

Hahne & Co. Case Study

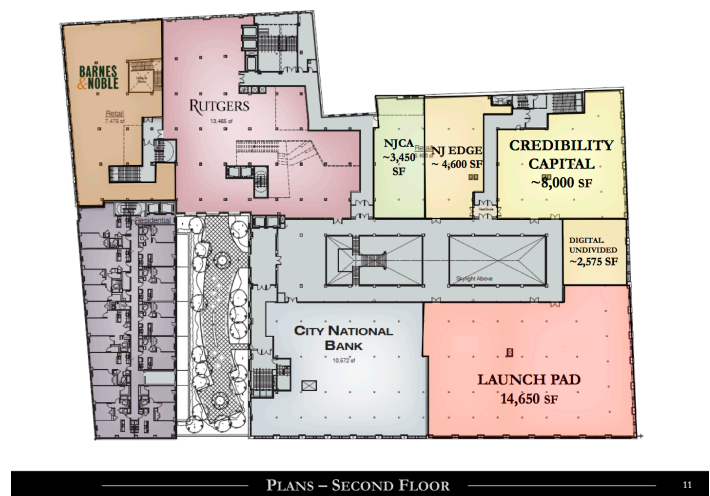
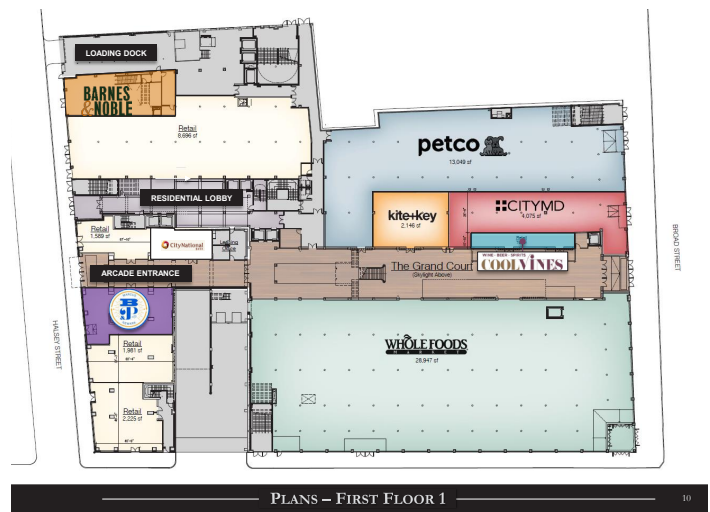
We are pleased to present a ULI case study of the redevelopment of the historic Hahne & Co. building in Newark, New Jersey. This is the first in a series of case studies and briefs jointly created by ULI and Cornell University's Baker Program in Real Estate. The Baker Program is honored to collaborate with ULI and looks forward to contributing to the continued success of these case studies and briefs, which are important resources for professionals throughout the real estate industry. All ULI case studies and briefs can be found on ULI's website at <https://casestudies.uli.org/>.

PROJECT SUMMARY

The historic Hahne & Co. building was redeveloped by a joint venture among affiliates of L+M Development Partners Inc. (L+M), Prudential, and Goldman Sachs from a once grand but vacant department store into a lively mixed-use development in the heart of downtown Newark, New Jersey. Built in 1901 at 609 Broad Street, the Hahne & Co. Department Store stood empty since its namesake brand closed in 1987. The building rises four stories and is now linked to a nine-story tower constructed on an adjacent parcel for a total of 528,500 square feet. This adaptive reuse includes 160 apartments—both market-rate and affordable—as well as 75,000 square feet of retail. Rutgers leases nearly 60,000 square feet for a community arts collaboration space and campus bookstore, while other tenants occupy over 40,000 square feet of office space. The Grand Court located under the building's historic skylight provides access to many commercial spaces and serves as a community gathering area. The project also includes over 200 underground parking spaces. The redevelopment opened in phases, first in January 2017, and it was completed in late 2018, after five years of planning and construction.

