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'To chase the animal'

Packard Plant owner eyes bids for historic downtown buildings

By KIRK PINHO
CRAIN'S DETROIT BUSINESS

Over breakfast at the **Inn on Ferry Street** in Midtown, Fernando Palazuelo slides salt and pepper shakers across the table like chess pieces. They are a representation of his Detroit real estate strategy. Yes, he says, he's getting ready to make a series of big moves.

The new owner of the 3.5 million-square-foot **Packard Plant** on the city's east side has much broader ambitions for his portfolio in the city, which first took notice of him in 2013 when he bought the shuttered plant — all 47 buildings, all 40 acres — for a mere \$405,000 at a Wayne County tax foreclosure auction.

Palazuelo is a native of Spain who has been developing historic but dilapidated sites in Peru since losing everything in the recession. He said in an interview with Crain's last week that he plans to make offers to buy five of greater downtown's most storied buildings: the 255,000-square-foot **Book Tower** and adjoining 260,000-square-foot **Book Building**; the 996,000-square-foot **Penobscot Building**; and the **Albert Kahn Building** and **Fisher Building** in the New Center Area, which total 925,000 square feet.

But whether he's actually successful in buying them is anybody's guess.

While Palazuelo said he has private equity money available to him as investment partners, he's publicly pursuing properties that are mostly not actually for sale. Only the Kahn and Fisher are on the market. Miami Beach, Fla.-based **LNR Properties Inc.** took title of the buildings following a default on a \$27 million mortgage by the previous owner.

The registered agent of the previous owner, **FK Acquisition LLC**, is **Farbman Group** CEO Andy Farbman. Farbman Group had handled property management and leasing, but that contract was awarded to Farmington Hills-based **Friedman Integrated Real Estate Solutions LLC** last month after the ownership change.



Packard Plant owner Fernando Palazuelo wants to make offers to buy five downtown buildings.

The Book Tower, at 1265 Washington Blvd., and the Book Building, at 1249 Washington, are owned by Milan, Italy-based **Akno Enterprises**, which purchased them in 2006 for \$4 million, according to **CoStar Group Inc.**, a Washington, D.C.-based real estate information service.

Attempts to reach Akno through attorneys with ties to the company were unsuccessful last week.

Toronto-based **Triple Properties Inc.** bought the Penobscot, at 645 Griswold St., for \$4.8 million.

Palazuelo acknowledges a difficult journey ahead. And he has both selling points and some marks against him in his developer résumé, including a corporate bankruptcy in Spain.

"I'm sure that our first offers will not be accepted," he said. "But we are going to chase the animal."

That hunt will be tough for the Penobscot, whose owner says the building is not for sale. Steve Apostolopoulos, co-founder and managing partner of Triple Properties, said the Penobscot is being marketed for leases only.

"We are not considering offers at this time. If he'd like to rent an office from us, he's more than welcome to rent an office," Apostolopoulos said.

Palazuelo said financing for the greater downtown purchases would come in part from a large Lima-based private equity firm. He declined to name the firm but said it has more than \$500 million in assets.

Packard Plant vision

At the Packard Plant, Palazuelo envisions a mixed-use development unfolding over the next 10 to 15 years with as many as a dozen individual projects. Rough project cost estimates are \$120 per square foot, or \$420 million, he said.

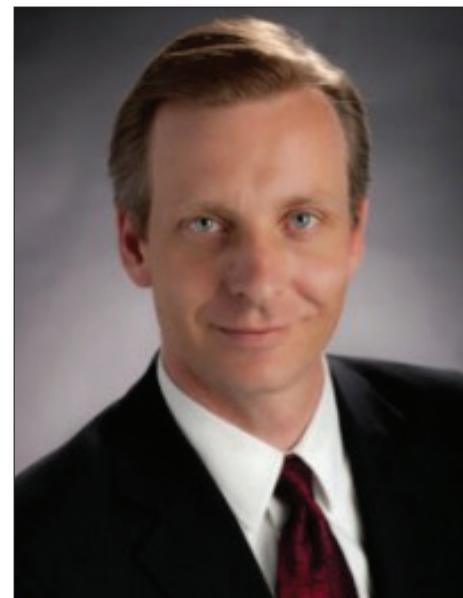
The first project is slated to include the 150,000-square-foot former administrative building. Palazuelo expects the financing sources to be identified, and licenses and approvals will be received by August, and that construction could begin shortly thereafter.

