A ULI Advisory Services Panel Report

One HSBC Center
Buffalo, New York

February 25–28, 2013

Urban Land Institute

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About the Urban Land Institute

THE MISSION OF THE URBAN LAND INSTITUTE is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has nearly 30,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development.

About ULI Advisory Services

THE GOAL OF THE ULI Advisory Services program is to bring the finest expertise in the real estate field to bear on complex land use planning and development projects, programs, and policies. Since 1947, this program has assembled well over 400 ULI-member teams to help sponsors find creative, practical solutions for issues such as downtown redevelopment, land management strategies, evaluation of development potential, growth management, community revitalization, brownfields redevelopment, military base reuse, provision of low-cost and affordable housing, and asset management strategies, among other matters. A wide variety of public, private, and nonprofit organizations have contracted for ULI's advisory services.

Each panel team is composed of highly qualified professionals who volunteer their time to ULI. They are chosen for their knowledge of the panel topic and screened to ensure their objectivity. ULI's interdisciplinary panel teams provide a holistic look at development problems. A respected ULI member who has previous panel experience chairs each panel.

The agenda for a five-day panel assignment is intensive. It includes an in-depth briefing day composed of a tour of the site and meetings with sponsor representatives; a day of hour-long interviews of typically 50 to 75 key community representatives; and two days of formulating recommendations. Long nights of discussion precede the panel's conclusions. On the final day on site, the panel makes an oral presentation of its findings and conclusions to the sponsor. A written report is prepared and published.

Because the sponsoring entities are responsible for significant preparation before the panel's visit, including sending extensive briefing materials to each member and arranging for the panel to meet with key local community members and stakeholders in the project under consideration, participants in ULI's five-day panel assignments are able to make accurate assessments of a sponsor's issues and to provide recommendations in a compressed amount of time.

A major strength of the program is ULI's unique ability to draw on the knowledge and expertise of its members, including land developers and owners, public officials, academics, representatives of financial institutions, and others. In fulfillment of the mission of the Urban Land Institute, this Advisory Services panel report is intended to provide objective advice that will promote the responsible use of land to enhance the environment.

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Finally, the panel would like to acknowledge ULI Western New York. These local ULI members can provide the city of Buffalo with access to the same broad and deep land use experience and expertise as the panel, 365 days a year, and they are all located in the region.

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Foreword: The Panel's Assignment

DESPITE THE POPULATION LOSS and economic downturn experienced in the second half of the 20th century by the region's large cities, Buffalo remains second in population in the state only to New York City. Recently, Buffalo has seen trends indicating recovery not only in its service and tourist industries, but also in health care and education in particular.

Downtown Buffalo is becoming a center of economic vitality and job creation with the consolidation of regional medical services on the northern edge of downtown and several catalytic projects that are revitalizing the waterfront on the south. Prospects for job creation and investment in downtown Buffalo are brighter than at any time in the last 50 years.

This revitalization comes in the context of a regional economy that has seen no population or job growth for the past 20 years. Current population for metro Buffalo stands at about 1.1 million and current jobs at about 540,000, both slightly below their 1990 levels. Yet downtown Buffalo over the past five years has received almost $3 billion of investment, led by $1.3 billion for the medical and research and development complex in the north end, $640 million for mixed-use projects, $375 million for office, $263 million for tourism and hospitality, $164 million in residential projects, and $192 million in government and education projects. Of this $3 billion, over $2 billion is completed or under construction; the remaining $1 billion is proposed.

But this nascent revitalization is threatened by the impending vacancy of about 740,000 square feet of office space, an area equal to about 20 percent of the total commercial office space in downtown Buffalo. In late 2012, HSBC Bank announced that it will relocate its operations in October 2013 from One HSBC Center to other, less expensive quarters nearby and in the suburbs. Other smaller tenants are also relocating, including an earlier departure of the Canadian Consulate. Coupled with the HSBC's departure, these losses will result in a vacancy of almost 95 percent of One HSBC Center by the end of 2013.

Located in western New York, Buffalo is on the eastern shore of Lake Erie and at the head of the Niagara River across from Fort Erie, Ontario. One HSBC Center sits at the heart of Buffalo's downtown.

One HSBC Center is an iconic 40-story building with adjacent ancillary buildings at the south end of the downtown, covering two entire city blocks with about 856,000 square feet of floor area. It is the tallest privately owned building in the state, outside of New York City. Completed in 1972

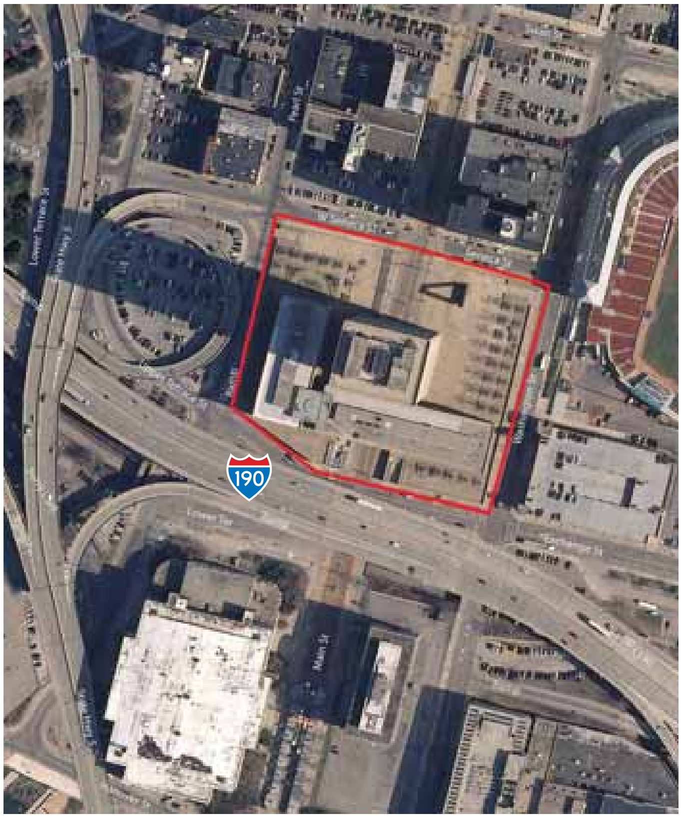
CITY OF BUFFALO OFFICE OF STRATEGIC PLANNING

One HSBC Center marks an axis of downtown that leads to an area of new development south of the complex.

as the corporate headquarters for Marine Midland Bank with the hope that it would revitalize the waterfront area, the center embodies the muscular architectural style of the post–World War II era. Today, its profile defines the downtown Buffalo skyline. Because of its location and height, it has incredible views of Lake Erie, the Buffalo River, and the entire region. However, its design, so modern in 1972, today feels fortresslike and forbidding, interrupting the flow of the urban fabric and seemingly creating an iconic barrier around which more welcoming development patterns are growing. A potential of 740,000 square feet of vacant office space in the downtown Buffalo market would have dramatic effects on the market values, which are already barely sufficient to support the costs of development. All of the nonmedical investment in office development has received some form of public subsidy in the form of tax abatements or other financial assistance. With a potential glut of office space on the market, the potential exists for undermining the economic viability of other office projects and threatening the nascent downtown revitalization efforts.

In response to these threats, the owner of the building, Seneca One Realty, and the Buffalo Urban Development Corporation, asked the Urban Land Institute to form an advisory panel of experts to provide recommendations on the economic development and redevelopment opportunities for the building, its surrounding area of influence, and its potential effect on the city and the region. The scope of the panel's work centered on the following questions:

- *Building use:* One HSBC Center will be losing 88 percent of its occupancy as a result of two primary tenants moving out. This loss of tenancy, approximately 739,000 rentable square feet, exceeds 20 percent of the downtown Buffalo commercial office inventory. Backfilling this space with office tenants could be a lengthy process that would have a huge ripple effect on the market. Therefore, a plan was crafted to reposition the building as a mixed-use asset. This plan raises several questions:
  - What is the highest and best use for the complex going forward?
  - Does the mixed-use plan as proposed by Seneca One Realty make sense?
  - Should other uses be considered?
- *Public sector involvement:* Some very significant public and private sector projects are underway adjacent to One HSBC Center. A virtually vacant 40-story building towering over new development downtown and the waterfront could negatively affect the psyche of the city. What role should the public sector play in this process to ensure the mutual future success of its projects along with One HSBC Center, which was the first phase of waterfront revitalization?
- *Public access:* For the last 40 years, the complex was singularly focused on servicing the needs of the anchor tenant and its related entities. How would you take



CITY OF BUFFALO OFFICE OF STRATEGIC PLANNING

One HSBC Center and its immediate surroundings.

advantage of the size of the site (two full city blocks) to open up the building to the public to help ensure its success going forward?

Context of the Panel's Findings and Recommendations

The challenge presented by the building comes not just from its sheer size and that of the site but also from its effects on the Buffalo market and, more broadly, the regional economy. Demand for land and space of all kinds is down, vacancies remain high, rents and investment sales prices remain depressed, and every community's focus remains on intense competition to bring users to a particular site. The resulting time and cost of development is not for the unfocused, not for the impatient, and not for the risk averse. This challenge will require the investment of a significant amount of public and private expertise, effort, and dollars.

With commitment by both the public and private sectors, these challenges can be overcome. What might otherwise become a rapidly decaying hole in the community and an impediment to community vitality can be transformed into a market-driven, vibrant, repurposed, and seamlessly integrated component of Buffalo. This report articulates a roadmap for achieving that objective.

