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From the Portland Business Journal:

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Economy spurs downtown Portland renovation spree

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A renovation boom is sweeping through Portland's oldest office buildings. A big part of the credit goes to the recession.

The same force that brought new construction to a halt now is compelling owners of historic buildings to reinvent them to suit modern tenants. Simply put, the historic buildings have something Portland needs: Square feet.

Portland's Class A market is functionally full, forcing growing businesses to look to Class B, C and even older buildings.

"It's great to see old buildings renovated, repurposed and everything," said Val Ballestrem, education manager for the Portland Architectural Heritage Center, who applauded the owners for their sensitive makeovers.



CATHY CHENEY | PORTLAND BUSINESS JOURNAL

Redside Principal Garrin Royer's company is renovating several structures, including the Loyalty and Hamilton buildings.

It started in 2007 when Seattle-based Unico Properties paid \$27 million for the Commonwealth Building. The trend has grown to include recent examples such as the Yeon, Oregon Pioneer, Hamilton and Loyalty buildings once owned by John Beardsley's bankrupt Fountain Village Development LLC and the former Commerce Building.

"It's sort of like the way a forest fire rejuvenates a forest long-term. This down economy is going to bring new life to downtown," said Erik Haskins, an office broker with Grubb & Ellis and leasing broker for the Commerce Building, now dubbed Broadway Commons. Brandon Anderson, Brian Anderson and Pop Art CEO Steve Rosenbaum paid \$4 million to buy it in August and launched a remodel.

When it opens this fall, it will be fully occupied by an affiliate of the owners and an unidentified tenant.

Investors and developers see potential profits in the investments.

"It's all about economics. If they're not going to make money on it, they're not going to do it," Haskins said.

That's especially true for three of the former Beardsley buildings, now held by an affiliate of Buffalo, N.Y.-based M&T Bank, according to public records associated with the Beardsley bankruptcy.

Instead of selling them in their current condition — riddled with deferred maintenance and sparsely leased — it turned to Portland-based Redside Development to remake them.

Starting with the Hamilton and Loyalty buildings, which operate as a single structure at Southwest Third and Alder, and eventually the Oregon Pioneer building, Redside is replacing mechanical systems and positioning the buildings to cater to creative businesses seeking space with character.

The \$1 million remake of the Hamilton and Loyalty buildings wraps up in November. The project is designed to meet the U.S. Green Building Council's LEED standards for sustainable construction.

The investment paid off with an early lease: Vox Public Relations will move to the building from its current spot in the Pearl District.

Garrin Royer, a principal with Redside, said the owner felt modernizing the buildings and leasing

them up would make them more attractive to future buyers.

“The ownership group doesn’t want to sell it as just a vacant, distressed asset,” he said.

That’s unusual, said Kevin Kaufman, a broker with CB **Richard Ellis** who is representing the Loyalty and Hamilton buildings.

“The fact that you’ve got a bank (M&T) putting money in this is pretty impressive,” he said.

More typically, lenders sell buildings and book the loss, as was the case with the Yeon Building.

The people who love old buildings welcome the idea that they have modern economic value.

“It’s a wonderful moment in historic preservation when, by market forces, we’re looking at old buildings as more efficient to remodel,” said Tom Heron, a senior planner for the city of Portland.

Fast Facts

At least six Portland office buildings are undergoing extensive renovations.

The new old buildings

- Oregon Pioneer Building, 409 S.W. Third Ave., six stories, currently 41 percent leased. Building was conveyed to an affiliate of Buffalo, N.Y.-based M&T Bank when owner John Beardsley placed Fountain Village Development in bankruptcy. The owner intends to address deferred maintenance and sign new tenants for the building before selling it. Oregon Pioneer is home to a historic restaurant, Huber’s Restaurant, which opened in 1910.
- Loyalty Building, 301 S.W. Alder St., 12 stories, 28 percent leased. Building was conveyed to an affiliate of M&T Bank when owner John Beardsley placed Fountain Village Development in bankruptcy. The owner is spending \$1 million on a makeover to renovate the buildings to LEED standards.
- Hamilton Building, 529 S.W. Third Ave., six stories, 39 percent leased. Building was conveyed to an affiliate of M&T Bank when owner John Beardsley placed Fountain Village Development in bankruptcy. Building operates in tandem with Loyalty building. The owner is spending \$1 million to renovate the building to LEED standards.
- Yeon Building, 522 S.W. Fifth St., 15 stories, 50 percent occupied. New York-based Jonathan

Rose Companies Inc. bought the Yeon for \$8.9 million from a family affiliated with Vancouver's First Independent Bank, which acquired it when former owner John Beardsley placed Fountain Village Development in bankruptcy. Jonathan Rose is in the middle of renovations designed to LEED standards.

- Commonwealth Building, 421 S.W. Sixth Ave., 15 stories, sold in 2007 for \$27 million. The buyer, Seattle-based **Unico Properties LLC**, invested \$6 million to turn the tired, mid-century skyscraper into an appealing environment for green-minded firms. It was about 30 percent leased at the time of the sale. Today, it is substantially full.
- Commerce Building, 225 S.W. Broadway St., six stories, sold Aug. 23, 2011 for \$4 million. The new owners, Brandon Anderson, Brian Anderson and Steve Rosenbaum, who is the CEO of the ad agency Pop Art, renamed it Broadway Commons. The building is getting a LEED makeover. When it reopens, it will be occupied by an affiliated business. Its top two floors have been leased to an undisclosed tenant.

Even after renovations, old buildings more affordable

There's far more space available in older buildings than newer ones.

The vacancy rate for Class A space in downtown Portland dropped to 4.4 percent in the third quarter, according to Colliers International. Different brokerages arrive at different numbers, but all share the view that the vacancy rate is trending downward after peaking in early 2010.

By comparison, Class B and C space have vacancy rates of 11.3 percent and 6.7 percent, respectively.

It's cheaper to lease in older buildings, too.

The average asking rents for Class A space is \$22.59 per square foot in the central business district.

Class B space can be had for \$18.85 and Class C for \$13.65. Loyalty and Hamilton, being remodeled to Class B-Plus, is asking \$19.75 per square foot for a full-service lease.

Haskins, of Grubb & Ellis, said creating new, useful space in older buildings helps take the pressure off the tight market. But the impact is limited.

"These aren't big buildings," he said. "We desperately need more square footage in the

downtown market.”

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