

Sasha Liu

URBN 1943

Jon Cohen

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URBN 1943 Assignment #2: Feasibility of the Superman Redevelopment

Realco First Year Analyst Perspective:

Parking

The lack of available parking surrounding the Superman building has a significant negative impact on the project's feasibility. Parking is an essential aspect of residential developments because it affects accessibility, and a residential development with limited accessibility and convenience is not likely to attract a lot of tenants. The need for a car is very important given a significant portion of target tenants are young professionals/members of the workforce, where commuting is assumed to be a part of their daily life. With this, access to parking is an important determinant of residence. Obtaining occupancy is a crucial aspect of financial feasibility, and having a lot of vacant units would result in a huge financial loss for those involved in the project.

Street parking in Downtown Providence can put car owners at risk of theft and other crimes. From personal experience, my mom once stayed at a hotel in Downtown Providence and parked her rental car on the street, just a few blocks away from where the Superman Building is located. When she came back to the car a couple hours later, she discovered the car was broken

into. Public sentiment characterizes Downtown Providence as an unsafe space, so having an underground lot for the potential residents of the Superman building would be important in order to make this space attractive to tenants.

While visiting the site, I observed three underground garages and two surface lots near the Superman building. However, all of these garages/lots serve an existing purpose, and one of the surface lots appeared very full. While existing parking spaces near the Superman building provide the potential opportunity for tenants to lease spaces, there is no guarantee a parking space will be available given the increased number of workers starting to return to the office.

One aspect of the surrounding area that could alleviate the need for parking is convenient and efficient public transportation. Fortunately, in close vicinity to the Superman building, there are numerous bus stops, and the train station is just about a ten minute walk away. However, when I walked by the downtown bus terminal on a weekday morning, I saw a lot of homeless people occupying seats designated for waiting passengers. While the area is relatively calm during the day, it often feels unsafe at night, which could deter people from using those public transportation resources, thereby increasing car and parking dependency.

Supply

The market forces that ultimately killed the Fane Tower also have a negative impact on the Superman building. Currently, lenders are being even more cautious in reaction to rising interest rates and recent bank failures. Additionally, the construction supply chain has been deteriorating, leaving major back ups in supply delivery and increases in construction material costs. This puts stress on the financial feasibility of the project, as lenders are apprehensive about

financing big construction projects, while construction projects are also becoming more expensive due to lack of supply.

In observing the surrounding area, I saw that a lot of shop spaces were vacant, and there were few people walking along the street. These vacancies imply that the demand in the downtown area is weak. The vacant storefronts covered in graffiti and cracked windows further emphasized an unsafe feeling in the area. Additionally, when analyzing the resources around the Superman building, the closest convenience store is the 7/11 on Fulton Street, which many in my class have described as “sketchy” and “scary.” The lack of an inviting and welcoming ambiance in this area makes it less attractive to residents, and could increase challenges of occupancy.

I was able to observe that another apartment complex called the Studley is being built across the street from the Superman building, which could further decrease demand for residential units in downtown Providence. Another large, tenant building in close proximity to the Superman building makes it harder for the project to see full occupancy.

To alleviate some concerns around finding tenants, there is a large demand for affordable housing in Providence. Citing our last assignment, the Pennrose proposal for Parcel 9 included research that demonstrated the large market for affordable housing in Providence. While affordable housing is in high demand, only a small portion of the proposed units in the Superman redevelopment are marked as affordable, so only a small part of the development fit the market need. This leaves a large amount of units at risk of vacancy.

The market risks that contributed to the demise of the Fane tower are arguably more detrimental to the Superman building as its location is inferior to that of the Fane tower. The

Fane Tower's proposed location was along the water in the Jewelry District. The area was unique in that it possessed both ample parking and its orientation allowed for all units to get sunlight during the day. From personal observation and the assistance of a sun path calculator, I noticed that some units in the Superman building would not get any sunlight, which is not ideal for a residential space. As an office building, lack of access to natural sunlight still allows for a functional space, but this is not the case for a living space. The graphic below shows that some of the units on Fulton Street do not interact with the sun path. Additionally, since the Superman building is next to other tall buildings, the lower floor units will also not get adequate natural light.

