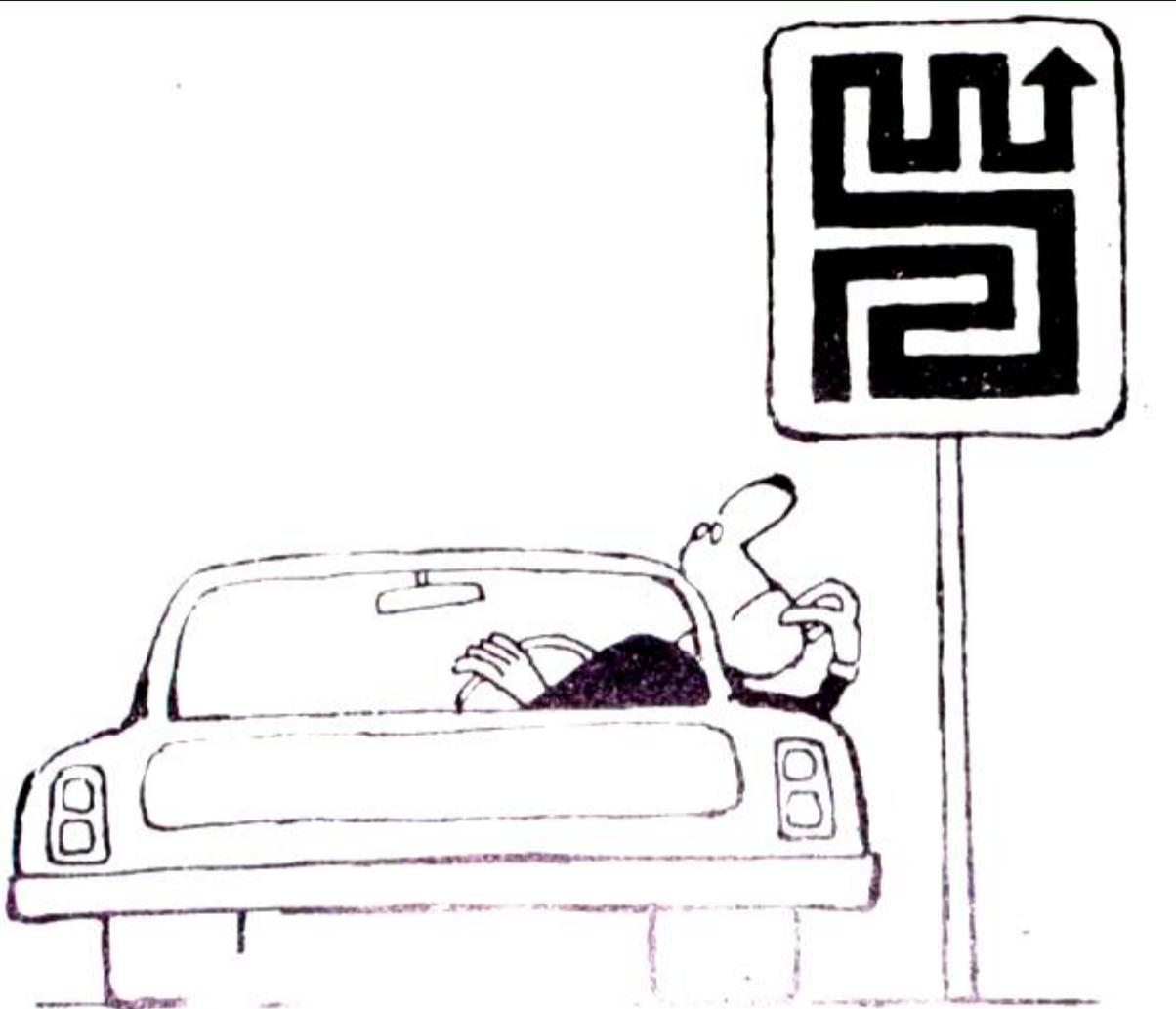


Common Denominators of Successful Historic *Adaptive Reuse* Projects

**Multiple
sources of
financing**

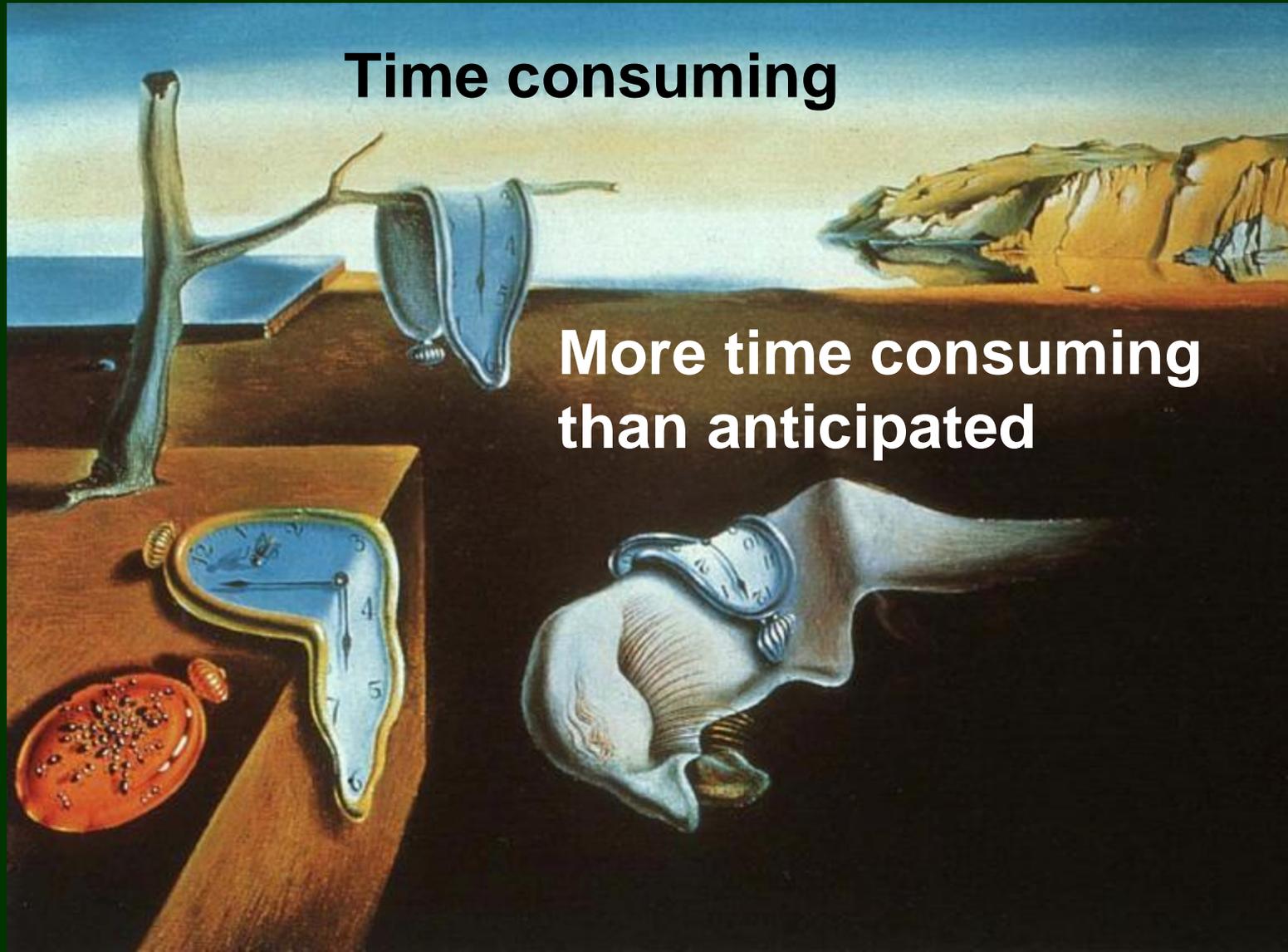


Common Denominators of Successful Historic *Adaptive Reuse* Projects



Complexity

Common Denominators of Successful Historic *Adaptive Reuse* Projects



Common Denominators of Successful Historic *Adaptive Reuse* Projects

Mix of uses



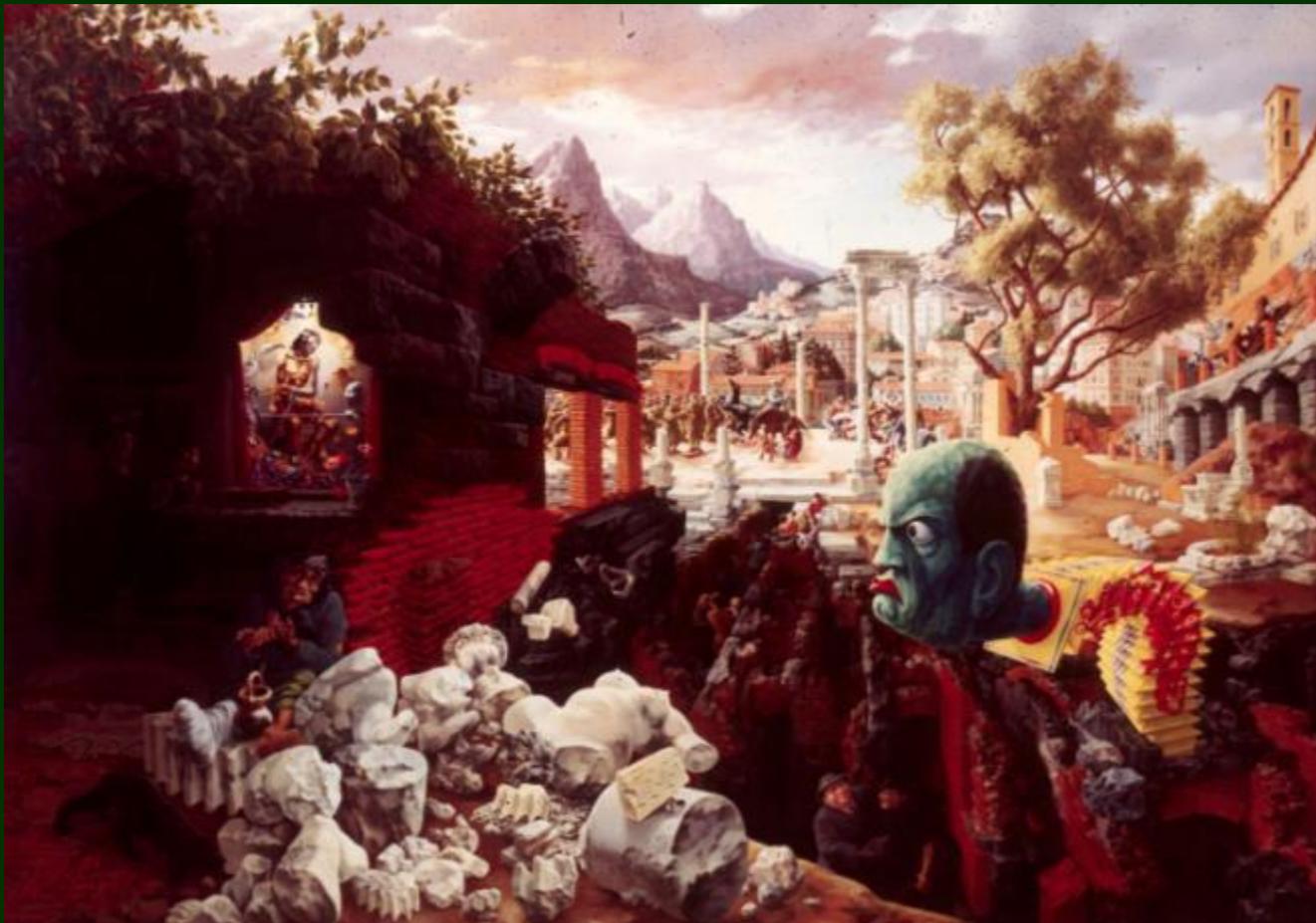
Common Denominators of Successful Historic *Adaptive Reuse* Projects

Demand driven



Common Denominators of Successful Historic *Adaptive Reuse* Projects

Significant public skepticism during process



Common Denominators of Successful Heritage *Adaptive Reuse* Projects



Common Denominators of Successful Historic *Adaptive Reuse* Projects

**Flexibility in
use,
financing,
timing,
