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# Investors repurpose, revitalize former industrial centers

Commercial real estate investors and developers are working to revitalize Midwestern and Northeast cities that are moving toward a return...



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Commercial real estate investors and developers are working to revitalize Midwestern and Northeast cities that are moving toward a return to economic and demographic strength seen during their heydays. Cities like Detroit, Pittsburgh, and Allentown tick similar boxes for infrastructure, education, research, and technology that increase their appeal for institutional players seeking an alternative to competitive gateway markets.

“A lot of people feel like New York and other gateway markets are oversaturated, overpriced, and that it’s hard to find good opportunities,” said **Mitch Wasterlain**, ceo of **CAPFUNDR**. “We’ve been looking at older industrial cities with good urban infrastructure that have fallen on hard times but are bouncing back based on new job growth that’s tech- and research-based.”

Part of CAPFUNDR’s thesis is seeking cities that had solid infrastructure and an urban lifestyle. “These cities might not be 24/7 cities but they’re close,” Wasterlain said. “Often, these cities have a very low cost basis because their urban areas have been neglected for some time. The other important factor is the presence of significant colleges or universities nearby that have been related to the tech sector or are sponsoring tech research. They’re producing grads and are a magnet for other people based on the lifestyle and opportunities it creates.”

## Allentown

While it’s one of the smaller cities that’s being affected by this trend, Allentown and the broader Lehigh Valley have been seeing a substantial rise in investment.

**City Center Investment Corp.**, a privately owned real estate development company in Allentown, is working on a large-scale mixed-use Class A campus in the city's central business district that aims to revitalize the city center. "Our long-term goal is to create a sustainable community," said **Jill Wheeler**, v.p. of sales and marketing. Having already developed and leased more than 1 million square feet of office, residential, hotel and retail space, the company plans to build modern space in a place with a lower cost of living that's also close to cities like Philadelphia and New York.

The profile of companies calling Allentown home ranges from finance, early stage tech companies, and larger corporations that are looking for a good quality of life for their employees, said **Jarrett Laubach**, leasing manager at City Center Investment Corp. "The Lehigh Valley MSA has one million people and, until now, has largely been a suburban office environment. We didn't invent the brand but we're bringing an urban-core office environment to Lehigh Valley," he added.

The Lehigh Valley received a big economic boost after the completed connection of the I-78 highway from New York through Harrisburg in the early 1990's. This transportation improvement bolstered the Lehigh Valley's distribution capabilities, according to **Del Markward**, SIOR, principal at **Markward Group**. "For about 70 to 80 years, the Lehigh Valley was a **Bethlehem Steel-Mack Truck** market. Both of those companies have disappeared or receded with Mack moving its headquarters down south but maintaining a manufacturing facility here. Subsequently, the Lehigh Valley has diversified significantly," he said.

Downtown Allentown was downtrodden for 30 years, but now benefits from new state tax incentives, which to a lesser effect is also aiding nearby Bethlehem. The Lehigh Valley is seeing a more broadly diverse tenant base, which includes **Wal-Mart**, **BB&T Bank**, **Morgan Stanley**, and **Talen Energy**. "Many companies have expanded in the Lehigh Valley or relocated here," Markward said. "In addition to tech and financial services companies, the biotech sector is starting to take hold. There's a strong workforce, good employment, and the cost of living is one third less than northern New Jersey and a less expensive than the Philadelphia region."

## **Pittsburgh**

The shift in Pittsburgh started earlier than Allentown's transformation and has dramatically changed the city's investor base. "For decades, all of our owners were local or regional players. But for the past 10 years, we've been getting national and international investors," **Patrick Sentner**, SIOR, an Executive V.P. at **CBRE** in Pittsburgh. "It's truly changed how Pittsburgh does business. These owners are coming in with the intention of raising rents but they're also truly investing in assets. We're seeing real money being put into buildings."

