

# SENECA ONE

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**BUFFALO, NEW YORK**



**UNIVERSITY OF MARYLAND  
COLVIN INSTITUTE OF REAL ESTATE  
DEVELOPMENT  
2023 CASE STUDY CHALLENGE**

**TEAM 16**

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# EXECUTIVE SUMMARY

Douglas Development has found success in past projects in Maryland, Virginia, and Washington D.C.. In 2016 Douglas Development made a splash into the Buffalo real estate market by purchasing Seneca One out of foreclosure which was formerly known as One HSBC Center. Seneca One was built in 1972 and known as Marine Midland Center. The tower was designed by Skidmore, Owings & Merrill, an architectural, urban planning and engineering firm. It encapsulated the largest available square footage of any building in Buffalo as well as the tallest at 529 feet covering 38 floors, housing over 1.2 million square feet.

This is the first of many investments into the Buffalo market by Douglas Development. Seneca One had a difficult few years between 2012, when the building was fully vacant, and the time that Douglas Development purchased the tower in 2017. The major tenants HSBC Bank USA and Phillips Lytle LLP both pulled out within a year leaving Seneca One at a 100% vacancy rate. The owners at the time ultimately walked away leaving the ownership of Seneca One in the hands of the bank that issued their mortgage. There was discussion from Buffalo based developers that the only path forward would be to demolish the ailing tower. Douglas Jamal was touring Buffalo for potential acquisitions and asked about the status of the once great tower. After learning of the status of the tower, he immediately put an offer in to purchase and immediately start renovation.

## PROJECT OVERVIEW

|                                |  |
|--------------------------------|--|
| <b>NAME</b>                    | Seneca One   |
| <b>ADDRESS</b>                 | 1 Seneca Street<br>Buffalo, New York   |
| <b>TYPE</b>                    | Mixed-Use  |
| <b>ORIGINAL PURCHASE PRICE</b> | \$12 Million   |
| <b>DEVELOPMENT COST</b>        | \$45 Million   |
| <b>AREA</b>                    | 1,348,964 SF   |
| <b>SIZE</b>                    | Commercial: 1.02 Million SF<br>Residential: 325,000 +/- SF<br>Parking: 1,275 Spaces                              |
| <b>DEVELOPER</b>               | Douglas Development  |
| <b>ARCHITECT</b>               | Antunovich Associates  |
| <b>ANCHOR TENANT</b>           | M&T Tech Hub   |
| <b>TENANTS</b>                 | Highmark<br>43 North<br>Odo<br>Serendipity Labs<br>AML RightSource<br>PCI<br>Douglas Development<br>Eck Electric |

# BUFFALO OVERVIEW

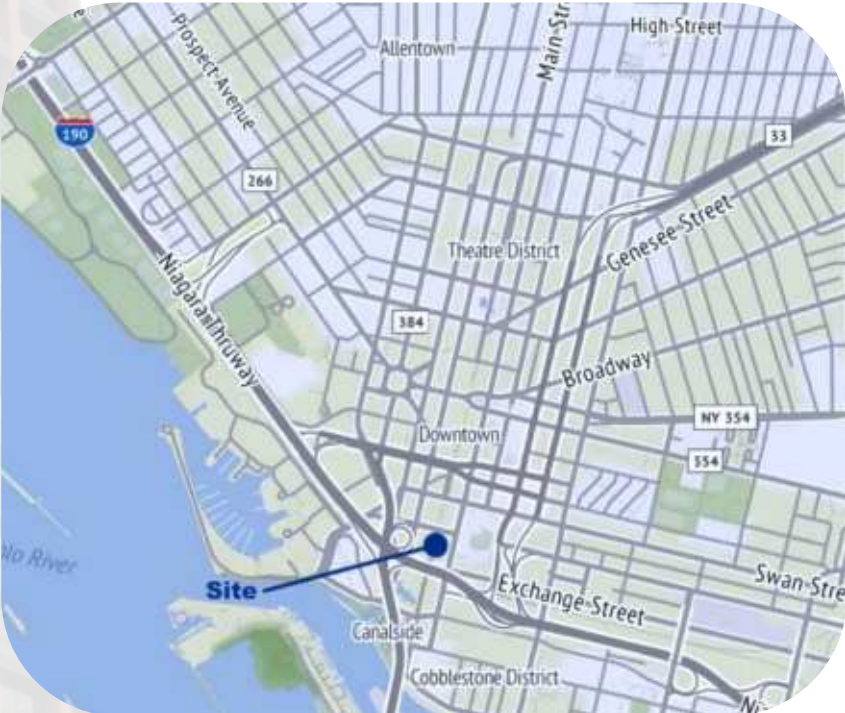
Buffalo, a vital city in the Rust Belt, thrived in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries due to its location along the Erie Canal. The historic architecture was reminiscent of the era's industrial strength, characterized by functional buildings such as steel mills and warehouses. Buffalo, like many other Rust Belt cities, faced severe economic decline as factories closed. The city was victim to urban decay and population loss and many industrial sites were abandoned.