THE SITE AND THE IDEA

The City of Newark, New Jersey, is a major employment center and commercial hub of the northeastern United States. Having suffered serious decline in the latter half of the 20th century, at the time of the rehabilitation of Hahne & Co., the downtown area was characterized by a population of mainly office workers who vacated the area in the evening. While there was still some nearby street activity due to the New Jersey Performing Arts Center and Rutgers University, the area lacked vibrancy. The site itself had been long recognized for its redevelopment potential in bringing life back to the area, but several attempts to redevelop the



building had floundered and it remained abandoned for 30 years until L+M broke ground in 2015. Due to the many challenges presented by this redevelopment, Tim Lizura, the former Executive Director of the NJEDA, once referred to it as “a site where developers came to die.”

This landmark department store building is located on

a 2.39-acre site that occupies half of a city block on the north end of downtown Newark and 0.3 miles north of the intersection of Broad and Market Streets, the center of the city's street grid, and 0.45 miles northwest of Newark Penn Station. Hahne & Co. is in the historic Central Ward (earlier known as the Third Ward) that includes many of Newark's historic public spaces, one of which is Military Park, downtown's largest green space. The Hahne & Co. building fronts directly on Military Park. At the time of the conceptualization of the project, this park was in the process of a long-awaited revival by local stakeholders, thanks in large part to a substantial grant from Prudential. To the west of the site is Halsey Street, a local commercial corridor, the Rutgers University campus, which enrolls 12,000 students, and the New Jersey Institute of Technology, which enrolls more than 11,000 students. The area to the south of the site was redeveloped simultaneously with this adaptive reuse project. The new 20-story Prudential Tower situated across New Street brought 6,000 workers to the downtown though the area still lacked any significant mix of uses or vibrancy.

All of these factors served as the context for the concept of the multi-use combination of functions that were fused into the proposed program for the building. Lying at the nexus of important corridors of downtown Newark, the project was envisioned as a node around which the downtown could gather and grow. The dearth of residential options in the area was also an important piece of the development—addressing the need for market rate and affordable housing—while taking advantage of tax credit funding. As the project developed, it was also tied into the institutional surroundings with the relocation of the Rutgers University Department of Arts, Culture and Media. This community arts and education program facility, “Express Newark,” encourages the creation of a more mixed-use downtown, one with daytime and evening activity seven days a week.

DEVELOPMENT BACKGROUND AND PROCESS

The Hahne & Co. redevelopment project was spearheaded by a partnership between L+M, a New York-based developer with a record of success undertaking real estate developments in the five Boroughs, and Prudential. The developer had been looking to New Jersey, particularly Newark, as it believed these markets had strong growth potential. The firm recognized that Newark had excellent infrastructure, beautiful historic buildings, and a motivated group of local stakeholders.

A critical component of the redevelopment project, the Whole Foods Market at the corner of Broad Street and New Street addressed the pre-existing food desert in the surrounding downtown Newark area. (L+M Development Partners)

Because of the size and location of the Hahne & Co. department store, the redevelopment project originated with the idea of a mixed-use redevelopment, including a combination of apartments, retail, and office space. These uses were brought together under a four-story Grand Court running lengthwise through the building. This atrium was capped by a steel and glass skylight, which served as the focal point for the redevelopment.

The historic restoration and conversion of the property centered on the removal, offsite restoration, and re-installation of this glass skylight. The newly rebuilt skylight, together with a reimagining of the original atrium space with the skylight relocated from the fourth to the second floor, proved to be challenging but ultimately paid great dividends.



The Grand Court at Hahne & Co. and its skylight serve as the focal point of the historic redevelopment. The Grand Court offers access to many of the commercial spaces in the building and serves as a community gathering area. (L+M Development Partners)



Indeed, L+M initially had not anticipated how complicated it would be, or whether it was even feasible, to undertake this work with respect to the skylight. The skylight had not been touched since World War II and had since been capped with asphalt causing the glass to be badly damaged. “We substantially evaluated its replacement and surprisingly found that the restoration was cost effective when compared against the replacement,” remarked Jonathan Cortell, a Managing Director of L+M. Choosing to restore rather than replace the skylight also allowed the building to retain more of the original characteristic of the building. Cortell explained, “we note here that preservation would enable an accurate representation of the building’s history as modern skylight systems use lightweight aluminum framing members while the original steel includes exposed rivets and connections.”

