REAL ESTATE BUILDING MOMENTUM

Building equity

It's getting easier to finance commercial real estate in Detroit

By KIRK PINHO
CRAIN'S DETROIT BUSINESS

Eight long, grueling years.

That's how long it's been since one of the most complicated redevelopment financing structures in Motown's history was cobbled together for the $180 million renovation of the Westin Book Cadillac Detroit on Washington Boulevard at Michigan Avenue.

Involving 17 layers of financing, the deal was so complex that one real estate financing expert at the time said it could have been the subject of a master's degree thesis.

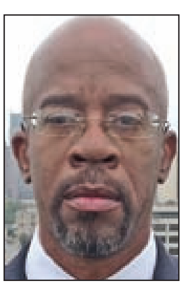
But the Book Cadillac wasn't an anomaly. Labyrinthine financing plans are what it has taken to get projects done in the Motor City — even in the resurging downtown and Midtown districts.

It took George Stewart and Michael Byrd 15 years and eight funding sources to complete the overhaul of the Woodward Garden block of Woodward Avenue into a $44 million mixed-use development with multifamily residential, retail and office space in Midtown.

Stewart

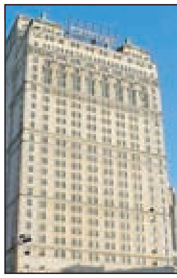
Richard Karp is redeveloping three Capitol Park buildings, and the financing for just one of the projects involves 11 different capital stacks.

But the market is starting to shift. These days — post-recession, post-Kwame, soon-to-be post-bankruptcy — the real estate community is noticing smoother paths to securing financing, particularly for in-demand multifamily housing in the booming downtown and Midtown areas.



Hosey

Richard Hosey III, a former senior vice president for Bank of America who is now the owner of Detroit-based Hosey Development LLC, said there is a sense among developers and lenders that most redevelopment projects are financially feasible, whereas just a few years ago questions were rampant about whether enough demand existed.



HOW THEY WERE FUNDED

Where money came from for Woodward Garden Block, Wings arena and Book Cadillac:
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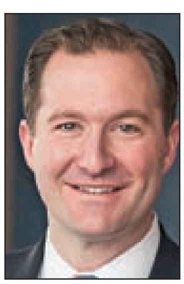
"People talk about closing and financing gaps more so than 'it's just not possible' or that there won't be demand," said Hosey, who worked on the financing for the $53 million redevelopment of the 35-story Broderick Tower into a 127-unit apartment building, another complex financing project, among others.

"Even if it's nine layers (of financing), it's nine straight-forward and easy to replicate layers so we can pass it along to the next project," he said.

Part of what is helping is that average rental rates are slowly but steadily creeping toward the $2 per square foot levels, which makes traditional lenders more willing to finance projects.

"After we clear that mark and have been doing that for a number of years, I think lenders will say it wasn't a fluke, that there actually is a strong market for this product," said James Van Dyke, vice president of development for the Detroit-based Roxbury Group, which redeveloped the David Whitney Building, the former Globe Trading Co. building for the Michigan Department of Natural Resources, as well as a host of other projects.



VanDyke

The David Whitney Building, which is scheduled to be completed this year after a two-year conversion into 108 multifamily units and a 135-room Aloft boutique hotel, is an $82.5 million project involving funding from the state, Bank of America, the Downtown Development Authority and others.

Earlier this year, the Detroit Economic Growth Corp. received approval from the DDA to negotiate a development agreement for The Griswold apartment development. Roxbury plans on using only three funding sources for the $22 million development, which would have 80 units atop a 10-story parking garage and retail building at Griswold Street and Michigan Avenue.

Increased willingness to finance Motor City redevelopment efforts is welcome news to Joseph Kopietz, a member in the Detroit office of Clark Hill PLC, who advised the College for Creative Studies on financing for the A. Alfred Taubman Center for Design Education project, among many others.

Kopietz

But still, it's not like lenders are frothing at the mouth to take what might still be a gamble on Detroit projects, he said. It remains a complex chess game, oftentimes involving many lenders and tax incentives, such as the U.S. Department of Housing and Urban Development's 221(d)4 Program, Michigan Strategic Fund's Community Revitalization Program, state brownfield tax credits and tax credits at the state and federal level for historic preservation.

"Because of various factors, having seven layers of financing can sometimes be more complex than 12," he said. "Each type of financing has its own complexity, and we still are not at a state here in Detroit, nor in many other major markets, where financing of significant projects is getting any easier."

Yet all told, Kopietz and others remain optimistic.

"We are going to continue to get some questioning and scrutiny from lenders and equity partners, but things have been improving. What people are seeing is the successes in Detroit that we've had here recently, and that's good for the market," he said.

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