The remnants of Buffalo's industrial history are visible in the city's architectural landscape. Former factories, warehouses, and industrial facilities stand as reminders of its once thriving Rust Belt era. Some buildings have been repurposed into residential apartments, offices or gathering spaces in efforts to revitalize Buffalo's downtown corridor.

While Seneca One is not a product of Buffalo's Rust Belt era, its story bears resemblance as a building that was facing obsolescence, becoming a relevant and valuable catalyst to revitalizing downtown Buffalo.

## DOUGLAS OWNED PROPERTIES IN BUFFALO NIAGARA REGION

- BOULEVARD MALL
- HYATT REGENCY
- BUFFALO/HOTEL AND CONFERENCE CENTER
- MAHONEY BUILDING
- THE MANSION ON DELAWARE
- MEIDENBAUER HOUSE
- POLICE APARTMENTS
- THE RICHARDSON HOTEL
- STATLER
- THE TREASURY
- 625 ALBERTA DRIVE



MAP OF BUFFALO

SOURCE: STAMEN MAPS

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# DEVELOPMENT TEAM

## DOUGLAS DEVELOPMENT CORPORATION



Founded in 1985 by Douglas Jemal, the privately operated and family-owned company remained as such. Over the years the company has grown and expanded to places like New York City, New Jersey, and Pennsylvania as a fully integrated Real Estate company with more than 100 employees. Douglas Development has also had successes in the District of Columbia, Virginia and Maryland. Their reputation for revitalizing underdeveloped areas has gained them admiration from local government authorities, communities, neighbors, and the real estate community. With a growing portfolio in Buffalo, New York, Douglas Development has acquired and has been developing 10 different properties in the city. With Seneca One being the tallest building in Buffalo, Douglas’ plans to redevelop this property along with the subsequent other acquisitions to make a statement on the real estate industry in Buffalo.

## SKIDMORE OWINGS & MERILL



Founded in 1936 in Chicago, Illinois, Skidmore Owings & Merrill has achieved recognition for their sustainable design, high-rise innovations and digital design that allowed them to grow and expand internationally with offices reaching the far east. SOM’s great quality and innovation has led them to achieve more than 2,000 awards, along with recognition from the American Institute of Architects and the Urban Land Institute. What is known as Seneca One today, was designed and completed by SOM in 1972.

## ANTUNOVICH ASSOCIATES



After the purchase of the building in 2014, an architect/design team had to be chosen to bring Jemal’s vision to life. Founded in 1990, Antunovich’s vision has stayed constant throughout the years, and that is to create exceptional buildings through a collaborative process that includes the client, the builder, and the architect. They employ in excess of 100 design professionals to produce projects nationwide. This was the team that helped Douglas Jemal bring about Seneca One.