Opting for a restoration of the skylight also fostered a positive relationship with the New Jersey State Historic Preservation Office (NJSHPO) and the National Park Service (NPS). The restoration of the Grand Court was a requirement of the development, though electing to restore the skylight over replacing it was not compulsory. In addition to the Grand Court restoration, other historic aspects incorporated into the development include renovating historic railings, exterior windows, the grand staircase, exterior facades, and the terra cotta cornice. At the core of the development strategy was the synergy created by the varied mix of uses, and moving the skylight to the second floor from the fourth floor allowed for the conversion of the 3rd and 4th floors into 83 rental apartments. The developers saw the central vacant

space in the Grand Court as being a pivotal component of the structure as it facilitated layouts with interior-facing apartment arrangements.

Throughout the development process, and especially during the approvals phase, L+M juggled the varied requirements of several different agencies. While local historic approval was reviewed by the Newark Landmarks and Historic Preservation Commission, NJSHPO, and the NPS, the site plan approval fell under the purview of the Newark Central Planning Board. Further, the Newark Building Department oversaw building code and construction details, and the hiring and contracting aspect of the project was reviewed by the City of Newark.

The Developers faced significant challenges during the project mostly stemming from the building’s years of neglect. Due to their lack of maintenance, the building elements required close evaluation, beginning with the cast iron columns and steel beams. The columns were cracked in places and were thus reinforced and incased in concrete to the roof. As a result of the increased dead loads and structural changes to the building, and to ensure the structural integrity of the floors, an additional three-inch lightweight concrete slab was added to the original concrete floors and a new concrete perimeter wall was built on the inside of the façades to meet expected wind loads and moisture penetration. Much of this work became change orders, altering the original scope of work.

The new tower constructed at the corner of Halsey and New Streets included ground floor retail and nine stories of residential units (including an additional 77 rental apartments). Further, the partnership converted approximately 60,000 square feet into educational and community space, which was leased to Rutgers University for Express Newark, its arts, culture, and media collaborative. Originally this space was designed to house a movie theater, but ultimately L+M changed course, as the public assembly designation that would come with such use required certain building structures that were not appropriate or financially feasible.

Some of the most challenging components of the development process were issues surrounding the roll-out of the tenant mix. Staggering the residential lease-up and construction of different components, as well as the ownership structure of common areas, was an important aspect of the financial structure. While L+M pushed for a phased execution of the new residential tower, staff for then



The flagship Hahne & Co. Department Store was built in 1901 and served as the retail anchor at Broad Street in historic downtown Newark, New Jersey. (L+M Development Partners)

Mayor Cory Booker were steadfast in requiring the entire project be completed in one phase.

FINANCING

The successful completion of a project of this scale and complexity required the financial backing of many stakeholders. Redevelopment costs for the Hahne & Co. project totaled \$178.9 million. About \$29.5 million of this cost was covered by sponsor equity from 609 Holdco, Inc., a partnership between an affiliate of L+M, Prudential's Impact Investments Group, and Goldman Sachs Urban Investment Group. As the developer member, L+M contributed 27 percent of the equity and received a development fee at project completion. Consistent with its longstanding commitment to the downtown Newark community, Prudential contributed 70 percent of the sponsor equity while Goldman Sachs contributed the remaining three percent.

In addition to the \$8.7 million acquisition price, sponsor equity was also used to fund investigative demolition on the site prior to construction financing. This gave the development team crucial insight into the building's condition and facilitated a more accurate estimate for the

private financing and public subsidy needs. This preliminary step had the added benefit of providing lenders with more comfort around the proposed redevelopment's risks.

The remaining project financing was a mosaic of public and private sources. "It took a village to get this done," noted Cortell. Public subsidies included nontaxable bonds through the New Jersey Housing and Mortgage Finance Agency's (NJHMFA) Multifamily Conduit Bond Program,¹ New Market Tax Credit (NMTC) Qualified Low-Income Community Investment lending, federal Historic Tax Credits (HTCs), and four percent Federal Low-Income Tax Credits. The project also received an Economic Redevelopment & Growth (ERG) grant from the New Jersey Economic Development Agency (EDA).² Construction lending was provided by Citibank, Prudential, The Reinvestment Fund (TRF), and Low Income Investment Fund. Permanent financing was also provided by Prudential. New Jersey

1 NJHMFA's Multifamily Conduit Bond Program was created in 2011. This program allows well-capitalized developers to issue bonds through the agency on a pass-through basis at the most competitive interest rates available in the marketplace.

