

'Zombie buildings' coming back to life

by Nick Bjork

Published: September 15th, 2011



Mark Barrick, left, and Ken Haines, both journeyman carpenters with Skyline Interiors and members of Local 156, install steel framing in the former Commerce Building, now called Broadway Commons, in downtown Portland. It's one of several so-called "zombie buildings" that are being renovated and leased after long periods of vacancy. (Photo by Sam Tenney/DJC)

Real estate investors are breathing new life into some of Portland's historic office buildings.

With rents on the rise in the central business district and the economy showing signs of improvement, investors are beginning to purchase and rehabilitate downtown Portland's stock of so-called "zombie buildings," which are difficult to lease because they're in physical disrepair or their owners are in financial straits.

"They're coming back to life," said **Eric Haskins**, vice president in the Portland office of Grubb & Ellis. "Investors are getting great deals on these zombie buildings, and the vacancy rate and asking rents are getting to a point that makes sense for them to make investment in (the buildings)."

A zombie building – as coined by Grubb & Ellis chief economist **Robert Bach** – describes one caught in the middle of the foreclosure process or owned by a

person or group not financially able to pay for needed upgrades. The bankruptcy filing of Fountain Village Development, for example, left 18 downtown properties in this state.

But investors are starting to purchase such buildings and upgrade them, and the efforts are attracting the attention of a growing segment in Portland: small to midsize technology and creative firms looking to expand.

One zombie building being transformed is the 130,000-square-foot Yeon Building at 522 S.W. Fifth Ave. It was purchased in March by New York City-based Jonathan Rose Cos. for \$8.9 million. Nathan Taft, director of acquisitions for the company, said the building is undergoing an extensive remodel and green retrofit.

"Breathing new life into these buildings and making them operate efficiently is a big part of what we do," Taft said.

He said that there will always be large, corporate tenants looking for the "vanilla" Class A space. But in places like Portland and Seattle, he said, a number of tenants look for efficient Class B space in the downtown core.

Danny McGinley, a partner with Oregon City-based Redside Development, says central eastside-type spaces are being created in downtown to accommodate growing creative and technology firms. Redside is handling the remodel and leasing of two former Fountain Village properties – the Loyalty & Hamilton Building and the Oregon Pioneer Building – for new owner M&T Bank of New York.

"It's about blowing the dust off, stripping the crap off and improving the systems so the buildings operate efficiently," McGinley said. "The activity on these types of buildings and spaces is really the silver lining of the dark cloud we've just endured. It may not work everywhere, but it's really attractive in a place like Portland."

Redside is rehabilitating all common areas in the 100,000-square-foot Loyalty & Hamilton Building, which is actually two buildings connected together. The firm is pursuing a Leadership in Energy and Environmental Design rating. The building is expected to have at least one space



Broadway Commons, built in 1906 and formerly known as the Commerce Building, is undergoing a renovation, including an exterior paint job. (Photo by Sam Tenney/DJC)

ready for a tenant by the end of the year.

Redside then will begin work on the Oregon Pioneer Building, a 73,000-square-foot structure McGinley describes as being much higher on the zombie building scale – i.e., in greater disrepair.

The firm is working with three proposed tenants that would occupy approximately 45,000 square feet of space. The group is hoping to come close to meeting Living Building Challenge standards.

“I don’t think we’re at a point yet where it’s a good time to sell these zombie buildings,” McGinley said. “But I think M&T Bank has the right idea. It’s a good time to get to work on these buildings and add some value.”

A group of investors in late August purchased the 105-year-old Commerce Building, which the new owners are now calling the Broadway Commons, for \$4 million. The owners – Steve Rosenbaum, CEO of ad agency Pop Art, and Brian and Brandon Anderson, partners at Pivot Property Management – are already under way on a green upgrade.

Haskins, who is handling the leasing, said it was the right time to move forward because the owners got a good deal and tenants are seeking spaces like those the building will eventually offer.

“These small to mid-sized tech companies are looking for these types of spaces in historic, hip buildings,” he said. “The building is still being worked on and we are already getting lots of hits. We’ve had six or seven groups tour the building already.”

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