A prime example of this is 11 Stanwix Street in Downtown Pittsburgh. The twenty-four story high rise office building, formerly the global headquarters for **Westinghouse Electric**, saw a \$20m capital infusion that has revitalized the property. "Westinghouse had fully vacated the buildings by the mid-1990s. It was an average, Class B property that the owners turned into something that's Class A with a flair that's exceptional for Pittsburgh. That high end rehabilitation of Downtown Pittsburgh has since caught on," Sentner said. **Carnegie-Mellon University**, with its world-class focus on robotics, has given Pittsburgh an extra edge, and these companies like the feel of former industrial facilities.

A common theme is the repurposing of outdated but architecturally significant or unusual buildings. This is a critical theme for the **Regional Industrial Development Corp. of Southwestern Pennsylvania**, a private development nonprofit organization that has operated with the public mission of helping to enhance the potential for high-quality job growth in the region, according to Dr. **Donald Smith**, president.

Much of RIDC's work is related to brownfield reclamation and redevelopment, a segment of its business that got off of the ground in the 1980s when there was a substantial amount of large-scale industrial dislocation in the region. "We've worked on a lot of former steel mill properties and our most recent acquisition was the site of a former **Sony** television plant," Smith said, noting that about three or four million square feet of space in the company's portfolio has been remediated or redeveloped.

Market participants who spoke to *REFI* underscored that proximity to universities, tech hubs, and healthcare systems is critical to the rust belt revival. "The largest component of this change is related to universities, which have been driving the economy in many of our target markets. Tech-related companies that want access to talent streaming out of these universities is part of the puzzle," Smith said.

**Carnegie-Mellon University**, with its world-class focus on robotics, has given Pittsburgh an extra edge, and these companies like the feel of former industrial facilities. In addition to technology, Pittsburgh has benefited from the **University of Pittsburgh Medical Center**, which has expanded its patient care and research arms. "This has all resulted in a great many of the older buildings having been purchased and renovated and in turn there's not a great deal of availability," Sentner said. "We're starting to see brand new construction in some of the older residential and industrial areas that are a mile or two outside of Downtown Pittsburgh."

As Pittsburgh's periphery is being redeveloped, it's also seeing improvements to its infrastructure, water, sewage, roads and tunnels. "We've seen a collective effort towards a goal of cleaning our rivers and getting them as pristine as possible," Sentner said. "That's all helped to bring out mixed-use development in some of the former steel mill sites, where we're seeing a combination of apartments, townhouses, apartments and retail."

"In some ways, I think Pittsburgh is the poster child for the resurgence of the old industrial city," Wasterlain said. "It's a prime example of a city that's cleaned up and reinvented itself."

## **Detroit**

West of Pittsburgh and Allentown, Detroit has benefited from a rise in technology companies as well as a revamped downtown area that's fortunes are partly tied to the strength of its major sports franchises.

"I've been a Detroiter all of my life and I remember how depressing it was twenty years ago versus what's going on today," said **Geoff Hill**, SIOR, a senior managing director at **NGKF**. "Fifteen years ago, the town was rolled up at 5:00 pm. Now there are people walking around, there are great restaurants and bars, and a lot of companies are moving into the downtown market."

Detroit, which occupies a substantial mass of land, is seeing changes in its appearance as some sites are torn down, others are renovated, and new structures are going up. Indeed, Amazon is completing a one million-square-foot distribution center, with two similar facilities slated for the coming years due to Detroit's central location. In addition, many of the automotive suppliers are also expanded, which means that the vacancy rate for industrial space in the market is about 3%.

Wasterlain is raising equity to invest with NY based developer Ron Castellano in a large redevelopment project in Detroit. "The city's real estate market is taking off but it's still relatively cheap," he explained. "It's still possible to buy well-located buildings there for under \$100 per square foot. Over the past couple of years, there's been population and job growth and the cost of living is so low it's become a big startup incubator. Dan Gilbert was a real pioneer when he moved Quicken Loans downtown and started buying buildings in 2010.

Today, downtown is completely transformed and development is moving north to Midtown and New Center. There are opportunities in Detroit that can't be replicated anywhere else, because of the scale and low cost of available sites. Frankly, it would be a great location for Amazon's second headquarters campus."

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