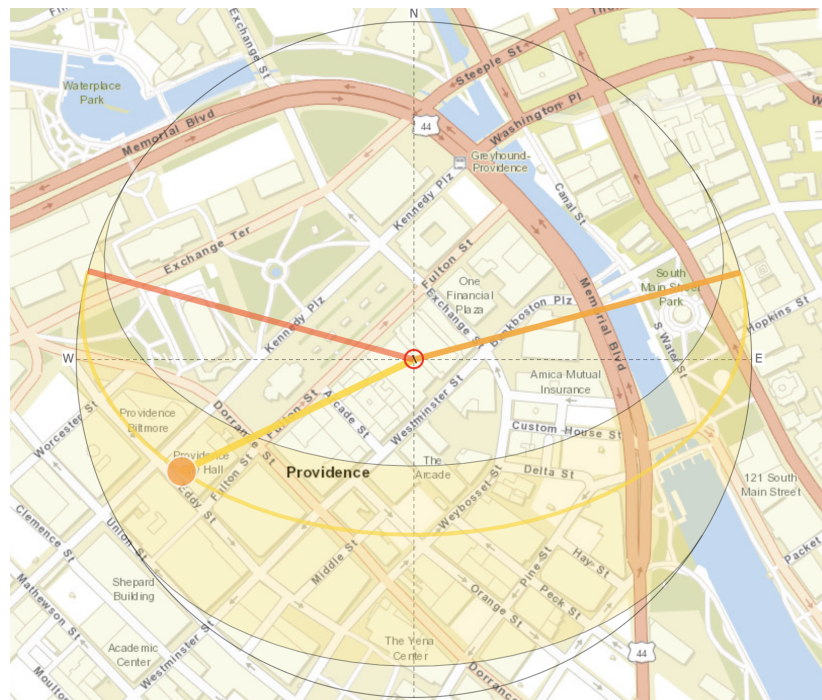


Figure above shows the sun path around the Superman building on a day in April

Material Risks

The material risks for ground up projects like the Fane Tower, include uncertainties like

what is below the surface of the soil (risks of sinking, instability, etc.). The Fane Tower also would have been the tallest building in that area by far, so taking from the example of the John Hancock tower in Boston, there is also the concern of how wind would impact the stability of the building. Fane's lack of experience with a project of this size causes additional risk, and makes it difficult to estimate an accurate price for the project. Less experience often correlates to a higher margin of error, which could lead to higher costs in construction and repairs if mistakes or miscalculations are made.

On the other hand, with the redevelopment of the Superman building, worrying about what is below the surface isn't as important because the structure is being reused, and the foundation due diligence has already been done in the initial construction of the building. However, a new risk is introduced when you start opening up the walls since you never know what you could encounter, especially in older buildings such as the Superman building. Some uncertainties can be mitigated with insights provided by Emily Badger and Larry Buchanan in their article titled "So You Want to Turn an Office Building into a Home," where they note that it is easier to renovate an older (prewar) building due to past building regulations. While Badger and Buchanan's solution to this "25 story Rubik's Cube" signals that a project of this variety can be done, there are still substantial risks associated with renovating a nearly 100 year old building.

In a ground up development, the team goes through a lot of due diligence to analyze the potential risks that could occur before any ground is broken. For a redevelopment project, demolition is required to be able to analyze potential issues in the structure. Additionally, in ground up development, there is more freedom to customize the building to the specific needs of the area, whereas in a redevelopment the developer is constrained by the existing structural

design. To further the uncertainty surrounding the Superman building, the High Rock development group, like Jason Fane, also does not have experience with a project of this magnitude. As of just a few weeks ago, High Rock development group still did not have a timeline for construction according to Alexa Gagosz. The lack of a succinct plan suggests disorganization in the development team, and a disorganized team with a loose timeline leaves room for delays which could raise costs or even kill the project as a whole.

Developer Experience

Neither the Superman building ownership group nor its local lawyer/development partner has any demonstrated experience with redeveloping buildings of this scale for residential use. The building development team has mostly done smaller scale residential projects in Rhode Island, but nothing comparable to the scale of the Superman building. To further demonstrate High Rock's lack of development experience, when doing a Google search of this company, there is little information available. I couldn't even find the company's website.

Many speculate that Hope Tower's failure can be partially attributed to Jason Fane's lack of experience. After Fane's proposal was accepted, there was a huge pause in the process, and this delay led to the inevitable downfall of Hope Towers. As Joseph Paolino, a well known real estate mogul in Rhode Island, has said in a statement, "time kills development." Fane also seemed to lack credibility and accountability; it is noted that he always balked when asked about the financial feasibility of the project, saying "trust me" rather than providing objective facts.