Detroit-based **Alfred Kahn Associates Inc.** is the architecture firm on the project; Troy-based **O'Brien Construction Co.** is the general contractor.

Joseph Kopietz, a member in the Detroit office of **Clark Hill PLC** who is advising Palazuelo on the project, said the redevelopment financing will include a mix of debt, equity, state and federal grants. It will also include federal historic tax credits and New Markets tax credits, he said.

Kopietz said discussions of establishment of an Obsolete Property Rehabilitation Act district for the Packard are continuing with the city, and that he and Palazuelo have had regular communication with the **Detroit Economic Growth Corp.**, the **Michigan Economic Development Corp.**, and the **Wayne County Economic Development Growth Engine**.

A variety of zoning variances will be needed, and it hasn't been determined whether a planned unit development designation will be pursued.



Clark Hill attorney Joseph S. Kopietz

"There will be various city-level approvals related to zoning and use," Kopietz said.

Connecting the dots

Palazuelo sees his strategy as one that could transform Detroit, should it be successful.

It's about bringing a mix of uses like retail, light industrial, multifamily and senior housing, office space, recreation and art to a large chunk of the city, from the east side to downtown.

"One building, even if it's the Packard, which is a big project of buildings, does not change a whole town," he said. "You need a certain impact in several different places."

"We were able to change Lima with 22 (developments)," he said. "One building was helping the other."

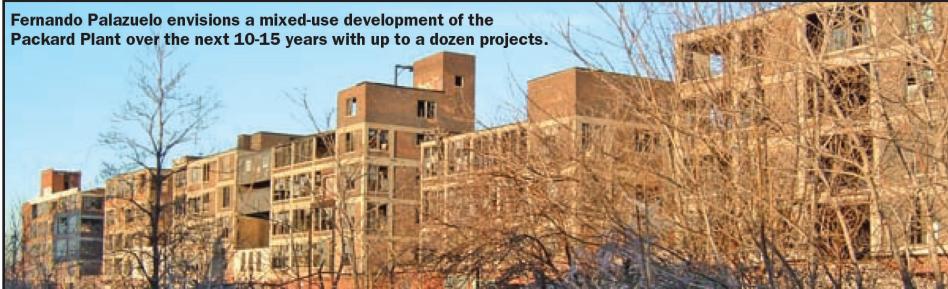
Palazuelo began his real estate career in Madrid in the early 1980s on a scale much smaller than that. A veteran of the **Spanish Foreign Legion** — the Spanish Army's elite special forces — who served four years in North Africa, he first bought a small, historic and inexpensive space in Madrid for his art gallery and renovated it into "something quite spectacular."

Decades later, his real estate company, **Arte Express**, takes its name from the gallery that kickstarted a real estate career that eventually took him to Lima after the 2008 global recession. That downturn and resulting financial fallout led him to file for bankruptcy for his company and to liquidate his assets.

continued on page 2

continued from page 1

Fernando Palazuelo envisions a mixed-use development of the Packard Plant over the next 10-15 years with up to a dozen projects.



"I had to start from scratch in South America," he said.

Now, Palazuelo is in a new continent in a new city with a new set of challenges. But one thing has remained constant in his investment choices.

"I always do cities with historical significance," Palazuelo said. "That's premium for me. It's a question of history. They need a track record of history, low prices,"

Challenging road

Palazuelo's time in Detroit with the Packard Plant hasn't been without its setbacks, including a more than six-month process to get property tax issues resolved and a clean title to the plant. He received a clear title in mid-2014.

More recently, he was a member of a consortium that submitted a proposal to the city to redevelop

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and to be on the upswing after a long stretch of decline.

Detroit seems to fit that bill.

Still, investment in each one of the downtown buildings, particularly the Book buildings, have to be in the hundreds of millions of dollars given their condition, said David Di Rita, principal of Detroit-based developer **The Roxbury Group**.