2 The Economic Redevelopment & Growth program was created as part of the New Jersey Economic Stimulus Act of 2009.



Designed by architecture firm Goldwin Starrett, the original space at the Hahne & Co. Department Store hosted over 400,000 square feet of selling space, several restaurants, and a grand skylight atrium. (L+M Development Partners)

Community Capital and Goldman Sachs served as the NMTC Community Development Enterprises for the project. In order to obtain National Park Service approval and receive HTC's, the complete restoration of the Grand Court was a required component of the redevelopment.

Stitching together such a diverse array of funding sources required ingenuity on the part of the development team. For example, NJHMFA could not provide financing if less than 60 percent of building square footage was nonresidential. To meet this requirement, a condominium structure was created to separate the property into the following units: (a) the NJHMFA Condo comprised of all residential units, 40,000 square feet of first floor retail, and 10,000 square feet of second floor commercial space; (b) the NMTC Condo comprised the 30,000 square foot Whole Foods Market and 30,000 square feet of second floor commercial space; and (c) the Rutgers Condo comprised solely of 55,000 square feet of Rutgers University space. Each condo was subsequently master leased to an investor entity. This condo structure not only maximized the size of the space eligible for NJHMFA financing and related tax abatement, but it also helped L+M satisfy the unique rent restrictions and compliance periods associated with the

project's various public funding sources going forward. "I'm not sure we could simplify this structure," remarked Cortell, "[but] I would have loved to because of the headache from assembling, from a reporting and ongoing operations standpoint."

The Hahne & Co. redevelopment project was not without its share of financing obstacles. Most notably, the closing for the project financing was delayed approximately six months as the result of a lengthy legislative extension process for ERG grant monies. As this was a critical component of the funding structure, the project could not proceed until this process was completed. This postponement resulted in construction cost creep that led to a funding gap. Although the team was able to find additional funding sources to alleviate some of this gap, design modifications, such as scrapping plans for penthouse units on the top of the development, were also required to reduce the construction costs.

PLANNING AND DESIGN

The original building of Hahne & Co., although in a decrepit condition, still had a considerable volume and appealing aesthetics. The ultimate success of this project was due to the forethought needed to combine the historic elements of the structure and site with forward-thinking and understanding of future market conditions. Public-private partnerships were also essential to effectuate this successful adaptive reuse project. While earlier proposals for the site were structured with inadequate financial proposals and cut up the building such that it failed to get state and NPS approvals, L+M followed the guidance provided by the NPS and visualized a concept that retained more of the original layout. "We succeeded because we tried to imagine the building as an art piece, trying to restore something once fabulous. We were respectful of [NJ]SHPO's guidelines and developed a project that was true to NPS goals while also solving several design and logistical problems," observed Richard Weinstock, Vice Chairman and Senior Partner of L+M. "Prior developers had focused entirely on financials, cutting up the building differently and couldn't put together a project that worked and was true to NPS goals." Although initially conceptualized with a modernist interior, later designs abandoned this concept to instead honor the imagery of the old department store. The original two-story staircase was reconstructed, along with the windows, railing, and millwork, to comply with the current code.

The original building, constructed as a department store,



The Grand Court with its iconic skylight, once the highlight of the Hahne & Co. Department Store, was filled in over time to create additional selling area. During World War II, the skylight was concealed to camouflage the building and protect it from potential enemy air strikes. (L+M Development Partners)

contained expansive floor plates. It was the reopening of the atrium that structurally allowed the possibility of interior-facing apartments to be incorporated into the project. The repurposing for multiple new uses required continual iterations to have the Grand Court function as the spine. With Whole Foods Market becoming an anchor tenant early in the planning of the project, other uses were swapped around in the planning process to satisfy various project requirements. The community benefited by retaining the lower floors of the original structure and using them for retail, community, and commercial uses. The presence of Rutgers also helped to solidify the project as Rutgers would occupy challenging space with deep floor plates. Noted Alex Merlucci, Associate Partner of Inglese Architecture + Engineering, “when we realized Rutgers was serious and wanted to take it, this was real.”

In anticipation of an earlier attempt to renovate this property, the interior had been gutted and the interior corner of New & Halsey Streets had been cleared to get into the basement. This portion was utilized to create the nine-story tower that includes parking, ground floor retail, and eight stories containing 77 residential units. Another 83 apartments were housed in the upper floors of the older structure. The proportions of the building were not completely conducive for new apartment layouts but only a section of the third and fourth floors were demolished to move the rear walls back and create terraces on the back of the units.

