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Value-Add Success Stories; Ventas and Zell

Seeking out value-add properties for development or adaptive reuse has several advantages, from faster turnover time to lower overall costs than ground-up. Today, three developers share their value-add success stories.

R2 Cos managing principal Matt Garrison (pictured) says his company seeks out location when buying value-add properties, which accounts for 100% of R2's recent projects. An example is a 110k SF building at 1165 N Clark St. R2 paid $11.5M for the seven-story building in 2013 and then in May partnered with Goldman Sachs on the development, a move that valued the property at $23M. Matt says value-adds on the property include improved tenant spaces and common areas.

R2 also bought a 77k SF building at 224 N Desplaines (shown) out of foreclosure in 2013 for $7.6M. It completely leased the building and added improvements to the office spaces, lobby and other common areas before recapitalizing with Goldman Sachs on the property last August for $12M. Matt says most of distressed properties, the "low-hanging fruit" of the value-add market, are gone in the current cycle. So he's looking more at adaptive reuse and other deals to generate high ROI.

Marc Realty principal David Ruttenberg looks to retail as a sound investment in the current market, especially as prices have increased every year since the market began its rebound. David adds this market forces developers to get creative and any deals Marc Realty does will involve value add or value creation. Two projects David is high on are Plaza de Cicero (pictured), an 80k SF strip mall at 3000-3076 S Cicero Ave in Cicero he bought for $9M, and a smaller project at 1130 W Bryn Mawr in Edgewater, a mixed-use property located steps from the Bryn Mawr Red Line "L" station purchased for $400k. Plaza de Cicero was in good shape when David bought it and only needed tenants, which he acquired. The Bryn Mawr property is undergoing tenant improvements.

Bridge Development Partners principal Tony Pricco says the market for value-add is tighter in the industrial sector as costs in the current cycle are better for building. But Tony has found some success with food distribution properties. One example is the former Dominick's distribution campus at 555 Northwest Ave in Northlake (shown). Bridge bought the campus last year for $40M and Tony says Bridge is keeping the 162k SF cold-storage building, expanding an adjacent freezer building to 239k SF, tore down the old dry warehouse and is building a 588k SF cross-dock distribution center, which Bridge pre-sold to Prudential in February for $48M. Tony says this was a nice ROI without having the added leasing risk while Prudential can build out the warehouse shell to suit for tenants.