## SENECA ONE



Before Douglas Development purchased the Seneca One tower, the building was formerly known as One HSBC Center. Douglas Development has since been able to renew the 38-story tower into a mixed-use project consisting of office space, retail and residential, and ultimately a place to bring the community together. In the heart of Downtown Buffalo with Buffalo’ Theatre District, Canalside, KeyBank Center, and the Seneca Metro Rail just steps away. Seneca One offers a unique space that’s not complex, but a community.

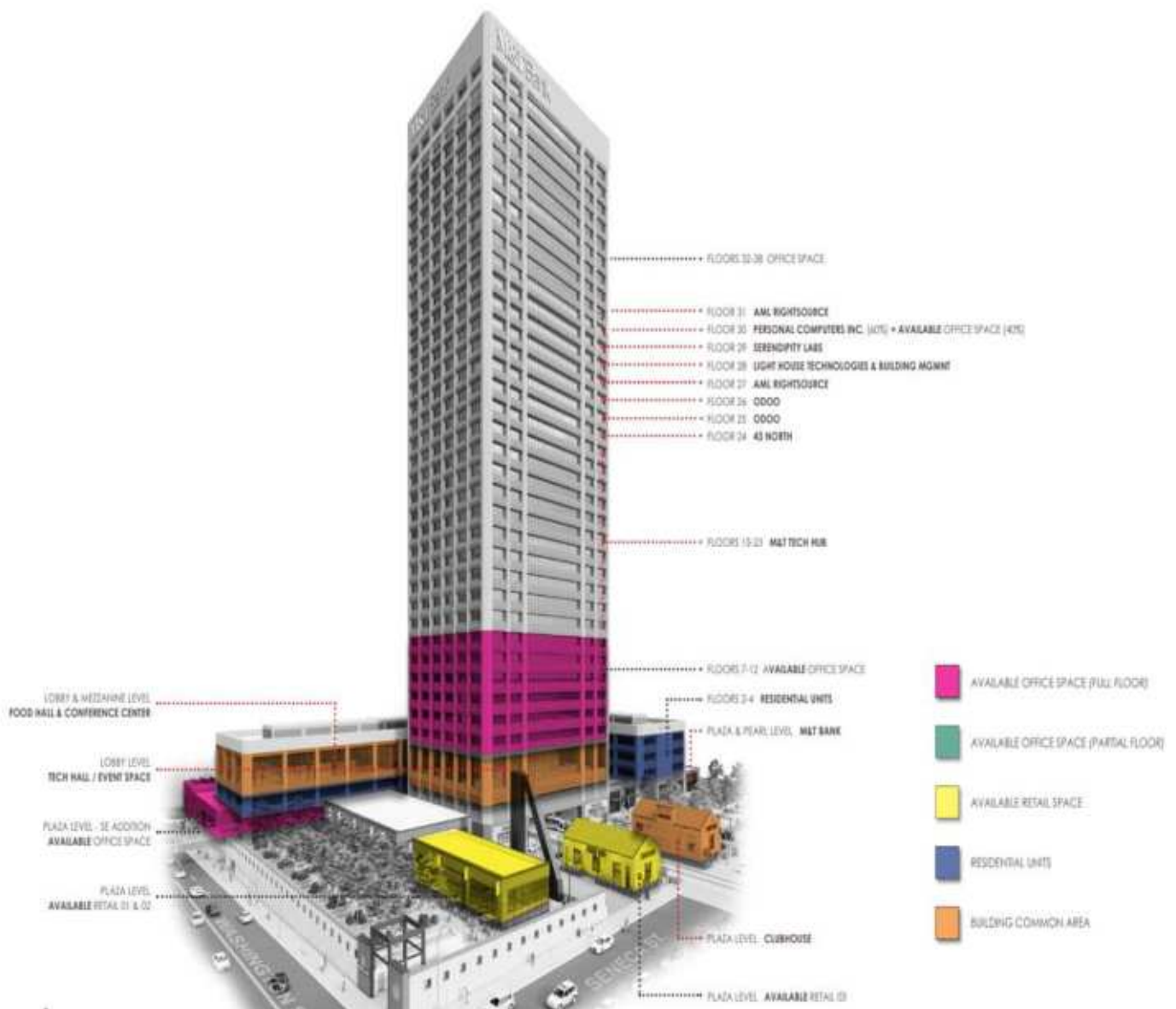
# DEVELOPER'S VISION

Douglas' vision for the project was largely inspired by the historical prominence of the Seneca One tower itself. Once a prestigious hub, Seneca One housed major entities like HSBC and a multitude of local businesses. However, the passage of time saw the tower's gradual descent into disrepair, ultimately rendering it obsolete. In 2015, Douglas made the audacious decision to acquire the tower practically sight unseen. Douglas envisioned Seneca One to be the heart of downtown Buffalo with hopes that the tower would activate the once lively area. With the concept of 'live, work and play' at the forefront of the creative vision, Seneca One currently houses 115 residences, corporate offices, and food vendors. To build on this, the development team also envisions Seneca One to be a small business incubator and has successfully transitioned local small businesses into bustling establishments with many requiring more square footage than originally leased.



# PROJECT DESCRIPTION AND SITE PLAN

The 3.5 acre site plan consists of a total of 38 floors consisting of 31 commercial floors that include office and retail space as well as 115 residential units that are 100% occupied and there is currently an extensive waiting list to live there. The following is a stacking plan of the building that details office space, retail space and residential units and the location of each.