Summary of Analysis and Recommendations

Based on its analysis of the design issues, of the strength of the local market, and of the financial situation of the building owners, the panel reached several conclusions that form the basis of its recommendations:

- As described in the "Design Framework" section of this report, repurposing the building as mixed use will significantly catalyze the vitality of both the downtown and the waterfront. In addition, reconfiguring the plaza and lobbies to welcome public access will mitigate the fortresslike presence that has been a barrier and disrupter to the urban fabric. Finally, the building is 40 years old and, although excellently maintained, it needs modernization in any case, especially improved building systems and efficiency.

- As set forth in the "Market Potential" section of the report, the downtown Buffalo office market is too small to absorb the large amount of vacant office created at One HSBC without devastating impacts on rental rates

ULI panel members touring the site with the sponsor.

and surrounding property values. This situation argues for repurposing the building as a mixed-use project so that its reuse synergizes and enhances values instead of devastating them.

- As further described in the "Market Potential" section, current market values of office, residential and retail uses are below the cost of replacement; that is, the market will not provide sufficient return for solely private investment to pay for the cost of rehabilitation of One HSBC. This "gap" between market value and cost means that repurposing and revitalizing the building will require some form of public/private partnership.
- As described in "The Asset Management Challenge" subsection of this report's "Implementation" section, the existing loan on the building, with a balloon payment due in January 2015 of $75 million, may (a) exceed the current market value of the building and (b) result in a foreclosure sale that lowers the basis in the building for a new owner that attempts to rent the space at "cannibal" rental rates.

These conclusions highlight both private and public interests and argue persuasively that both sectors must work together. To accomplish this work, the panel recommends a process that explores the possible creation of a public private/partnership, as more fully described in the subsection "Creating a Public/Private Partnership" of the "Implementation" section.

On the basis of its conclusions, the panel recommends that the building owner, the city, and the community engage in a six-part work plan:

- The existing owners and the city, ideally through one of its development agencies such as the Buffalo Urban Development Corporation, should collaborate on creating a joint approach for addressing the default and foreclosure issue with the special servicer. This joint approach should more fully develop the long-term value creation strategy thus creating a compelling argument that all parties are better off by supporting the revitalization and repurposing plan and, in particular, the lender's interests are best served by agreeing to a writedown or extension of the existing loan on the building. If the lender does not agree to a writedown or extension and insists on foreclosure and auction, the long-term strategy can serve as the basis for engaging in dialogue with a new owner.
- The existing owners and the city should consider adding a developer to the planning process through first, exploring the terrain and second, issuing a formal request for qualifications or proposals (RFQ/RFP) that could lead to a formal selection of a developer as part of the planning and development process. (The section on creating a public/private partnership describes in more detail how to manage this selection process.)
- The city through its selected development agency should enhance its expertise in real estate finance and development by either adding an outside consultant or adviser to the process or developing greater in-house expertise.
- The existing owners, the community, and the city should, in the next six months, finish the planning of the revitalization and repurposing plans.
- The market value and the costs of the revitalization and repurposing plans should be validated by an outside third party. The cost analysis will need to include the current as-is market value of the building but exclude any amount of the existing debt that exceeds this current market value. This means that the existing lender will be asked to write down or extend a significant portion of the existing $75 million loan. If the existing lender refuses to reduce or extend the existing loan and the property goes to foreclosure and auction, then the auction price will create a new, presumably lower, base value for the building.
- The financial gap created by the difference between the market value and the cost of the plan can then form the basis for negotiating and finalizing a public/private partnership based on the value of the public benefits created by the plan. The gap analysis should not use the full amount of the existing $75 million loan as the base

value of the building but should rely instead on a reduced loan value agreed to by the existing lender that more accurately reflects the building's current market value. If the property goes to foreclosure, the auction price paid by the new owner can serve as the basis of the building's current value. (The section on creating a public/private partnership discusses in more detail how and why the gap analysis should not use the existing $75 million loan as the cost basis for the existing building.)

The panel believes that the significant vacancy of One HSBC Center is actually a major opportunity to repurpose and revitalize an out-of-date building that no longer fits into the urban fabric of the revitalizing downtown. However, the window to capture this opportunity is limited in duration, and the panel urges that the process of implementing this six-part work plan begin immediately; delay will make the problems much harder and more expensive to tackle. Although the formation of a public/private partnership will take considerable effort, the panel strongly believes such efforts are critical and highly preferable to the "do nothing" option. The remainder of this report documents the panel's recommendations.

The building offers memorable views from the top floors. The view to the north (top) highlights One HSBC's privileged place within downtown. The views to the south (above) highlight some of the challenges presented by a disconnected urban fabric and a lack of synergy with new developments.

Design Framework

THE DEPARTURE OF HSBC together with the law firm of Phillips Lytle and the Canadian Consulate as tenants from One HSBC Center by the end of 2013 poses both a dilemma and an opportunity. The dilemma involves what to do with an 850,000-square-foot building that is suddenly over 90 percent vacant, represents one-quarter of the total Class A office space in downtown Buffalo, and whose re-leasing will have devastating impacts on rental rates and property values throughout the downtown. The opportunity involves repurposing a 40-year-old fortresslike building into a mixed-use project connecting with the urban fabric that catalyzes the surrounding waterfront and event-oriented revitalization.

If current circumstances are left simply to unfold, the property will fail and lie dormant for a very long time. Potentially this scenario's negative effect could extend to severing the Main Street corridor from the waterfront.

Schematic site opportunities.

The alternative outcome requires the present or new owners and the community to repurpose the building in a way that transforms the entire property by changing the use within the building and redeveloping its outdoor space to connect to the surrounding urban fabric. The panel strongly recommends an approach that invites the community to work with the owner to influence and manage the consequences of change.

Shaping the Vision

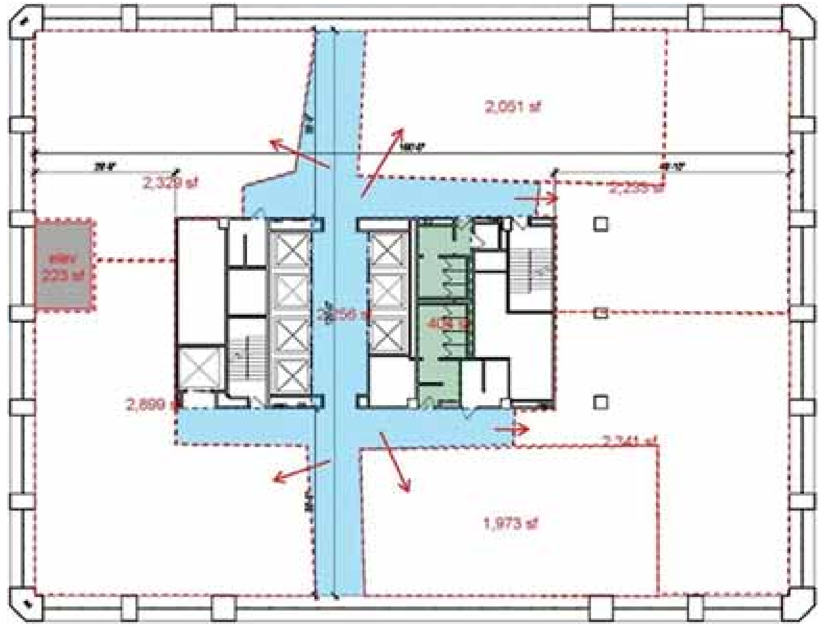
A vision for the redevelopment of the property requires a clear understanding of the challenges facing the building's owners—no matter who they may ultimately be—and the opportunities inherent in the property's location and characteristics.

Challenges

The owner of One HSBC Center, Seneca One Realty, faces significant challenges in repurposing the building:

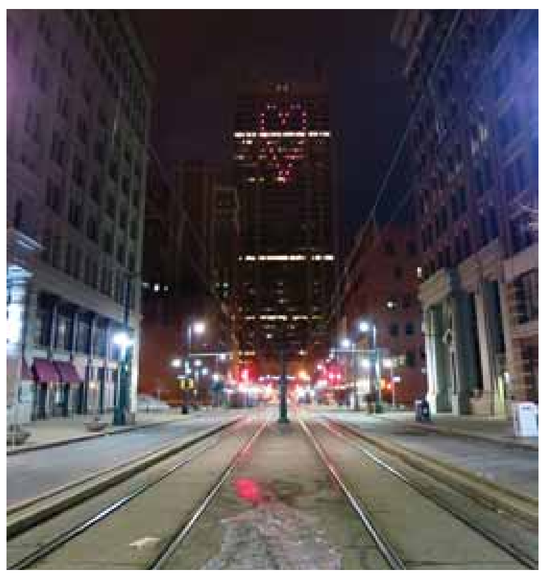
- With the departure of its major tenants, sources of income will be drastically reduced, placing a crushing load on its already strained operating budget.
- The building currently experiences high operating costs for maintenance and repairs. Most of its building systems are 40 years old, and although well maintained, often they are technically obsolete and could perform better. This includes the heating, ventilating, and air conditioning (HVAC) equipment, elevators and control systems, fire and life-safety systems, security and surveillance systems, and electrical and plumbing systems.
- The building does not have sprinklers throughout, but to install them, verification of possible asbestos and removal of any found will be necessary.