Like Fane, the High Rock development group seems to be behind schedule. After having their proposal accepted, the group claimed that they would begin demolition in the fourth quarter

of 2022. We have already completed the first quarter of 2023, and there are no signs of demolition. This is particularly concerning in the current economic climate, as interest rates continue to rise. Paolino's words seem to be relevant to the Superman building redevelopment process. Will this ongoing delay kill the project as a whole?

Overall Recommendation

Taking parking, market risks, material risks and developer experience into account, I would not recommend Realco invest in this project. The lack of parking around the building poses a challenge for the development in terms of finding tenants. The several vacant storefronts and perceived danger in downtown Providence also poses a threat to the project's success. With these occupancy challenges, the financial feasibility of this project is greatly affected. If we were to invest into this project we would be putting ourselves at risk of losing our investment. The current delays in the project that coincide with rising interest rates and problems in construction material supply make the project seem even less viable. All of these challenges put together makes this investment incredibly risky, therefore, I would not recommend investing in this development, especially in the current economic climate.

Realdag First Year Analyst Perspective:

Political Risk

Given the lack of experience the High Rock development group has on a project of this scale, the political risk of this project is high. The present trajectory of this development also emphasizes the political risk of this project. High Rock claimed that they would start demolition in 2022, but with no signs of progress made they are clearly behind schedule. This slow moving

progress is reminiscent of the Fane tower project, where it took a lot of time for any progress to be made. With project delays, there is speculation that High Rock needs additional financial help for their undertaking. Requesting additional funds this early in the process seems like a red flag, and the lack of transparency from the High Rock group also puts Providence public officials in a tough position.

The failure of the Fane tower arguably puts more pressure on Providence public officials to produce a successful development. Government subsidies are often associated with resident tax dollars, and it would not only be detrimental to the city's pride if this project failed, but also to the approval of public officials.

Civic Pride and Future Potential

While the Superman building is an important part of the Providence skyline, with the current economic circumstances the relative cost benefit of moving ahead with a subsidy for the Superman building would be slim to none (or potentially negative). The recent bank failures along with rising interest rates has made the lending companies more apprehensive about giving money to construction developments, and has discouraged people from entering the housing market. In these current conditions, it is highly likely that the Superman building will not be able to be completed successfully. Even if it is completed there is also the challenge of getting it done for a decent price, and then filling the units poses an additional setback to the feasibility of the project.

The city walks on a fine line between maintaining civic pride, financial responsibility and attracting innovation. While the Superman building is a symbolic building in Providence, and its

revitalization has the potential to greatly benefit the downtown area both socially and economically, the financial risks are too high and the potential demise of the redevelopment provides many consequences that outweigh the benefits. However, there is also the issue of denying subsidies to the developers which could consequently signal to other developers that Providence is not a conducive environment to new construction, hurting future revitalization efforts.

With these factors in mind, I believe that it would be most beneficial for the city if they were to wait to subsidize the project until the market risks subside so that they create a higher quality development that is lower cost. Trying to force a development in challenging financial times, resulting in a very expensive and low quality product, could make it so that this redevelopment would have to be repeated in the near future. It would be detrimental to the city if they were to redevelop the building, spend a lot of money, and then have it be vacant again after a few years.

Market Rate/Affordable Housing

Given the obvious need Providence has for affordable housing, I do not think that it is appropriate to provide significant subsidies to market rate developments. Government subsidies incentivize affordable housing developments, and without this incentive developers are more inclined to develop market rate units so that they can generate a higher return. Government subsidies allow affordable housing to be more financially feasible, and it seems counterintuitive to provide subsidies for market rate developments. There should be more accountability on the developer to create a construction plan that fits a given budget if they are not sacrificing income to provide affordable units.

However, the current economic climate does provide a unique scenario where development is discouraged due to high interest rates and wary lenders. With this, the conversation on government subsidies for market rate units could take place, especially as Providence is in need of new development to continue its revitalization efforts. Providence's need to promote civic pride could provide a reason for the government to subsidize the development, but the subsidy definitely should not be as significant as one that would be for affordable housing. The demand for affordable housing should also be considered in this decision. Are there enough potential tenants who could pay for market rate units? If not, then the government should not provide subsidies otherwise they would be financing a project that is not feasible, and this would result in a lot of unsatisfied tax payers.