

COMMENTARY

Editorials, letters, columns and other opinions

Gary London >> COMMENTARY

Use New Approach to Upgrade Commercial Assets



Transformational changes are taking place in the real estate market, and new strategies are required. We have been there before.

San Diego's urbanization process began in the 1960s when Interstate 8 was built through Mission Valley, an event that superseded the relevance of the many commercial assets along the east-to-west arteries of both El Cajon Boulevard and University Avenue, relegating them to "B" and "C" status.

These old buildings are the vestigial remainder of a bygone era. A freeway corridor enabled commuters to bypass the large urban boulevards to efficiently get to their destinations at 55 mph, obsolescing the once robust commercial corridors.

Most of those strip commercial, neighborhood commercial, office buildings, restaurants never recovered their viability. Even today, check out the property records of ownership. Many properties are still owned by the same families, or their trusts, which developed them more than half a century ago. Values plummeted and the properties never sold.

The play-out of the reformation of old real estate assets will not be much different today. The causes are just a bit different. Instead of a freeway obsolescing old assets and land uses, the present day culprits are likely to be too much competition, too much technology and too little demand in a fragile economic environment.

The challenge for the holders of many of these assets is to figure out where they stand, how to value the properties, who the users are and what to do next. After that, the challenge is both asset management and disposition.

Here is a laundry list of things to evaluate if you find yourself in the position of holding an asset in need of fresh ideas (I have included more details on these strategies, for those who are interested, on our Web site).

Do Your Market Research

History is no longer a guide. You have to stretch your understanding of marketplace. Such a task may take you to other places a little ahead of your neighborhood. And good market research is, in any case, far more than simply addressing the "comps." One needs to get a handle on where the "demand" is: You have to find the occupier — the business or resident — that actually exists and wants this space.

Your task is to reposition your asset, whether it is an old commercial space or center, a strip commercial building or an industrial warehouse, so that it evolves into something different. The key is to find that something different.

Evaluate The Physical Plant

You cannot put a high-technology use or biotech lab in a structure built in another era. The electrical, plumbing, asbestos and HVAC systems will all be outdated. The building is unlikely ready for prime time, even if a market oppor-



Joanne DiBona/San Diego Convention & Visitors Bureau
San Diego's urbanization process began in the 1960s when Interstate 8 was built through Mission Valley.

tunity presents itself. Suggests Yehudi Gaffen of building consultant **Gafcon** in San Diego, "The task is to evaluate the physical plant to see if the building can be retrofitted, and what it will take in terms of costs."

The key is to match the costs with the opportunities.

Moreover, in today's LEED-certified world, even if the destination use is not fancy tech, most tenants will only come if your building is energy efficient, pleasant and smart. It's best to know what it will take to make it so.

Conduct An Environmental Audit

One of the popular bywords of our urban era is "brown field," roughly referring to any property that has been built on before and is fraught with potential environmental hazards or cleanup requirements from spilt chemicals, oils or hazards. There is a cost to clean up, and the subsequent development or reuse opportunity has to bear the cost of this.

Talk To The Community

Most community "activists" are that because they are disturbed that "change" will rain calamities on their communities, from increased traffic to bad visuals. City council members are rightly in tune with the competing pressures of permitting changes and preserving quality of life. Many potentially great plans are set adrift with bad community relations. Reasonable people do differ, but compromises can usually be worked out if people are involved early and often.

Paul Robinson, a San Diego attorney specializing in "getting permission" from public agencies, suggests just such a strategy. "Seldom is a development or reuse project approved in tact without the 'co-sponsorship' of the stakeholders. Sometimes the path to entitlement is technical. Yet often our success for our clients goes back to the respect we have for all involved and ensuring their participation."



Yehudi Gaffen

Seek Professional Advice

There are excellent attorneys, asset managers, brokers, accountants/tax advisers and even "receivers" out there ready to help. You must avail yourself of the skills necessary to work out your situation.

Strategic Planning

Once all of this information is in, absorbed and prioritized, it is time to engage in the process of strategic planning. This should ideally include a comprehensive, step-by-step strategy in breathing new life into the old asset. It is both words and numbers. The numbers are pro forma — a financial plan for the future — which set out a range of likely outcomes and the time frame or milestones that can be anticipated to successfully achieve these outcomes. "Outcomes," in this case, mean the successful resuscitation of the asset into a profitable, shining example of land-use success in contemporary society.

Be Optimistic

San Diego is a re-prospering region. I believe that our best days are ahead. The key message is that it does little good to lament over the logistics of the mess we are in. Better to move forward, figure it out. And know that we have been through far worse economic calamities before. Look at this time as a challenge. Take some thoughtful risks, stay the course and rely on the future.

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