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How the Pandemic Prompted an Office-to-Apartments Pivot in a Former Southern Steel Town

Development Blends Rentals With Hospitality in Historic Downtown Building in Birmingham, Alabama



The Frank Nelson Building in downtown Birmingham, Alabama, is in the final months of being converted to The Frank apartments. (Richard Lawson/CoStar)

By **Richard Lawson**

CoStar News

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A developer had a plan three years ago to turn one of downtown Birmingham, Alabama's first high-rises into trendy open, collaborative office space that was sweeping the country at the time. Then came the pandemic.

The health crisis further slowed already weakening office demand, prompting local developer Orchestra Partners to pivot in a new direction. Now Orchestra is in the final months of transforming the [120-year-old Frank Nelson Building](#) into 180 apartments where renters can sublet the units as short-term rentals on websites including Airbnb in the latest variation of the national trend of combining multifamily with hospitality.

“It will feel somewhere between an apartment and a hotel,” said Hunter Renfro, a principal with Orchestra, while walking through The Frank's finished units with neutral, wood-grain cabinetry in the kitchen along with stainless steel appliances.

Orchestra Partners is delving deeper into an industry niche in which apartments don't have to only be places renters lease for a year. At the same time, it's betting that digital nomads — those who can work from anywhere — aren't just interested in living in big cities. Along the way, Orchestra faced challenges that show the difficulty developers face in coming up with a different type of building use to satisfy both investors and renters.

The Frank approaches completion as the practice of combining apartments and short-term rentals is receiving more attention after WeWork co-founder Adam Neumann secured \$350 million from Silicon Valley venture capital firm Andreessen Horowitz last month for his new venture Flow, saying he could use flexible leasing to change the apartment industry and help solve the nation's housing shortage.

For Orchestra Partners, its model is like those of some others in the niche, including Denver-based startup Sentral. The firm operates apartments with flexible leases in big cities around the U.S. but offers a hotel option in Chicago; Denver; Miami; Austin, Texas; and Scottsdale, Arizona. Sentral renters also have the option of putting their units on Airbnb for periods during their lease term. Blueground, based in New York, also has flexible leasing at the 9,000 furnished apartments it has around the world but offers units for a minimum one-month stay, targeting corporate travelers who need to be in a location longer.

And in Birmingham, just a couple of blocks away from The Frank, is the headquarters for Landing, a flexible apartment leasing startup from local native Bill Smith, who sold grocery delivery startup Shipt to Target nearly five years ago for \$550 million. Landing has a membership model that allows renters to move between furnished apartments in different cities with at least a one-month stay in each location. Other business models include taking the hotel-first approach but with fully furnished apartments from the likes of hotel companies Mint House, Sonder and Placemkr.

But the strategy has risks, among the biggest being that travel demand is difficult to gauge. And there's no guarantee of the initial or continuing popularity of a niche property use.

Office First

Orchestra bought the Frank Nelson Building in 2017 for \$2.85 million with a plan to renovate it into 100,000 square feet of speculative office space. But the office market was weakening in 2018 and into 2019, and the vacancy rate had risen in downtown Birmingham to 15% while Orchestra tried to prelease the space.

The developer thought it had the magic formula for the Magic City, Birmingham's nickname given in the late 19th century because of the seemingly magical abundance of coal, limestone and dolomite deposits needed to make steel that drove the city's economy for decades.

John Boone, another principal of Orchestra, told CoStar then that the problem was that developers weren't building the collaborative office space that was the rage in 2017. The project "is our attempt to deliver some really cool office space right in the heart of downtown," Boone said at the time.

A new downtown revival [kicked off in earnest](#) about seven years before Orchestra's building purchase, when developers started converting derelict buildings into residential, retail and office space. Old hotels were revived. A new ballpark in 2010 named Regions Field brought Minor League Baseball's Birmingham Barons back downtown from suburban Hoover. New apartments sprung up near the ballpark, and a food scene emerged led by the Highlands Bar & Grill — which won the James Beard Award for the most outstanding restaurant in the U.S. four years ago — in the Five Points South downtown neighborhood.