## RESIDENTIAL

Seneca One houses 115 apartment units ranging from studio to 2 bedrooms. They are located beneath the lobby of the building on the first and second floors. The units are all fully renovated with stainless steel appliances, marble countertops and white subway tile that bring light into the space. There is a residential lobby secured with FOB access and security personnel. Each unit is equipped with their own washer and dryer and elevator access to underground tenant parking.

## COMMERCIAL

A driving factor in redeveloping Seneca One was activating a once vibrant center of Buffalo with commercial uses. By including regionally owned chain retail tenants while also being a small business incubator, Seneca One combines a perfect balance of large scale and local to create a space that is welcoming for all.

Acquiring the tallest building in Buffalo required including interesting programs to garner attention and support for the project. While the project is set to have standard programs such as retail and residential, there are unique uses that make Seneca One a destination to be nationally recognized. One characteristic that Western New York is known for is their harsh winters. These winters are not kind to dogs or their owners. With this in mind, Seneca One will soon be home to the largest indoor dog park in the nation.

Another aspect of the site plan is the close proximity to nearby public transit. The building is located approximately

300 feet away from the nearest bus stop and there is a metro stop underneath.



## RETAIL

There are various retail tenants located at Seneca One. M&T Bank currently uses space in Seneca One as a tech hub. The hub is part of Buffalo's innovation corridor. The collaborative workplaces are home to about 2,000 M&T technologists that attract new people and develop homegrown talent. There are also food vendors in the building that cater to the office tenants. The food hall includes a cafeteria style space adjacent to the lobby that rotate various vendors of all cultures to create an experience where customers of all backgrounds feel welcome.

### CURRENTLY AVAILABLE (TOTAL 1,275 SPACES):

-  SENECA ONE PARKING GARAGE (457 SPACES)
-  50 EXCHANGE ST. GARAGE (818 SPACES)

### AVAILABLE IMMEDIATELY (TOTAL 800 SPACES):

-  157 EXCHANGE ST & SURROUNDING LOTS (800 SPACES)

### FUTURE PARKING (TOTAL 1,331 SPACES):

-  61 TERRACE / LAKE VIEW APARTMENTS (400 SPACES)
-  BIGN'S GARAGE (931 SPACES)