transaction**



**Common
Denominators
of Successful
Historic
Adaptive Reuse
Projects**

**Compromise
Patience**



Common Denominators of Successful Historic *Adaptive Reuse* Projects

Not an end itself
but advancing
broader ends





Most Expensive Mistakes

Most Expensive Mistakes

**Paying too much
for acquisition**



Most Expensive Mistakes

Spending too much on rehabilitation



Most Expensive Mistakes

Not controlling costs



Most Expensive Mistakes

Inadequate physical analysis





Most Expensive Mistakes

**NOT ALLOWING
ENOUGH TIME**



Most Expensive Mistakes

**Diminishing
architectural
integrity**

Most Expensive Mistakes

**Giving control
of the design
issues to the
banker**



Most Expensive Mistakes



**Giving control of the
financial issues to
the architect**



Most Expensive Mistakes

**Over-
improving for
likely market**

Most Expensive Mistakes

Not having early discussion with regulators and public officials



Most Expensive Mistakes

Using architect, contractor or others not experienced in rehabilitation



The 5 Most Important Rules

The 5 Most Important Rules

5. Involve the local preservation professionals and preservation advocates in the planning from the very beginning.

The 5 Most Important Rules

4. Make as many changes reversible as possible.

The 5 Most Important Rules

3. Let the building tell you what it wants to be.

The 5 Most Important Rules

2. Only use experienced professionals – no exceptions.

The 5 Most Important Rules

1. Remember that it is a *Historic building* and the concept of ***stewardship*** should not be lost in the concept of *ownership*.



OK, now you can
quit thinking about
this stuff

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