- Asbestos remediation may be needed if asbestos is found, though in 2008 the owner conducted a study in response to then recently adopted asbestos legislation and believes that remediation costs are likely to be minimal. The current understanding is that the fireproofing is not asbestos. Original walls on the perimeter and core may have minimal amounts of asbestos in the patching compound, which would entail some expense. The panel suggests a near-term additional analysis of this issue to remove any uncertainty on the scope of and costs to address this issue.
- The building's enclosure systems, including the roof, window walls, and plaza deck are subject to stress from extreme weather conditions and must be maintained at a functional level.
- Although Buffalo has no comparable office space, given this building's age and current characteristics, it would have to face a serious challenge to compete with other Class A spaces that have recently been refurbished and updated.
- If these conditions continue unchecked, the facility will continue to lose value, contributing less and less to the tax base of both city and county.
- More apparent is the building's forbidding and austere presence. The tower is often cited as rising uninspiringly over the skyline with a brutalist presence. Although small, targeted interventions such as seasonal lighting to redefine its appearance have helped lessen this impression, the overall character of the structure feels somewhat uninviting. The building's precast exterior is often perceived as clunky and grimy with an aged window-wall system.
- The building entrances are set back from the surrounding streets, with no weather protection leading to its approaches.
- No passenger dropoff area is available near the entry points.



- The tower meets the plaza level with a thud, bearing little relationship to its platform or to the more modest structures around it.

One HSBC Center offers very attractive floor plates in the Buffalo marketplace; however, substantial renovations may need to be undertaken to realize their full potential.



Small-scale and creative interventions, such as the playful seasonal lighting of a heart on the building facade, have helped alleviate the building's overbearing presence and demonstrate the potential to explore its iconic value.

Approaches to the building seem hard and disengaged from what could be potentially an inviting experience.

- The plaza is barren and open to blasts of winter wind of near hurricane force that gather around tall structures. Handrails crisscross the surface to aid pedestrians from being blown away.
- Stairways leading from the boundary streets are closed in winter in an effort to eliminate damage from ice melt products and to contain the labor and material costs of clearing snow and eliminating lawsuits from slips and falls.
- The patched concrete plaza bakes in the summer heat, offering little shade or protection.
- Despite attempts at repair, the plaza leaks and stains cars parked on the level below.
- A looming, dark, angular sculpture dating from 1973 exposes the disconnect with human scale in the public areas. Its iconic potential is lost in a context where concrete planter boxes are placed in regimented rows on the smaller of the two front plazas.
- Efforts to introduce tent structures and summer activities have not coalesced, and the empty spaces now act as a no-man's-land between the downtown and the waterfront.
- Main Street pierces its way through the building's base, leaving little room for the building's entrances and discouraging pedestrians from entering the barren space beneath.
- Entering the building from the leaky hinged doorways, which are challenging to open in high winds, visitors encounter an echoing travertine hallway, pierced by an escalator that leads to the upper lobby, reminiscent of steps leading up the interior of a vast stone pyramid.
- At the top of the escalators, visitors face a long steel reception desk, with the elevators to their backs. What

The open space surrounding the complex currently does not meet the need for an attractive space that could add value to the community and the property. Maintenance, weather, and programmatic challenges abound. However, the spaces offer many opportunities to be consolidated and programmed differently.

The building has a conflicted relationship with Main Street, which is articulated through a barren tunnel at the building's base. But the building also enjoys privileged connectivity through light rail, with two stops almost adjacent to the complex.

may have been intended as a "command and control" environment was perhaps appropriate for its intended banking tenant, but it is somewhat intimidating and opaque compared with more modern buildings of its type.

- In this area, a smaller version of the huge outdoor sculpture sits in a corner, and a small retail outlet that feels like residual space lies to one side. Completing the picture, guards are posted at the elevators to check the badges of visitors to the upper floors. Surrounding everything are unyielding stone surfaces.
- Building tenants are subjected to a questionable interaction as they reach the building. They arrive at a dank and dark parking slab, follow uninviting signs to a metal doorway, and then follow a painted cinderblock passageway to a small cubicle with elevators that rise to the lobby above.

Nevertheless, the One HSBC Center retains great potential and offers stimulating prospects for refurbishment and upgrading. But such needed attentions will be costly. Most of the challenges outlined are related to the customization and lack thereof from the original main tenant. The departure of the anchor tenant may provide a new opportunity to explore these upgrades with a new outlook.

The building complex was planned as a fortress, never as part of the surrounding urban fabric. The circulation patterns are meant to move people around it, rather than through it. It might have been designed thinking of a node, but it often works as an obstacle. The large front plazas reach out to Seneca Street, and the topography falls away quickly, exposing walls around the edge of the property. No sculpture, artwork, lively banners, or landscape humanizes these surrounding sidewalks. No benches or shelters offer refuge. Walls stare blankly out at their neighbors, except on the building's south side, where shuttered steel doors conceal loading ramps backing up to the waterfront side. To complete the picture, the clattering ramps of the New York State Thruway hover overhead, sheltering cars parked beneath and darkening the way to the more lively activities beyond.

Opportunities

Critical as this picture may be, this complex has some attributes that, if firmly and wisely grasped, could help transform it into a powerful catalyst for change and rebirth. The facilities and systems represent significant investment value despite their shortcomings. Although the subject of partially or completely demolishing the complex has been raised, the cost of demolition and new construction would be far greater than modernizing it. For example, the demolition of the 40-story Deutsche Bank building in Manhattan was completed in 2011 at a cost of about $264 million. The New York Building Congress estimates that construction costs for high-rise buildings in New York can exceed $400 per square foot, exclusive of developer profits. At a construction cost of $300 per square foot, the cost could be $240 million just to replace the tower, a total of roughly $500 million, plus the cost of acquiring the property at auction and the renovation of the adjacent wing buildings.

The conceptual site plan illustrates the range of potential uses and improvements that would transform the impact of the complex.

CONCEPTUAL SITE PLAN

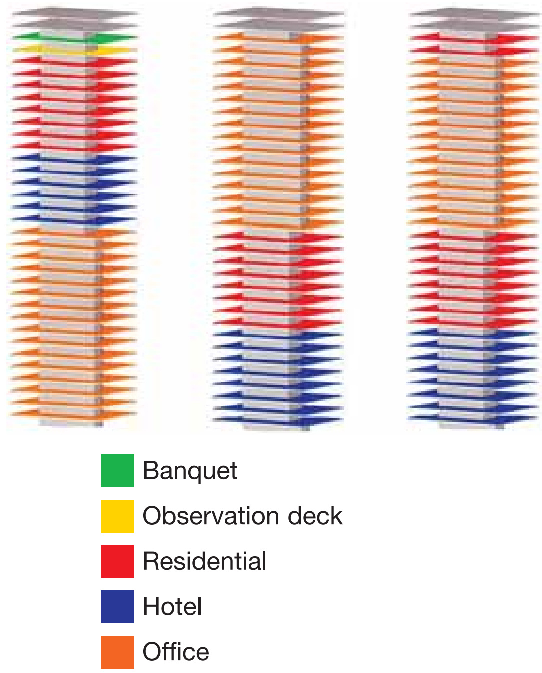
- A Future development
- B Covered entry and drop off
- C Interactive art feature
- D Plaza renovation with partial wall removal
- E Dining courtyard
- F Private courtyard
- G Outdoor performance space
- H Dining terrace
- I Streetscape improvements
- J Utilize air rights for future development
- K Improved entry and plaza enhancements

The building also has positive characteristics that are unique in Buffalo. The typical floor size is over 18,000 square feet, most of which space is free of columns. This offers tenants more flexibility in laying out their space to meet their own requirements, rather than adapting to physical impediments. Most of the space in the tower enjoys spectacular views in all directions, which is worth a premium in any market for most uses. A basement portion of one of the adjacent wing buildings has a raised floor and access to loading ramps, which could be attractive for data centers. A large kitchen at the main lobby level could serve many purposes—either to serve adjacent food service outlets as it does now, hotel banquet and dining facilities, or food service for hotel rooms and apartment or condominium units. The large auditorium at the lobby level could augment hotel meeting facilities or serve a broader community-wide purpose or become an entertainment venue.

The facilities include 460 parking spaces beneath the east plaza and 814 spaces in an adjacent structure that is connected to the building via a skywalk. The under-plaza parking connects to the tower lobby by a separate elevator and is managed by the city. These two facilities offer an important amenity for building tenants and for the community, in that significant parking can be made available to the public for local events, sports, entertainment, and waterfront-associated venues during nonbusiness hours.

The prominent location and visibility of the tower on the city skyline are also important assets. With the departure of HSBC, signage and naming rights for the tower and the adjacent wing buildings will become available and could be addressed separately.

The strategic location of the complex at the foot of Main Street, leading to the waterfront district, has not been fully exploited, and as indicated earlier, has effectively been ignored by the building's designers. Nevertheless, if properly reconfigured, the property could play a more constructive role in community life. If, for example, the plaza open spaces were made more attractive, were easier to cross through, and were filled with more attractions and amenities, they could become an important center of public life. Although traffic has recently been reopened on Main Street beneath the building, most people remain unaware and circumscribe the site by habit. However, if this passageway was well-lit, attractive, and more amenable for pedestrians and drivers, it could facilitate connections between downtown and the waterfront district. Finally, business, government, and community leaders of Buffalo have a passion for improvement and an obvious determination to create positive change. The mayor's office and economic development agencies, business organizations, local institutions, developers, and property owners appear unanimous in their desire to correct problems and seize on opportunities to keep Buffalo healthy and vital. This leadership is crucial in creating and realizing a vision of change for this property and the community.



Potential stacking scenarios.