PARKING SUMMARY

SOURCE: MARKETING BOOK COMPACT



# MARKET ANALYSIS

## OFFICE

Seneca One's ability to influence vacancy rates in Buffalo is considerable. We see this by looking at Class A office CBRE market reports, the combined Central Business District in 2013 is 4.37 million square feet of inventory. Seneca One comprised 850,000 square feet of Class A Office space in 2013 which equates to approximately 19.5% of the total inventory for the CBD. As Seneca One's tenants vacated the building the Class A CBD vacancy reached 21%, this held pretty steady until the redevelopment of Seneca One. In late 2016 as plans for the redevelopment progressed, the vacancy rate dropped 4.5% to 16.9% solely due to the removal of inventory with Seneca One's plan to turn that space into residential and recreational space. We see some slight variations to Class A office vacancy through the next few years due to normal market conditions. The announcement of M&T signing a lease with Seneca One in Q4 of 2019 had a significant impact of reducing the vacancy rate by 6.2% to 11.9%. With this reduction in vacancy, we started to see more Class A inventory populate in the CBD. To sum up, Seneca One is a major player in Class A office for the city of Buffalo not just because of the inventory that it provides but the statement of the largest tower being stabilized.

## RESIDENTIAL

A December 2017 report titled Buffalo Housing Opportunity Strategy, was commissioned by the City of Buffalo, and prepared by CZB LLC, a third-party

consultant specializing in community planning. Among other conclusions of this comprehensive analytical study it was determined that 94% of 2,343 market-rate apartment units completed or under construction in the City of Buffalo since 2010 were made feasible via some form of tax abatements/credits or other fiscal incentives.

When Douglas Development made the plunge into the Buffalo commercial real estate market, the residential multifamily market was healthy. Looking back to reports starting in 2015, interest rates and vacancy remained low and cap rates historically hovered around 5% - 5.50%. Even with relatively favorable conditions, 94% of completed units were completed with the assistance of tax abatements/credits or other fiscal incentives since 2010. We see this evidence through looking back to 2015 at transactions within the City of Buffalo with consistent average price per unit numbers between \$51,000 - \$54,000. The volume of sales remained consistent as well hovering between \$44 million and \$45 million through the same time period.

Although we see limited growth in average price per unit, the low vacancy is an attractive metric for potential new development. Since 2015, the City of Buffalo has had limited luxury multifamily development. The combination of limited luxury units and the low vacancy created an opportunity for Douglas Development to create 115 luxury units. As noted earlier, these units are currently at max occupancy with a 2 year waiting list.