MARKETING, MANAGEMENT, TENANTS, AND PERFORMANCE

Since its completion, Hahne & Co. has been successful in achieving high occupancy rates and rental rates that exceed the proforma estimates. The pre-existing lack of grocery options and community spaces in downtown Newark coupled with strong community support for this project are key factors contributing to the positive performance of this large redevelopment effort.

This project was positioned to appeal to a large demographic of downtown Newark due to its mix of affordable and market-rate apartments as well as the inclusion of a co-working concept and Rutgers space. The affordable apartments appeal to those seeking the convenience of walkable amenities, including food shopping, in close proximity to their work. The market-rate apartments target those who seek the highest quality residential units on the market, with washer/dryer units, cut wood floors, and double height mirrors that also function as vanities.

“We tried to bring a New York experience to bear without certainty [the market would] lap it up, but it was a necessary, conservative strategy,” remarked Cortell. Those looking for a shorter commute without sacrificing quality are a target market of the residential portions of the Hahne & Co. project. In particular, potential tenants include employees of Prudential, Audible, and Panasonic as well as law and medical students and faculty of New Jersey Institute of Technology and Rutgers University. With a location near the Newark Airport, the Amtrak Northeast Corridor, PATH, NJ Transit, and many other means of public transportation, Hahne & Co. is about 30 minutes from Midtown Manhattan and provides convenience while remaining less expensive than other options in Hoboken, Jersey City, and New York.

Marketing programs for Hahne & Co. have included the use of social media and on-site events. Formal marketing efforts for the project were aimed at its target markets, but the success of the project largely relied on providing the community with what it urgently needed. “We created a larger pool for affordable housing to market to appeal to the public’s needs,” explained Cortell. “We were very cognizant of integrating into the product a range of product types. We utilized both new construction and adaptive reuse to provide aesthetic appeal. There were limited excuses regarding the food desert considering the transitional nature of the neighborhood.”

The residential leasing strategy is broken down into two categories: market-rate apartments and affordable apartments. By design, 60 percent of Hahne & Co.’s units are market-rate, while the remaining 40 percent are reserved for tenants whose incomes qualify at or below 60 percent of Area Mean Income for 54 of the units and at or below 40 percent of Area Mean Income for 10 of the units. The occupants of the 64 affordable housing units are decided by lottery, and an overwhelming 700 applicants applied for these units prior to their opening. The market-rate and affordable housing both consist of a mix of studios, one-bedroom apartments, two-bedroom apartments, and three-bedroom apartments. Market-rate unit average rents per square foot are \$3.24, \$2.79, \$2.75, and \$2.33 for studios, one-bedroom apartments, two-bedroom apartments, and three-bedroom apartments, respectively. Affordable unit average rents per square foot are \$1.35, \$1.22, \$1.02, and \$0.86 for studios, one-bedroom apartments, two-bedroom apartments, and three-bedroom apartments, respectively. Affordable units are 100 percent occupied, and the residential units overall are 97 percent occupied.

The commercial leases also vary. Rutgers University's 58,723 square foot space contains a Barnes & Noble bookstore and Express Newark. This includes an arts incubator, communications media center, portrait studio, lecture hall, print shop, and gallery. This space involves a collaboration with many other arts partners, including the Newark Museum, the New Jersey Performing Arts Center, Newark Print Shop, WBGO, Gallery Aferro, and GlassRoots. It also hosts Rutgers' Institute of Jazz Studies.

To address the existing food desert, Whole Foods Market occupies almost 30,000 square feet at the corner of Broad and New Streets. Even before its opening, Whole Foods Market demonstrated its support for the community by creating a grants program to support local nonprofits, including local vendors for the new store, and by hiring around 110 area residents for jobs. Other tenants of the project currently include celebrity chef Marcus Samuelsson's Marcus B&P, City MD Urgent Care, Kite and Key, Industrial Bank, New Jersey Citizen Action, and Credibility Capital. This project also includes almost 15,000 square feet of co-working space with Launch Pad. Currently, Hahne & Co.'s office portion is 100% occupied and its retail portion is 86 percent occupied.