Defining a Vision

If the opportunity to create a positive outcome for the property and its surroundings is to succeed, all stakeholders must commit to working together to reach consensus. Each group has a stake: the owners seek to enhance asset value, the public seeks enlivened and connected public spaces, and the government seeks synergy to enhance the value of surrounding properties.

The Owners' View

Responding to the limited ability of the market to absorb the entire 850,000 square feet of office space, Seneca One Realty has suggested a new mixed-use configuration in the tower, adding residential and hotel. The company conducted studies and created a diagram to look at how these uses might be arranged, with banquet facilities and an observation deck at the top, followed by residential floors, hotel, and office space toward the ground level of the tower. It tested the residential component by developing floor plans for different configurations and sizes of units.

The ULI panel explored whether the floors could be adapted for hotel use, which appears to be feasible, and suggested two alternates. One would locate office on the highest floors, residential units in the middle, and hotel at the lowest level. The logic behind this arrangement is predicated primarily on achieving the highest value for each respective use. Office uses command higher values from the tallest perch, residential units will be high enough to enjoy good views (better than available in most other buildings), and hotel uses benefit most from being near the street, the kitchen, and the loading ramps. In another variation, condominiums might be substituted for office on the top floor or floors if they can command a higher premium than office space at the top.

An observation deck may be a great amenity, but it might become an operational challenge that could require a dedicated elevator. This is quite costly if a new one is installed; if one of the existing cabs is used, service times for the rest of the tenants will increase. For those reasons, the panel's initial reaction is not to recommend including an observation deck. Restaurant and banquet facilities should be located with the hotel, if that use is included. From an operations standpoint, separating the kitchen from the banquet facility will be similarly problematic to inclusion of an observation deck. In addition, the premium for a banquet facility on the top floor, which is not in continuous use, does not cover the opportunity cost from leasing to a corporate tenant or high-end residential use.

However, the important issue is not the specific arrangement of uses within the tower but the need for flexibility to respond optimally to evolving market conditions. Certain technical constraints will limit that flexibility, such as the separate HVAC systems needed for each of the uses, the distribution of individualized plumbing services for residential and hotel uses throughout the floors (and bringing those down to ground level), the configuration of elevators and service, the cost of building in redundancy to adjust to market changes, and the ability to create separate lobby entrances for the various uses. Implicit in making these physical changes is the upgrading of all building systems and the physical plant. New systems and materials are available that are greener, more efficient, and less costly to operate and that perform better than anything available when the building was first constructed. Incorporating these improvements will reduce operating costs and lead to greater profitability, if the investment cost can be covered.

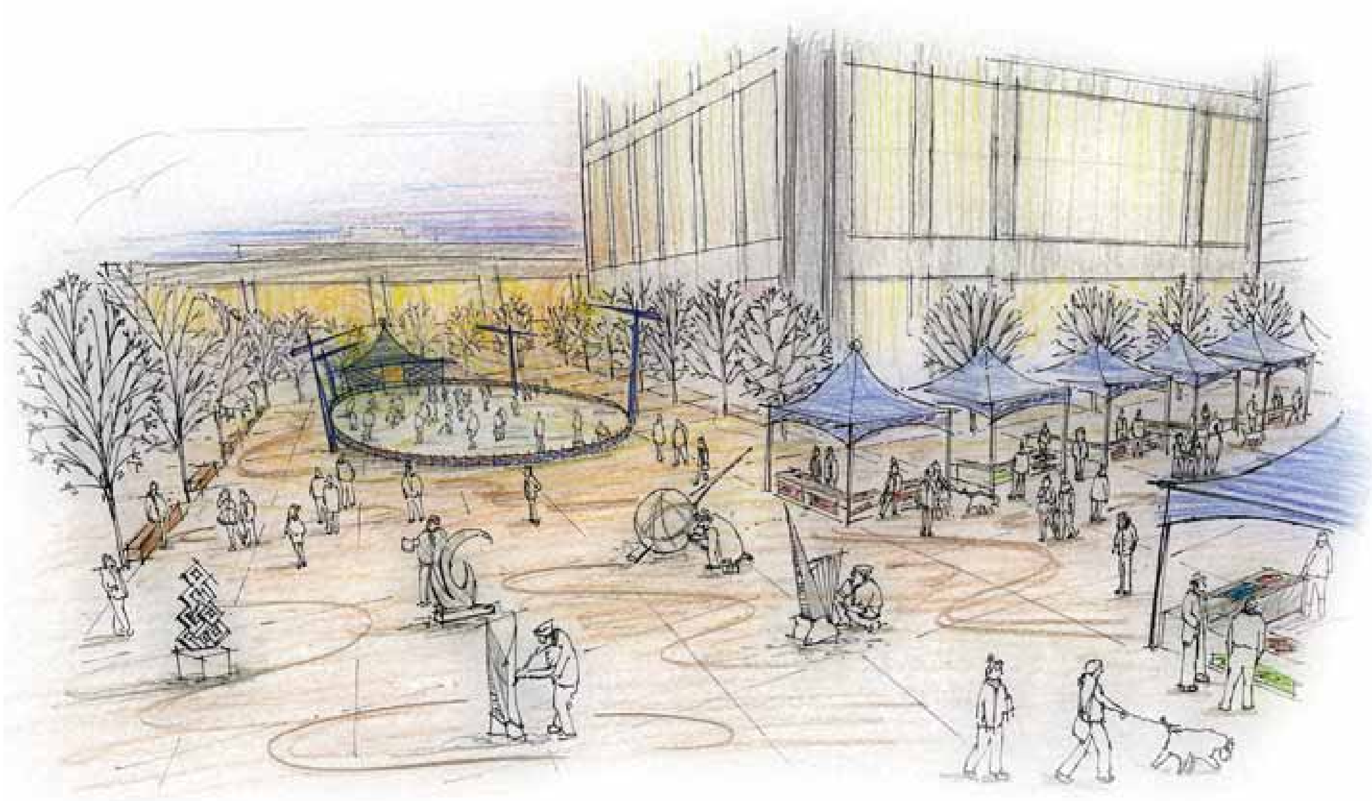
The operations of the two parking garages, one under the plaza and managed by the city, and the other in a structure adjacent to the tower block, should be unified under centralized management. The parking under the plaza should be upgraded by incorporating modernized payment, security, lighting, and signage systems throughout. A system of shared spaces might be explored to take advantage of the splits in daytime and nighttime use.

The market may well indicate a need for other uses at this site, including retail, restaurants, entertainment, and other public attractions that may serve community interests and attract more business. These might include converting the existing auditorium into theater space or adding performance venues, nightclubs, restaurants, or specialty retail. They may include public art exhibitions, a museum extension, learning centers, or any number of other activities that could transform the facility into a vital part of the downtown, an anchor for the central business district, and a gateway to the waterfront.

The addition of retail space at plaza and street levels is most feasible at the northeast and northwest corners of the property but poses challenges because of the subsurface parking that lies below. Although some relatively light structures might be added in these locations, more robust structures may require structural reinforcement and the addition of plumbing chases and power runs in the parking levels below—or possibly the loss of parking beneath. Therefore, the economic and technical feasibility of these additions should be studied as part of an overall redevelopment planning process. Such improvements to incorporate street-level and plaza-level retail should be completed in concert with renovation of the parking structure below grade. Retaining walls that surround portions of the existing plaza might be eliminated in specific locations that are found not to affect the 1B-level parking immediately below the plaza, perhaps by adding Americans with Disabilities Act ramps or stairways at key points. The northern portions of the site along Seneca Street offer the best opportunities for reduced plaza wall height that would be nearest foot traffic from Main Street. The slab-on-grade portion on the northwest corner of the site offers a particularly great opportunity for additional development or plaza renovations because of the minor disturbances to the site.

Private exterior dining courtyards and exterior amenity spaces can significantly add to the value of the hotel, residential, and office uses. Hotels could lease portions of the plaza for private parties and receptions while a passive recreation courtyard could be used for residential and office use. These more intimately scaled spaces could still be close to the larger events that would likely occur in the larger public spaces.

High on the owners' wish list would be anything that could improve the competitive position of this asset. Among those items would be transforming the visual character and personality of the property. The most obvious would be to change the exterior appearance of the tower—what architects call "reskinning" a building. This often occurs as aging buildings develop technical deficiencies in their facade components. Frequently, the cost of such programs is offset by operating cost savings and higher rents. When



The site offers opportunities to be reconfigured with both temporary and longer-term amenities that could transform its character.

done properly, they also have the advantage of being greener, thereby enhancing the overall sustainability of the property.

The owners or an eventual developer may also address the transition from the building's interior spaces to the spaces outside. To make the building more attractive to tenants and the public, the owners may create auto passenger dropoffs in the plaza space outside, including valet parking and ramps leading directly to the parking below. The present entrances might be extended toward these dropoffs and the street to reduce walking distances, and the extensions might incorporate an open and transparent architectural character with lighting and interior landscaping and artwork. Extending the building entrances toward Seneca might include moving one or both of the existing escalators or adding new ones closer to the street, so that arrivals are brought to the north side of the lobby. This could facilitate the addition of separate reception areas for hotel or residential uses, if they are included in the repurposing of the tower.

To activate the open spaces around the building, landscaped windscreens and airy sculptures could create curving pathways that lead past restaurants and kiosks, water sculptures, shops, and glass shelters. These facilities would be additional revenue generators, perhaps including a division of profits with city agencies.