## RETAIL

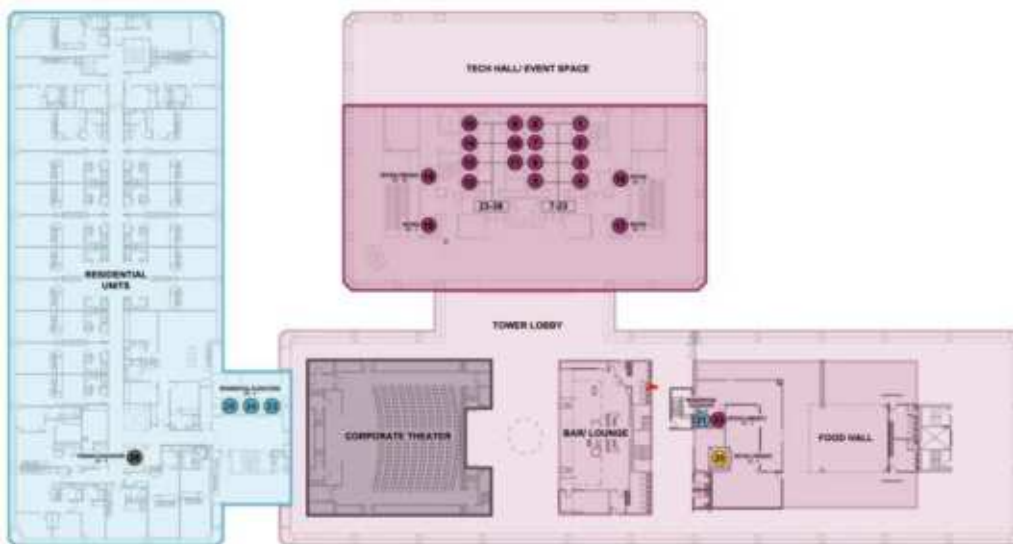
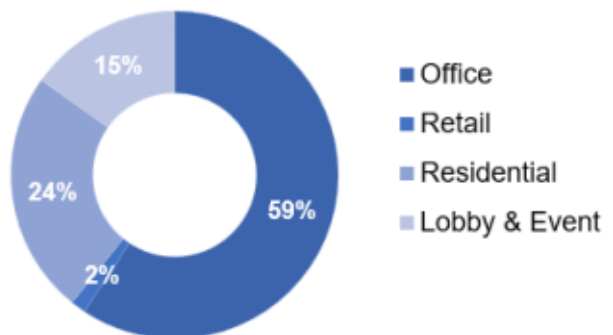
The City of Buffalo has had a challenging past with its retail sector. Looking back to 2015 the City of Buffalo had a 16.8% vacancy rate with 2 million square feet of retail inventory. Over the next few years we see a decrease in vacancy rates but that is attributed to a decreasing inventory. As the inventory stabilized in 2018, we started to see submarkets within the city start to perform well with an overall vacancy rate of 8.1%. The primary retail drivers are North Buffalo, the Elmwood district, and the Central Business District. Seneca One falls geographically at the edge of the central business district. In the immediate area of Seneca One there has been historically limited retail options.

This provides Seneca One with a unique ability to both cater to its potential tenants and also capture potential customers that are in the area for recreational activities. The KeyBank center is a multipurpose indoor facility that hosts professional sports and acts as a music venue. Sahlen field hosts a minor league baseball team and also hosts festivals.

Douglas Development is entering the commercial real estate market in the City of Buffalo at an excellent time. They are utilizing Seneca One to help revitalize the central business district in all three asset classes. Providing class A multifamily, office, and retail in a relatively high demand submarket with good underlying fundamentals.

As the Seneca One progressed through its renovation timeline, the lease up period for all three asset classes coalesced in 2020 and with main anchor tenants and residential tenants moving in. We now see low vacancy in Seneca One in its office and retail sectors with a two year waiting list for its residential units.

## SENECA ONE SQUARE FOOTAGE BREAKDOWN



# PLANNING AND ENTITLEMENT ISSUES

Before Douglas Development purchased what is now known as Seneca One, there was consideration of demolishing the tower due to its large size. In 2013, when the building was 95% vacant, an Urban Land Institute Technical Advisory Services panel spent a week in Buffalo to recommend a reuse of the building. Douglas Development took the initiative to make Seneca One the place that connects Buffalo as a whole. Following the timeline after Douglas purchased the building, redevelopment plans started. Douglas saw Seneca One as an opportunity to make it a mixed-use space for people to work, live, and play. This led to the proposal of residential wrapping around the first four floors of the building, with commercial in and above. The plaza and food hall are made accessible to the public which allows for the community of Buffalo to come together at Seneca One. They currently have a few more public amenities in the works to further bring together the city.

## ARCHITECT SELECTION

Once the building was purchased by Douglas Jemal in 2014, the team chose an architect/design team to move forward with the redevelopment and redesign of the building. Douglas Development went with Antunovich Associates as their chosen architects. Douglas' vision to revitalize two important city blocks in Buffalo was brought to life by the team. With Main Street and Canalside district on either

end, the renovation brought by Antunovichs' Architects allowed for the unity and expansion of these surrounding neighborhoods.