Newer tenants in the building include CoolVines, an artisanal wine store across from Whole Foods Market on the grand atrium and Sweetwaters, a coffee shop across from Marcus B&P on the Halsey Street end of the property. Just down the street, leasing has begun for L+M's newest historical redevelopment and mixed-use concept, Walker House, formerly known as 540 Broad Street.

Hahne & Co. has been managed by Bozzuto since its opening. The project includes 220 on-site parking spaces. 103 of these spaces are dedicated to the Whole Foods Market and the remainder of these spaces are offered to residents of the building for \$225 per month and are managed by SP Plus Corporation. Due to the building's proximity to several different types of public transportation, however, many residents do not own cars. Limited parking is provided to the public for an hourly fee for visitors of the building. There is also limited metered street parking and private parking garages and parking lots on bordering streets.

With over 60,000 square feet of common areas, Hahne & Co. has hosted many different events since its opening. Some of its notable events include a St. Patrick's Day parade, trick-



The historic rehabilitation for the iconic Grand Court and its skylight involved the removal, offsite restoration, and re-installation of the historic skylight. The recreation of the original atrium space required locating the skylight on the second floor instead of the fourth floor, where it sat previously. (L+M Development Partners)



The redevelopment of the Hahne & Co. Department Store included the conversion of the third and fourth floors into 83 apartment units. Approximately 50,000 square feet of the historic building conversion was earmarked for educational and community space for Rutgers University for Express Newark, its arts, culture, and media collaborative. (L+M Development Partners)

or-treating for children on Halloween, and events for local nonprofits. Express Newark has included exhibits such as portraits of 100 influential people in Newark's history and participated in events such as Newark Arts Festival and Newark First Fridays. Hahne & Co. has had an ongoing annual economic impact of \$31 million. Notes Cortell, "the building had and hopefully will have an enormous amount of importance to folks in New Jersey."

OBSERVATIONS AND LESSONS LEARNED

Perseverance, creativity, and vision were required of L+M to successfully complete this complex mixed-income, mixed-use redevelopment. There were very few comparable

projects in Newark and this understandably caused many to express doubt that the development team would be able to succeed with its plans. The firm was confident that that the time was finally right to bring this project to fruition.

As is often the case with complex redevelopment projects in urban areas, L+M was not able to do it all alone. Indeed, L+M credits strong, active, and committed leadership from the City government, community political support, and local institutions, particularly Prudential and Rutgers, who were all focused on seeing this project succeed. With their support, L+M was able to creatively fit the puzzle together piece by piece, including the project's complex financing structure.

L+M's rehabilitation of the historic skylight and its relocation to the second floor, creating a smaller version of the former department store's atrium, exemplifies a creative solution by the firm that featured significant architectural elements while providing the opportunity to locate additional apartments on the upper floors. L+M was initially drawn to the building by its aesthetics and sought to preserve as much of the building's history as possible.

As L+M and its partners hoped, this project has been embraced by the City and has had a significant role in the



The Grand Court at Hahne & Co. serves as a meeting hub for the downtown Newark community, with local residents and workers frequently occupying the space. Neighborhood groups and local companies regularly utilize the space for exhibits and events. (L+M Development Partners)

revitalizing the surrounding area. In addition to providing additional population density and much-needed retail options—with a Whole Foods Market to fill a substantial void in a food desert—the project has also brought together members of the community. Neighborhood groups and local companies now regularly use the Grand Court for exhibits and parties. The project serves as a nexus among social groups at Rutgers, NJPAC, and Prudential. Residents of the area, some of whom remember the Hahne & Co. department store, can take pride in the building's rebirth and its contribution to their city and neighborhood.

Finally, Hahne & Co. has served as a catalyst for additional development in the area, including nearly 750 new apartments that have or will come online since Hahne & Co. opened. This includes One Theater Square, 50 Rector Park, Kislak, and Walker House, which has been redeveloped by L+M into 265 mixed-income apartments, offices, and ground floor retail space. Cortell stated that Walker House “would have been impossible without Hahne & Co.” Indeed, based on its experience and success with the Hahne & Co. project, L+M is investing further in Newark's renaissance with the redevelopment of the 440,000-square foot former headquarters of NJ Bell (subsequently Verizon). “I think this [new development] is just great for Newark,” remarked Alan Kane, former President and CEO of the Hahne & Co. Department Store. “I'm so glad that it's happening there.”

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