The Public's View

The benefit to the public's quality of life could be dramatic and has the ability to change the perception of One HSBC Center. The strategic programming of the plaza space could significantly affect the foot traffic generated around the context of the site and could generate a large volume of revenue for Seneca One Realty. These activities could be programmed with assistance from Buffalo Place, the Downtown Business Improvement District, or possibly the city's visitor and convention center agency (Visit Buffalo Niagara) to enliven the spaces around the building. The site programming could work in unison with other downtown organizations to program shared events and add to the diversity of downtown events. Art shows, food-and-drink

The site offers a broad range of programmatic opportunities to activate the public realm throughout the year. This graphic indicates the types of elements and activities that could help generate a healthy urban living environment.

PUBLIC OPEN SPACE
PROGRAMMING SCHEDULE

SPRING

March April May

DISCOVER
Arts and entertainment

- Concerts and live performances
- Monthly art exhibits
- Weekend movie nights
- Crafts fair

NOURISH
Food and drink, and goods

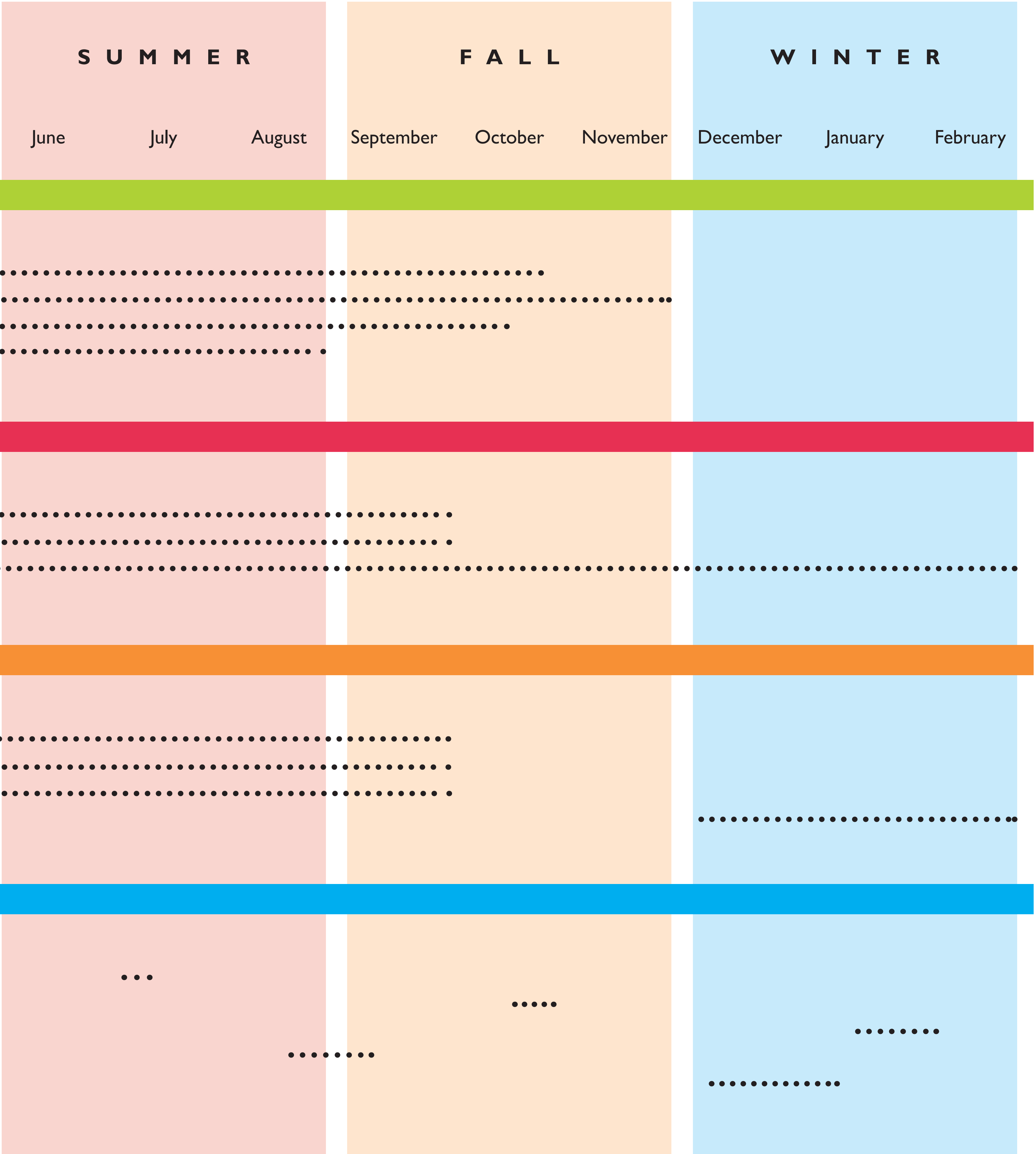
- Food truck festivals
- Farmers market
- Pop-up vendors

RECREATE
Health and wellness

- Yoga on the green
- Ping pong
- Board games
- Ice skating

CELEBRATE
Special events

- 4th of July celebration
- Harvest festival
- Ice festival
- National buffalo wing festival
- Winter holiday festival


SUMMER
FALL
WINTER
June
July
August
September
October
November
December
January
February

tastings, outdoor movies, and small concerts could occur in the warmer months while ice carving, ice skating, and ice mazes could be incorporated into the colder months. Pop-up retailers and merchants, such as food trucks, could use the perimeter space during special events at Coca-Cola Field to help activate and program the plaza.

In addition to the large plaza space, opportunity also exists for the parking garage adjacent to the plaza. Public fireworks displays and tailgate parties could occur on the roof of the adjacent parking structure. Alternatively, the roof over this structure could be converted to a green roof, as was done at The Gap's headquarters in San Bruno, California.

The owners or an eventual developer might partner with the city to develop a system of district lighting, signage, street furniture, shelters, banners, and public art to address the pedestrian sidewalks surrounding the complex. Wi-Fi could be made available everywhere. Local artists might be offered an opportunity to exhibit and perform in the building lobby and the open spaces around the building. Venues could be established with interactive educational content. Green building practices could improve public health and attain sustainability goals. A newer, more cost-efficient subsurface snow-melting system could be installed under the plaza to allow extended use during winter months. Pathways could be planned to lead pedestrians around the building to establish connections with the urban fabric surrounding the property.

The effects of these changes on the public's quality of life could be profound and could decisively change the perception of downtown Buffalo and enhance its character as a healthy community. Other cities have accomplished this turnaround and have seen the benefits that can flow from it. Examples include Denver's 16th Street Mall and LoDo, downtown Portland, Santa Monica's Third Street Promenade, Baltimore's Camden Yards, and New York's High Line. One HSBC Center offers the opportunity to spearhead this transformation.

The Government's View

The benefits from the transformation of the complex would radiate throughout its surroundings. Properties on the perimeter would receive a boost in value, and the activity generated could spill over into Main Street and the streets beyond. With this transformation could come increased revenues from property taxes, usage fees, and partnership agreements. More important perhaps would be the stabilizing effects on the local economy and the opportunities to renew growth and development. The transformation described here would offer increased investment opportunities for the owners of the complex and for others, as well. The multiplying effects could be felt throughout the entire community, and this initiative could serve as a model for public/private cooperation.

Steps Forward

The owners of One HSBC Center have started the discussion about repurposing the building with a mixed-use proposal. But more work with more stakeholders is needed before reaching conclusions on how best to reposition the building and connect it to its surrounding environment. What happens at One HSBC requires a collaborative planning process that considers a broader context. Whatever the final vision, it will require much more analysis, testing, planning, and goodwill on the part of all stakeholders.

Market Potential

OVER THE LAST 160 YEARS, the Buffalo region has undergone major transformation as the national economy has shed industrial and manufacturing jobs and evolved into knowledge-based enterprise. The city of Buffalo in 1950 with a population of 580,000 was the 15th-largest city in the United States. Today its population is less than half that number at 261,000. Comparable reductions in the Buffalo Niagara Region have also occurred. In addition to the declining population, the economic challenges of the city include urban sprawl, obsolete infrastructure, and a surplus of vacant housing and land. In the face of these challenges, it is clear to the panel that the community leadership is working hard to restructure the economy from industrial and manufacturing to life sciences, biotech, health care, higher education logistics, advanced manufacturing, and finance.

Among the recent projects catalyzing this change are the following:

- $375 million University of Buffalo School of Medicine and Biomedical Sciences, which will begin construction soon;
- $172 million HarborCenter mixed-use project anchored by two hockey rinks and a 200-room full-service hotel scheduled to open in September 2014;
- $75 million "The Carlo," a mixed-use project including Class A office, apartments, restaurants, and a 138-room hotel just announced and proceeding to construction;
- $85 million Avant, a mixed-use project including office, hotel, and residential condominiums completed in 2012; and
- $130 million Buffalo Creek Casino, including a hotel, under construction.

CITY OF BUFFALO OFFICE OF STRATEGIC PLANNING

One HSBC Center and the land use pattern in its surroundings.

These are just examples of more than 100 projects totaling $3 billion in value that are completed, under construction, or pending, which are transforming downtown Buffalo to a great place offering excellent employment, education, recreation, professional services, and high quality of life.

Although this transformation, and the community leadership that has catalyzed it, is impressive, the Buffalo market has significant limitations in the size of its office market and in market valuations compared to construction and

The mixed-use Avant is one of the buildings catalyzing the redevelopment of downtown. Residential, office, and hotel uses have made it a success.

rehabilitation costs of $200 to $250 per square foot. These limitations follow:

- The overall market of 3.5 million square feet of Class A office space in downtown is small compared with the 740,000 square feet of floor area that will become available with HSBC's departure. Absorbing 740,000 square feet will take considerable time and will exert very significant downward pressure on rental rates and, therefore, market values.

