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Yielding above market returns through creative approaches to construction and use

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The current real estate market can continue to offer above market returns for new properties by applying extra creative effort on both the marketing and development. While financing continues to be a significant challenge and may be for the foreseeable future, opportunities continue through new approaches to construction and utilization.

For example, the ownership family had left a large, unusually shaped 13-acre property on Rte. 135 in Westborough, as raw land for almost 40 years. After the family leader passed away in 2006, the site was marketed and, once under contract, then permitted for a mixed-use development in 2007. After multiple variance appeals by an abutter, the property was caught in several years of litigation. Then, the concept of a solar panel field was conceived and quickly permitted on an expedited basis as an alternative. Though Westborough is not currently one of the Commonwealth's approved Green Communities, the concept was quickly understood and approved by the Planning Board. The abutting neighborhood also felt positively regarding a solar panel field as a use they could support and endorse without appeal. In September, the site was cleared and the solar panel field is currently under construction. This new development approach has the attractive combinations of reduced expenses for soft costs and site work, while yielding a higher internal rate of return (IRR) from the solar panel net income than the mixed use development which was designed and permitted in 2007.

Another example, in Providence, an elongated and difficult to develop site commercial site with limited depth of just over eighty feet. Such limited depth would normally inhibit the construction of any building. With a creative approach, the developer used recycled shipping containers to create a three level structure with twelve distinct office areas. This application is productively green is an example of cooperative and creative application. Though still in lease-up for office use, the container project for office use is cost effective and creative.

While alternate structure is one new application, alternate use is another approach in the current environment. The Salvation Army recently purchased the vacant Pier One building on Rte. 9 in Framingham from Core Investments of Boston. Core had purchased the property at auction in April 2010 with the expectation of improving the property and proceeding with prospective tenant lease-up. Instead, The Salvation Army made an offer to purchase the building for a retail and donation center. The Salvation Army was focused on the property's excellent line of sight visibility and high traffic count on the westbound side of Rte. 9. Opening is expected in January 2011.

As commercial real estate is a lagging macro economic indicator, the industry may continue to see challenges for the next eight or nine quarters. However, investors can still find sites with strong IRR yields through creative use of both structures and uses.

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