By 2019, there was some bustle in downtown and construction was everywhere. But preleasing for The Frank wasn't happening. And the seeds for a pivot were planted. "We were prepared to move slowly," Renfroe said.

To help cover loan payments, Orchestra renovated space on the ground floor for Italian restaurant Trattoria Zaza and another for a UPS store. The building has state and federal historic tax credits and is in a federal opportunity zone.

That's when the pandemic struck. "The pandemic expedited everything" when it came to shifting plans on the building, but lenders stopped lending, Renfroe said.

Pivoting to Apartments

Several blocks from The Frank, Orchestra had converted an old building into condominium units and retail in the spaces below named Mercantile on Morris. Those 47 units sold out quickly in 2019 after Orchestra intentionally set it up as a homeowners association to allow short-term rentals, which most buildings don't allow.

About half the units in Mercantile are micro, measuring about 270 square feet. Nearby, the developer did a smaller condo project of 18 units named Founders Station in 2020. Three of the units are micro and allow short-term rental.

Selling out Mercantile and Founders Station helped inform the decision on The Frank. Renfroe said he saw that investors were willing to pay more for units they planned to use for short-term rentals than those to be occupied by the owner, pointing to a shortage in short-term rental property. He

said a second phase of seven units at Mercantile on Morris sold in one block for \$400 per square foot to a short-term rental investor.

David Dutton, a residential broker with ARC Realty with a listing downtown, said that “almost every call we had is, 'Can it be an Airbnb?'" The Second Avenue building's units are occupied by owners. It hasn't banned short-term rental, but Dutton said the HOA has been discussing it.

Investors will pay more for newly built or renovated units if they are available in buildings that allow short-term rentals, said Carrie Hill Smith, a residential broker with RealtySouth. Smith added that she could point to only two in Birmingham, one of which is Mercantile on Morris.

Orchestra had to stick with apartments at The Frank because of the historic tax credits, but “also the financing for a deal that large for condos is nearly impossible in a market like Birmingham,” Renfroe said.

Studios at The Frank will rent for \$998 to about \$1,500 a month, with some units as small as 250 square feet. One-bedrooms range from about \$1,500 to \$1,625.

The bet is that an enterprising renter can cover the rent and then bring in some extra money with short-term rentals. Nightly rates for downtown Birmingham can range from roughly \$100 per night to \$260 on Airbnb. Renfroe said Orchestra chose not to handle short-term rentals itself, preferring to leave that to those with more experience. Landing has expressed interest in listing some units, like it has with others around the city, but Orchestra is holding off until closer to completion to give long-term renters first dibs on the units, he said.

Digital Focus

Like many new apartment properties these days, The Frank will have the amenities that could draw renters as well as travelers. It will have a fitness center and a rooftop lounge with a large kitchen, dining and entertaining area. The building has a 10-gigabit fiber pipe that can go to 100 gigabits once the city's fiber network can handle the speeds, Renfroe said. It also will have wireless connection throughout the building so renters or travelers can roam, something sought by those working remotely.

Meanwhile, The Frank faced other pandemic-related challenges.

"The shock wave of the pandemic screwed up pricing" for construction materials, Renfroe said. The developer didn't get a construction loan until May 2021, which came from Los Angeles-based Parkview Financial in the amount to \$25.5 million, according to Jefferson County property records.

While there is investor demand for units, there's the matter of the difficulty in gauging traveler demand. Airbnb didn't respond to questions about demand and revenue from units in downtown Birmingham.

Dutton said traveling nurses and patients at the University of Alabama at Birmingham's medical center, the largest in Alabama, drive some demand.

But there's also tourism. The city hosted such events as the World Games in July. There are festivals, and Railroad Park is a tourism draw. In March, the newly revamped Legacy Center will host the first and second round of the NCAA men's basketball southern regional tournament during March Madness. The NCAA women's southern regional will be there in 2025.

Dutton is hoping such events and other tourism bring back the downtown bustle that largely disappeared during the height of the pandemic. “It’s trying to get its groove back, and it will,” he said.

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