- The current market values of office space based on historical comparable transactions are far below levels necessary to support new construction and rehabilitation. Based on actual office sales since 2005, market values ranged from a low of $21 per square foot to a high of $175 per square foot for the Vars Building in June 2012. Most transactions were below $100 per square foot. Those with higher values involved spaces with high credit or government tenants.

- Annual rental rates for office space in the Buffalo region are below $18 per square foot, and rents for Class A office space in downtown Buffalo top out at $24 per square foot. These rental rates are insufficient to support private financing for construction and rehabilitation costs of $200 to $250 per square foot.

With these top-line revenue limitations relative to the costs of construction and rehabilitation for office, the panel explored how other sectors could contribute to the economic viability of a mixed-use repurposing for One HSBC Center:

- *Multifamily apartments:* Interestingly, the market for apartments in downtown Buffalo is relatively tight with low vacancy rates. Jobs are moving downtown from the medical center and the casino and, with lifestyle changes being sought by younger tenants looking for an urban lifestyle, the market is expected to grow. Growth in this market has been relatively limited (less than 80 units per year), but according to one study, market demand is strong enough to add as many as 200 units per year. However, in spite of this market strength, rents are still relatively low at below $15 per square foot annually and, after costs, are insufficient support construction or rehabilitation costs of $200 to $250 per square foot.

- *Condominiums:* This is a relatively new market in downtown Buffalo, but it is one that has created surprises. Two recent projects, the Avant (located in midtown) and the Pasquale at Waterfront Place, were able to sell luxury condominiums for over $300 per square foot. However, the sales rate was extremely slow at less than one unit per month. So, although this market has promise, its performance so far leads to the conclusion that it is somewhat limited in its ability to contribute significantly to the economic viability of a mixed-use project.

- *Hotel:* Occupancy rates have increased in the last three years from 62 percent to 68 percent, and average daily rates have increased 8 percent to $108 per night. Average base room rates range from $135 per night in the winter to $172 per night in the summer. One factor of concern from a market point of view is the significant number of projects in the pipeline (the HarborCenter hotel and the Carlo are two) at the waterfront, reflecting the growing market for tourism and event visitation downtown. The impact of this increased supply is unknown because there has been essentially no new product since the Embassy Suites opened in 2009. Transactions involving sale of downtown hotels over the last eight years have been at $62 per square foot and less, values that are significantly below construction or rehabilitation costs. Based on the number of units in the pipeline and the low values of transactions, the panel concluded that significant increases in room rate or occupancy are unlikely and the top average room rate likely to be achieved in the market is $175 per night with about 70 percent occupancy.

Based on these preliminary market assessments, the panel developed the following *very preliminary* pro forma to highlight the likely gap between value and costs for a mixed-use project.

This market analysis led the panel to reach the following conclusions:

- The building is too large and the market is too small to support a single-use rehabilitation of One HSBC Center.
- Rehabilitation, therefore, should explore a stacking plan with a mix of uses including Class A office, residential (both rental and for sale), hotel, and ground-floor retail.
- The scale of each use in the mix should be determined based on further, more detailed market study.
- Finally, the overall financial viability of the development plan will need to be evaluated based on the more detailed cost and market analysis.

However, the panel's preliminary market analysis convinced it that doing nothing about repurposing the building is not an option. The building is no longer competitive as solely Class A office space. Its large size and operational inefficiencies will make it uncompetitive in an environment of deeply discounted lease rates. If the vacant space is simply put back on the market, it will cannibalize the downtown office market and damage the waterfront redevelopment efforts.

Finally, and this conclusion is the basis of the panel's most important recommendation, the repurposing and rehabilitation of One HSBC Center cannot occur without some form of public participation in the financial viability of the final development plan. This public/private partnership will need to address the significant financial gaps associated with the difference between value and costs, as illustrated in the preliminary pro forma. The next section on implementation describes the dynamics of forming a public/private partnership and how this partnership will need to deal with the asset management issue associated with the existing loan on the property.

Likely Gap between Value and Costs for a Mixed-Use Project (per square foot)

Sector	**Office**	**Apartments**	**Condominiums**	**Hotel**
Capitalized value *(stabilized and improved)*	$160	$168	$350	$184
Building cost	$85	$85	$85	$85
Rehabilitation costs				
Low	*$150*	*$150*	*$200*	*$200*
High	*$225*	*$200*	*$250*	*$250*
Average rehabilitation costs	$188	$175	$225	$225
Total costs	$273	$260	$310	$310
Gap between value and cost	($113)	($92)	$40	($126)

Implementation

THE DEPARTURE OF HSBC and related tenants creates the opportunity for revitalizing the building and the site, but achieving that revitalization requires overcoming two important challenges.

- First, the building has a loan secured by a mortgage that, if not paid, will result in a process that could end in foreclosure and a change in ownership. This first challenge has two dimensions; namely, cash flow may be insufficient beginning in November 2013 to make periodic loan payments, and in January 2015 the term of the loan ends and the outstanding balance of $75 million is due.
- Second, as demonstrated in the market analysis, current market values of office, residential, and retail uses are below the cost of rehabilitation, and the market will not provide sufficient return to attract private investment to pay for the cost of rehabilitation of One HSBC Center without some form of "gap" financing from the public sector. In other words, a public/private partnership will be needed to achieve revitalization of the building and the site and to avoid the potential for the building cannibalizing the local market.

More detail on these two implementation challenges follows.

The Asset Management Challenge

This building was purchased by the existing owners in 2005, and its debt was securitized through issuance of commercial mortgage–backed securities (CMBS; essentially, bonds), secured by a pool of mortgages from a variety of commercial loans. The information the panel received is that the HSBC mortgage represents about 12 percent of the total pool against which bonds were issued.

CMBS mortgage pools are administered by a trustee called a special servicer that acts like the loan administrator at a bank and is required to protect the interests of the bondholders by taking action on loans that stop performing. In the case of the HSBC loan, this nonperformance will begin when cash flow from the building is insufficient to pay the periodic loan payments and will also occur at the end of the term of the loan in January 2015 when the entire balance remaining of $75 million comes due.

As a trustee, the special servicer's job is to protect the bondholders. The special servicer (usually a financial service firm) may also be a bondholder itself, so any decision by the special servicer that differentially protects its tranche of bonds at the expense of other bondholders will be subject to challenge.

The options for dealing with the default on the loan include foreclosing, reducing the loan amount (and perhaps converting the reduction amount to equity), and extending the loan with accrual of interest on the extension as equity. Foreclosure is the most likely option unless the special servicer can be convinced that reducing or extending the loan by converting some portion of it to equity that is repaid when the property is revitalized is a superior outcome.

If the special servicer forecloses, the property will be auctioned and sold to the highest bidder. That will mean a change in ownership and may mean that the new owner decides to simply compete in the market for office users without any investment in property revitalization. The city wishes to avoid this outcome because it is likely to cannibalize the market and reduce market values throughout the downtown. If foreclosure and change in ownership do occur, immediately engaging the new owner regarding participation in the revitalization strategy will be important.

Creating a Public/Private Partnership

Either with the existing owner or with a new owner following foreclosure and auction, revitalization cannot proceed without some form of public/private partnership. Although such a partnership may be controversial, the panel suggests that those opposed to some form of public/private effort are not thinking ahead about how difficult the unmanaged process will be or about the effects of that option on surrounding real estate, the efforts to reinvigorate downtown, and the long-term effects on property values citywide. In fact, the panel's recommendation for some form of public/private partnership has precedents in the city's actions with other recent redevelopment projects.

Various forms of public incentives to further downtown revitalization are not uncommon in Buffalo. The panel learned that recent commercial and residential revitalization projects in which vacant or underused downtown blighted properties were successfully redeveloped would not have occurred but for the private developer receiving some form of attractive public financing. Financial tools such as property tax abatement, investment tax credits, and federal or state grants to remediate environmentally impaired properties (brownfields) have played a significant role in facilitating successful redevelopment projects. The subsidies equated to approximately 30 percent of total development costs.

HSBC: The Case for Public Participation

As previously noted, some positive economic factors can create opportunities for the property. The central business district's office market has 97 percent occupancy, which bodes well for potential office market demand despite the low rents and consequent low values. Substantial downtown employment growth in well-paying jobs is anticipated in spite of the lack of employment growth over the past 20 years. This new growth is attributed to relocation of the medical school to the downtown campus and expansion in medical offices and other related health science jobs such as biotech. One thousand new jobs per year for each of the next five years are anticipated. An additional 200 jobs this year will be created with the opening of the new gaming facility. The central business district's job growth bodes well for absorption of new urban housing units.

Although market demand for office and residential space is indicated, the growth will likely be incremental and needs to be phased. The HSBC property creates over 800,000 square feet of net new space in the market, thereby having a substantial impact in a market that has shown slow and steady absorption in well-designed projects that would not have been successful but for the previously noted 30 percent writedown or subsidy.