"That'd be quite a bit for anyone to chew off, including people who know how to chew off really big things," Di Rita said. "The Book Tower is a full-out rehab. It is the **David Whitney Building** with the **Broderick Tower** attached to it."

The David Whitney, a Roxbury Group project, opened late last year following a \$94.5 million renovation into 108 apartments, the 136-room **Aloft Detroit** hotel and **Grand Cirque Brasserie**, the building's signature restaurant.

The Broderick Tower was a \$53 million redevelopment of the 35-story building into a 127-unit apartment building.

Both projects required complex financing structures.



the vacant 526,000-square-foot **Herman Kiefer Health Complex** site off Taylor Street west of the Lodge Freeway.

The consortium, led by Eric Larson, founder, president and CEO of Bloomfield Hills-based **Larson Realty Group LLC**, was not chosen to redevelop the site. Larson said in January that the city has been in discussions with another developer, an unknown New York City based investment group.

And if Palazuelo wants to buy the downtown office properties, he'll be forced to contend with reluctant or unwilling sellers like Triple Properties, or stiff competition, as is expected to be the case with the Fisher and Kahn buildings.

International interest

Palazuelo is just one of the foreign investors currently purchasing property in the city. For example, Shanghai-based **DDI Group** purchased the **David Stott Building** and the former *Detroit Free Press* headquarters at auction in 2013 for more than \$13 million combined.



Penobscot owner Triple Properties owned the **State Savings Bank** building at 151 W. Fort St. until December, when it was bought by Dan Gilbert's **Bedrock Real Estate Services LLC**. And Gabriel Ruiz, a Mexican developer and hotel investor, bought the former **Pontchartrain Hotel** in 2012 for \$8.5 million, according to CoStar. It reopened a year and a half ago as the **Crowne Plaza Detroit Downtown Convention Center**.

The amount of international money coming into Detroit has gone from "almost zero to 15 to 20 percent of overall investment in real estate," said Dennis Bernard, founder and president of Southfield-based **Bernard Financial Group Inc.**

"Chinese, Israelis, South Americans, Europeans," he said.

That's because capitalization rates, which measure returns on investment in real estate, are 2.5 to 3.5 percent higher in Detroit than in other markets like on the East and West coasts and in cities like Dallas, Houston and Chicago, Bernard said.

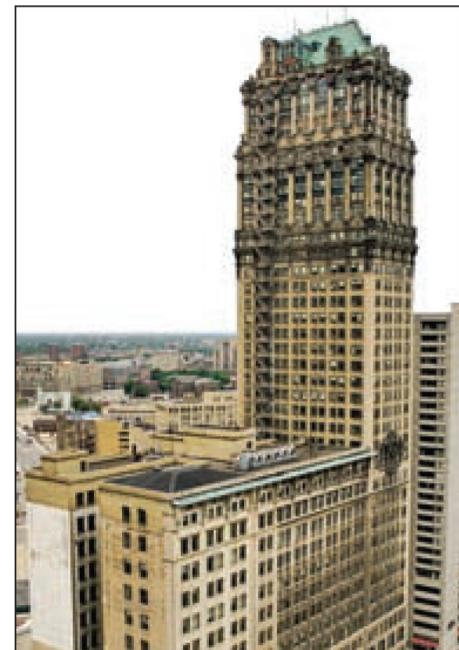
"Your cost of debt is going to be the same, so why not get a little more return on your money?" he said.

Palazuelo, who plans to build an apartment in the administrative building for his personal use, said foreign investment in Detroit is increasing because real estate is considerably less expensive than in foreign markets.

"The cheapest town all over the world," he said.

He pointed to **One Detroit Center**, the 957,000-square-foot skyscraper downtown that *Crain's* reported last month is expected to sell for about \$100 million to one of three local investors. Palazuelo said similar real estate would fetch between four and 10 times as much in some leading European and Asian cities.

"There is a lot of equity out there looking for opportunities. Detroit has become very much in favor recently, with everything that's gone on in downtown and Midtown," he said. "We are seeing a significant increase in foreign equity coming in and buying assets or supporting local players."



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