"Mind the Gap" Based on Reducing the Existing Loan to Current "As Is" Market Value

The panel's preliminary research indicated that the cost to renovate the building plus redevelop the property to achieve the urban design vision, creating a true anchor connected to the central business district's urban fabric, will likely have a substantial financing gap *without even considering the additional burden of the existing loan*. Top-end market office rents, residential rents, and sales prices do not support a completely private sector investment for the revitalization. Given the effect that the building's vacancy would have on office rents, whether they even support the existing $75 million loan on the property is doubtful. At the time of the panel's analysis, the value of the property was estimated to be about half the face value of the existing note. Although more analysis is needed to confirm the "as is" value of the property, the gap analysis for the revitalization of the property should not include any amount of the existing loan that exceeds the building's current market value. The panel hopes the long-term value created by the revitalization plan will convince the existing lender to reduce or extend the existing loan. If the existing lender refuses and decides to foreclose and auction the property, then a new basis of value for the building will be created with a new owner. In either case, the gap analysis will include the current "as is" market value of the building, not the amount of the existing $75 million loan. In other words, public participation should not include a subsidy to the existing owners and lender that funds the amount of the existing loan exceeding the building's current market value.

Start Slow to Succeed

The panel suggests that the process to form a public/private partnership begin with a dialogue on community values and community visioning. Just as with many other projects in downtown Buffalo, private sector investment can help achieve a community vision as long as (a) clarity exists on what that vision is and (b) appropriate financial assistance is made available to address the gap between the costs that are supported by a market return and the additional expenditures needed to cover the full costs of achieving the community vision.

The strategy of starting first with a dialogue that explores possible options is based on ULI's experience in first creating a foundation for a partnership before moving ahead with business terms. For additional background on how this process works, the panel recommends that both sectors review the ULI publication *Ten Principles for Successful Public/Private Partnerships*, which documents principles to guide community leaders, public officials, and private investors and developers in how to approach the considerable amount of work necessary to achieve successful partnerships. The ten principles create a framework of preparation, common vision, and trust as the foundation for moving forward.

One element implicit in the process of forming a public/private partnership is putting skilled actors at the table from both private and public sectors. Here are two suggestions:

- Part of the early dialogue for creating a possible partnership should involve exploration of bringing a developer into the conversation. The city and building owners should discuss extensively the process for accomplishing this. It could involve a formal selection process through an RFQ and an RFP. In general, most good developers shy away from a simple RFP; putting together a specific detailed proposal is a burdensome cost where the chances of selection are low because of a large number of competitors. The city and owners will want to select based on who is best qualified—not who has the prettiest pictures. The best way to get a look at qualifications is to have an initial selection step in which developers submit just their qualifications. If more than one developer seems qualified, then proposals that are more detailed can be requested from those on the short list. Because this round has fewer competitors, developers will be more willing to bear the cost risk of putting together a more detailed proposal.
- In addition, the public sector should evaluate its understanding of real estate finance issues and should decide whether to bring additional expertise into the process.

Finally, any actual deal that results from the process should be negotiated in an open and transparent manner with validation of its soundness by an outside third party. Without openness, transparency, and validation, the public support necessary to implement a public/private partnership will not occur.

Ten Principles for Successful Public/Private Partnerships

1. Prepare properly for the public/private partnership.
2. Create a shared vision.
3. Understand your partners and key players.
4. Be clear on risks and rewards for both sides.
5. Establish a clear and rational decision-making process.
6. Make sure all parties do their homework.
7. Secure consistent and coordinated leadership.
8. Communicate early and often.
9. Negotiate a fair deal structure.
10. Build trust as a core value.

Achieving Buffalo's Potential and Desired Community Benefits

The key players in Buffalo's effort to capture benefits from the departure of HSBC will be

- Entrepreneurial city government;
- Creative private development team; and
- Strong local business leaders.

These three players can work together in a variety of ways.

A deal structure does not necessarily mean upfront public funding, whether debt or equity. For example, the panel learned in its interviews that strong interest exists in seeing more urban housing created in the downtown, especially for student, faculty, and workforce housing associated with the growth at the medical campus. A negotiated predevelopment agreement with the local community's health care employers who commit to a specified number of units could provide significant value, reduce the financial risk, and attract private capital. This type of front-end commitment by well-respected community partners could play an important role in helping shape positive perceptions among the investment community and local civic and business leaders.

Any commitments from the public sector must be contingent upon the total redevelopment of the property (the "vision") rather than merely re-leasing the building. That is, any public participation needs to connect to the public benefits. Numerous variations occur on this theme. Here are some to explore:

- With nearly a quarter of a billion dollars in public and private investment in new developments in the shadow of the tower, other community partners and stakeholders may wish to play a role in the partnership.
- Other public benefits may be achieved, such as the creation of construction and permanent jobs or generation of additional tax revenues.
- The city may wish to consider specific financial objectives such as a specific leverage ratio between public and private dollars or a specific return on the public dollars invested in which property taxes, sales taxes, and other revenues are incorporated into the formula.

Although the formation of a partnership will take considerable effort, the panel strongly believes such efforts are critical and highly preferable to the "do nothing" option.

Conclusion

IN ITS ANALYSIS OF THE DESIGN ISSUES, the strength of the local market, and the financial situation of the building owners, the panel identified six key strategic issues that should be addressed in responding to the impending vacancy of One HSBC:

- The downtown Buffalo office market is too small to absorb the large amount of vacant space created at One HSBC without devastating impacts on rental rates and surrounding property values.
- Repurposing the building as mixed use will significantly catalyze the vitality of both the downtown and waterfront.
- Reconfiguring the plaza and lobbies to welcome public access will mitigate the fortresslike presence that has been a barrier and disrupter to the urban fabric.
- The existing loan on the building, with a balloon payment due in January 2015 of $75 million, may (a) exceed the current market value of the building and (b) result in a foreclosure sale that lowers the basis in the building for a new owner that attempts to rent the space at "cannibal" rental rates.
- Current market values of office, residential, and retail uses are below the cost of replacement; that is, the market will not provide sufficient return to attract solely private investment to pay for the cost of rehabilitation of One HSBC.
- The building is 40 years old and needs modernization in any case, especially improved building systems and efficiency.

These six issues intertwine private and public interests and argue persuasively that both sectors must work together. To accomplish this work, the panel recommends a process that explores the possible creation of a public/private partnership as the basis of successful redevelopment of the HSBC property. The panel's recommendations, in other words, are not focused on merely filling a vacant office building but rather are focused on creating a strategy of implementing a major redevelopment of the entire property and addressing the urban design challenges that have created barriers to the surrounding central business district community.

The panel urges that the process of addressing these six issues begin immediately; delay will make it much harder and more expensive to tackle the problems later. Consequently, the panel's recommendation to the building owners and to the city and community is to begin the work and collaboration now that focuses on both short- and long-term issues.

In the immediate short term, the building's vacancy threatens possible default on its mortgage and missing the balloon loan repayment obligation in January 2015. Default means that the special servicer responsible for managing the loan portfolio in the CMBS pool of loans may have an obligation to foreclose and attempt to maximize recovery through an auction of the property. Avoiding this outcome will require that all stakeholders work together to try to convince the special servicer that forbearance with a loan writedown or extension creates more value for the CMBS bondholders than a foreclosure and auction.

A significant contributor to effectively managing the default and foreclosure issue will be creating the long-term repurposing plan for the building and the reconfiguration plan for the plaza and lobbies. The long-term value created by these plans will be critical in convincing the special servicer that discounting or extending the loan, or both, is a better option than foreclosing and auctioning.

The revitalization and repurposing plans will have both physical and financial viability components. The physical component will finalize the mixed-use stacking plan, modernization and efficiency improvements, and reconfiguration of the plaza and lobbies. The financial viability component will address the financial gap between the market value created by the revitalization and repurposing plans and their costs. This financial gap will then become the basis for crafting a public/private partnership. As discussed earlier in the section on creating the public/private partnership, this financial gap should not include the amount by which the existing loan amount of $75 million exceeds the current as is market value of the building.

Navigating the short- and long-term challenges will require adding expertise to the process. On the private side, talking and, possibly, teaming with a developer would bring practical understanding of how to manage the predevelopment and development tasks associated with the significant repurposing project. On the public side, greater understanding of real estate finance and development will enable better and more credible fiduciary management of public resources deployed in any public/private partnership.

The panel, then, suggests the stakeholders view the work plan for addressing the short- and long-term issues as having six interrelated components as follows:

- The existing owners and the city through one of its development agencies should collaborate on creating a joint approach to addressing the default and foreclosure issue with the special servicer. This joint approach should more fully develop the long-term value creation strategy, thus creating a compelling argument that all parties are better off by supporting the revitalization and repurposing plan.

- The existing owners and the city should consider adding a developer to the planning process through, first, exploring the terrain and second, issuing a formal RFQ that could lead to a formal selection of a developer as part of the planning and development process.

- The city and its selected development agency should enhance its expertise in real estate finance and development through either adding an outside consultant or adviser to the process or developing greater in-house expertise.

- The existing owners, the community, and the city should, in the next six months, finish the planning of the revitalization and repurposing plans.

- The market value and the costs of the revitalization and repurposing plans should be validated by an outside third party. The cost analysis will need to include the current as is market value of the building but exclude any amount of the existing debt that exceeds this current market value. This means that the existing lender will be asked to a take a writedown or extend a significant portion of the existing $75 million loan. If the existing lender refuses to reduce or extend the existing loan and the property goes to foreclosure and auction, then the auction price will create a new, presumably lower, base value for the building.

- The financial gap created by the difference between the market value and the cost of the plan can then form the basis of negotiating and finalizing a public/private partnership based on the value of the public benefits created by the plan. The gap analysis should not use the full amount of the existing $75 million loan as the base value of the building but rely instead on a reduced loan value agreed to by the existing lender that more accurately reflects the building's current market value. Or, if the property goes to foreclosure, the auction price paid by the new owner can serve as the basis of the building's current value.

None of these components exists independently of the others, and all require developing trust among the stakeholders as the basis of working together. With each component will come new understanding and with that understanding will come greater confidence on the specific steps toward capitalizing on the considerable opportunities that the departure of HSBC has created.

About the Panel

Charles A. Long

Panel Chair
Oakland, California

Long is a developer specializing in mixed-use infill projects, including acquisition, entitlement, consulting, and development. He has 37 years of diverse experience in local government and development with an emphasis on economic development, finance, management, and public/private partnerships. His work on development is focused in California, with an emphasis on public/private partnerships and mixed-use infill.

He served for eight years as city manager in Fairfield, California. Since 1996, he has worked as a consultant to public and private clients on development and management. He has held interim positions for several cities in finance, redevelopment, and management, including interim town manager of Mammoth Lakes and interim city manager of Pinole and Hercules, California. His assignments have been diverse, including negotiating development agreements, writing redevelopment plans, pro forma analyses, strategic planning, economic development, organizational development, capital and financial planning, budget reform, base reuse, and alternative energy development. He has overseen more than $600 million of public financing in his career.

Long is a full member of the Urban Land Institute and, within ULI, a member of the Public-Private Partnership Council and a faculty member of the ULI Real Estate School, teaching in the United States and internationally. He has worked on 15 ULI Advisory Services panels, most recently chairing a panel in Dallas, and is the recipient of the 2012 Robert M. O'Donnell Award for distinguished service in the Advisory Services program. He is cochair of the Sustainability Committee for ULI San Francisco and, in that capacity, initiated several reports, including recommendations for streamlining California's environmental review process and a directory of financing sources for building efficiency. He is also building a program called Real Estate 101 for Public Officials, training a volunteer faculty to teach public officials about how to do public/private partnerships. He is the author of the book, *Finance for Real Estate Development*, published by ULI in April 2011 and winner of the 2012 National Association of Real Estate Editors Silver Award.

Long has a BA in economics from Brown University and a master's of public policy from the University of California, Berkeley. He served in the U.S. Army as an infantry platoon sergeant.

Daniel Brents

Houston, Texas

Brents is an architect and planner whose experience includes numerous office developments and 12 hotel projects totaling nearly 12,000 keys. With experience as an owner's and operator's representative as well as an architect, he is focused on achieving a dynamic balance of economic and technical feasibility.

He was previously a partner at Gensler, where he led an architecture studio that engaged in the design of office buildings, retail facilities, hotels, and convention complexes. His group was the firm's most active hospitality design studio and was responsible for some of Gensler's largest hotel projects. For example, he served as the principal in charge and team leader for the $270 million Hilton Americas in Houston. In that capacity, he was the architectural team's single point of responsibility to the owner, a public entity, and to Hines, the project developer. He had a similar role for the design of the

San Antonio Grand Hyatt, which included both hotel and residential units.

Prior to joining Gensler, he was Disney's vice president of architecture and planning for the real estate development of the 4,800-acre, $4.5 billion resort at Disneyland Paris. In that capacity, he was responsible for the development of hotels, related facilities, land acquisition, infrastructure planning and design, and government liaison. The project includes six hotels, built simultaneously, with a total of 5,188 keys, at a cost of $685 million.

Brents has served on numerous ULI advisory panels. He is a registered architect, a Fellow in the American Institute of Architects, and a member of the American Institute of Certified Planners. He has a bachelor's degree in architecture and a master's degree in urban design. He was recognized as an outstanding alumnus of Texas A&M University's College of Architecture, and he serves on the Dean of Architecture's Advisory Council.

Ron Gerber

Walnut Creek, California

Gerber is the economic development manager for the city of Walnut Creek, California. He was selected to fill the City Council's newly created position in September 2011. He is responsible for business attraction, retention, and expansion efforts for the community. Among his duties is developing a business strategy for the 40-year-old, 240-acre Shadelands Business Park, undertaking property disposition matters related to city-owned properties, attracting a boutique hotel to the downtown, and helping expand the retail and restaurant mix north of Mount Diablo Boulevard.

Before coming to Walnut Creek, he served for ten years as the economic and redevelopment administrator for the city of Novato where he was a key member of the team that helped transition the 600-acre former Hamilton Field military base into civilian use. Considered by many to be one of the most successful base reuse projects in the country, the project generated nearly $1.5 billion in private investment in ten years that encompassed 550,000 square feet of offices and technology space, 2,100 new homes, a hotel, restaurants, cafés, artists' studios, open space, hiking trails, and one of the largest wetlands restoration projects in the United States. Gerber also led the city's downtown revitalization efforts, including a main street redevelopment project with a 37,000-square-foot Whole Foods and 124 units on the air rights above the store with a three-level parking structure. Gerber worked closely with the development team of the Lalanne Group and Signature Properties to bring the project to fruition.

From 1989 to 2001, Gerber served as a project manager for the Emeryville Economic Development and Housing Department where he spearheaded property acquisition, disposition, brownfields redevelopment, and business attraction efforts. His accomplishments included such projects as the Bay Street urban infill mixed-use lifestyle center, the Pixar campus, and Ikea.

Arthur T. Malito

Indianapolis, Indiana

Malito is a designer at Context Land Planning in Indianapolis, Indiana. Context serves a wide client base across the midwestern United States with an emphasis on civic, educational, recreational, health care, and mixed-use community environments. Major active projects include Grand Park, a 360-acre athletics complex in Westfield, Indiana, which expects to draw 1.5 million visitors annually; Whiting Lakeside Park, a 25-acre park renovation on the Lake Michigan shoreline; and CityWay, a mixed-use development with luxury apartments and hotel in downtown Indianapolis.

Malito holds a master's of urban design and a bachelor's of landscape architecture from Ball State University in Muncie, Indiana. His research has focused on the redevelopment of large derelict sites and adaptive use strategies for redevelopment.

His professional affiliations include memberships with the American Society of Landscape Architects and the

Urban Land Institute. As part of the Executive Committee for the Indiana Chapter of the American Society of Landscape Architects, he has helped coordinate chapter events, operations, and awards. As a ULI Young Leader, he has helped organize and select presenters for the Indiana Chapter lecture series. He is also involved with several other community organizations in Indianapolis that promote quality urban design.

Malito's first involvement with ULI was initiated through the Advisory Services panel for the General Motors Stamping Plant in Indianapolis, Indiana, during the summer of 2011. As an invited presenter, he helped provide the panel with additional knowledge of the project site, previous design studies, and recommendations for future development.

Michael Reynolds

Newport Beach, California

Reynolds is a principal of the Concord Group, a real estate advisory firm with offices in Northern and Southern California and Boston, Massachusetts. The Concord Group provides strategic advice for acquisition and development of residential, commercial and retail, and industrial real estate projects. Clients include land developers, homebuilders, institutional investors, public agencies, and universities throughout the nation.

Reynolds has expertise in market, economic, and financial analyses associated with existing properties as well as development opportunities. He has provided consultation to owners and operators of real estate for the past 12 years, completing more than 750 projects on both a local and national basis. His extensive experience in the industry provides invaluable insight for clients seeking to establish programming criteria that maximize the market and financial opportunity represented by real estate.

He specializes in the programming and valuation of the following real estate types: urban mixed use; master-planned residential and commercial land; multifamily apartments; and congregate housing for seniors.

Reynolds has lectured at numerous professional industry groups, including the ULI Real Estate School, Pacific Coast Builders Conference, Southern California Appraisal Institute, and University of California, Irvine. Originally from Connecticut, he moved to Southern California to attend Claremont McKenna College, where he graduated cum laude with a degree in economics and government.

Steven Spillman

Mission Viejo, California

Spillman is a principal of Pacifica Companies, a national investment, development, and advisory firm. He specializes in mixed-use development and has had responsibility for office, medical, retail, multifamily, industrial, corporate, and public projects as well as master-planned communities. His experience includes financing, partnership relations, entitlements, marketing, leasing, acquisitions and sales, design and construction, and property and asset management in challenging political and competitive settings. Spillman also chairs the Planning and Transportation Commission for Mission Viejo, California, a master-planned community looking to retain and enhance its natural and built environments during the next 50 years.

As the executive vice president and operating officer of EDC, an affiliate of the $10 billion investment bank W. P. Carey, Spillman turned around a troubled, high-profile public/private project. While a principal at Mitsui's Birtcher, he developed and managed office, retail, and mixed-use projects in California and Arizona. At Aetna's Urban Investment and Development Co., Jaymont Properties, and Burnham Properties, he led the development of high-rise office, multifamily, and retail projects in New York City, Boston, Cleveland, Chicago, Milwaukee, Dallas, and Houston. Spillman began his career as an architect designing similar projects, including hospitals and medical facilities.

Spillman is currently a ULI Program Committee vice chair and has chaired advisory panels, Urban Development/Mixed-Use councils, and regional trends conferences. He is also ULI's council counselor for its Urban Development/

Mixed-Use councils, Transit-Oriented Development Council, and Responsible Property Investment Council. Spillman served as a board member of the Japan America Society and the Pediatric Infectious Disease Research Foundation, and chaired the public/private Centraplex marketing association. He also created and taught ULI financing workshops and a University of California graduate real estate finance course. After attending Purdue University (Everham Scholarship), he earned bachelor of architecture (cum laude) from Kansas State University and graduated with an MBA (investment and finance) from the University of Missouri.