The architects were able to collaborate and enhance the experience for not only those residing at Seneca One, but for the community surrounding as well. The design at the plaza level brought more foot traffic with the landscaping, lighting, and seating. On the west side of the building, the architects included a new facade to form a link between Seneca One and the Canalside district.

## ZONING

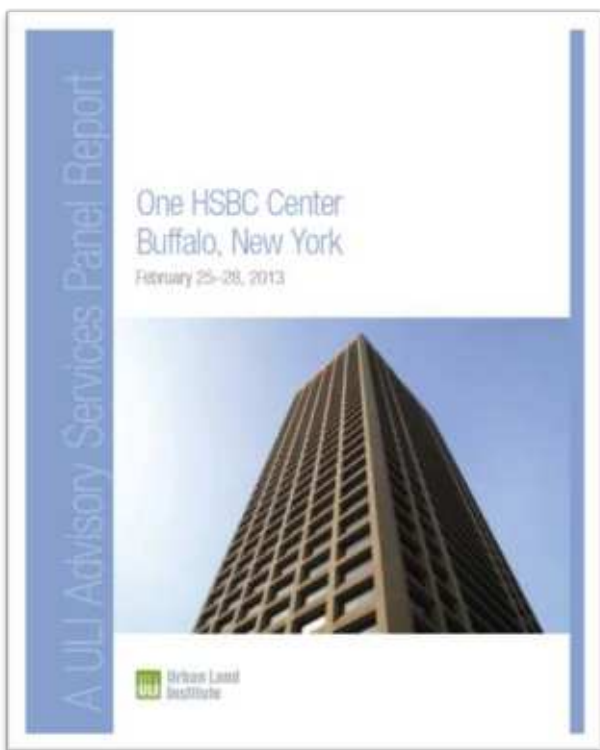
Seneca One and the associated parking for the project are located in the N-1D District in the City of Buffalo. In 2017, the City of Buffalo adopted a new Unified Development Ordinance (UDO), commonly referred to as the Buffalo Green Code. The Green Code represented the first major overhaul to the City of Buffalo zoning laws since 1953 and serves as the blueprint for zoning and development for the 21<sup>st</sup> century. The adoption of the Green Code in 2017 marked the culmination of a nearly seven-year effort that involved thousands of community members and dozens of community meetings in neighborhoods throughout the city. The Green Code represents the city's first comprehensive zoning rewrite in 63 years and is designed to reinforce the City's walkable, mixed use neighborhoods and strengthen its economic centers. The Green Code implements the community's vision for the development of the city. Responding

to considerable input from residents and business owners, it is a “form-based code,” emphasizing neighborhood character, as its organizing principle. This approach was chosen because of its unique capacity to help realize the community’s vision for walkable, transit-supportive neighborhoods. It is also a more accessible document, with illustrations, tables, and plain English text, making the ordinance easier to understand and apply.

Without the adoption of the Green Code UDO, the redevelopment of Seneca One would not have been possible, as the prior code did not specifically allow a mix of several different types of uses (i.e. residential, office, commercial, retail, etc.) within one building. The City of Buffalo is fortunate that the timing of the adoption of the Green Code and the purchase and subsequent redevelopment of the largest and tallest building in the City of Buffalo culminated around the same time.

## PUBLIC INCENTIVES

Before Douglas Jemal purchased the building, there were plans for it to be demolished. If it wasn’t for his vision and all of the hard work from the rest of the team and partners that worked on this project, Buffalo would not have gained all of the opportunities that came with Seneca One. This redevelopment served to provide the needed commercial Class A office space to Buffalo’s growing IT hub, as well as be a means to stabilize a Buffalo commercial complex. It’s estimated that \$15,000,000 in infrastructure improvements were planned, that is including elevator work, fire protection, internet and technology improvements, and more. One other major positive aspect of the development of Seneca One is the increase in employment that comes out of it. The amount of construction jobs that was estimated to come out of the project was 294. Annual payroll was averaged at \$325,000, and the average salary of jobs to be created is \$65,000.



## ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY TAX ABATEMENTS

Douglas Development applied to the Erie County Industrial Development Agency (ECIDA) for a Mortgage Tax exemption and a Payment In Lieu of Taxes Increment Financing (PIF). The ECIDA ultimately granted the Seneca One project the Mortgage Tax exemption and the PIF. This greatly benefitted the project by reducing project costs to the total of \$2.5 million. The Mortgage Tax exemption comes to \$340,000 and the PIF equates to \$2.1 million in cost savings.

The Payment In Lieu of Taxes Increment Financing (PIF) is simple in concept. PIF calls for local taxing bodies to make a joint investment in the development or redevelopment of an area, with the intent that any short-term gains be reinvested and leveraged so that all taxing bodies will receive larger

financial gains in the future. It is funded by future tax generation of new developments caused by the initial development.

The ECIDA projected the benefit to cost ratio of about 16:1 with their investment into Seneca One. The projected benefits total \$38 million that incorporate total state and regional benefits that include income and sales tax revenue over 25 years.



# BUILDING & LANDSCAPE DESIGNS & SUSTAINABLE/GREEN FEATURES

## FACTS & FIGURES

### BUILDING

|             |                     |
|-------------|---------------------|
| Class       | A                   |
| Sub In.     | 1972                |
| Height      | 529 ft.             |
| Coordinates | 42.8793°N 75.8237°W |

### AVAILABILITY

|              |                        |
|--------------|------------------------|
| 1,348,944 SF | Total Building         |
| 300,000 RSF  | Office Space Available |
| 30,000 RSF   | Retail Space Available |

### SCORE

|            |               |           |
|------------|---------------|-----------|
| 87         | 74            | 88        |
| WELL Score | Transit Score | Max Score |
| A          | B             | A+        |



## BUILDING AMENITIES



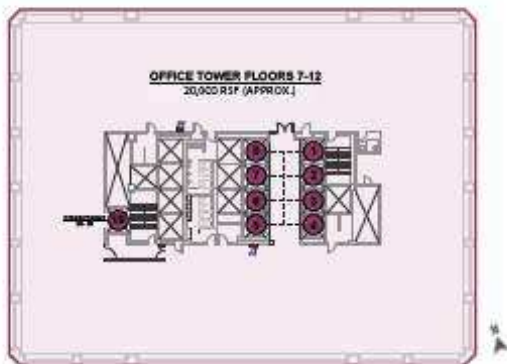
- Fitness Center
- Boxing Studio
- Conference Center
- Corporate Theater
- Food Hall
- Residential Apartments
- Co-Working Zones
- Bar / Lounge
- Teach Hall / Event Space
- Outdoor Plaza
- Brewery

- 24 Hour Security
- Secured Bicycle Storage
- Club House
- On-Site Petrol
- On-Site Parking
- On-Site Dog Care

# TOWER

## TYPICAL FLOOR

FLOORS 7-12



WHETHER YOU ARE ON THE 7TH FLOOR OR THE 38TH, THE 360-DEGREE PANORAMIC VIEWS OF THE CITY ARE UNRIVALED. POSSIBILITIES ARE ENDLESS AS YOU DESIGN EACH FLOOR WITHOUT COLUMNS TO OBSTRUCT YOUR VIEWS.

FLOORS 25-38



THE TOP FLOORS HAVE EPIC VIEWS OF BUFFALO AND LAKE ERIE. IT ALSO HAS THE LARGEST USABLE SQUARE FOOTAGE OF ANY FLOOR IN THE TOWER.

Seneca One's redevelopment contained some sustainability features, but they are limited. The major feature is retaining the building and not letting it be demolished. During 2014 – 2016 there was significant discussions with leading development firms in Buffalo unanimously supported the demolition of the tower. This is significant because the building/construction industry accounts for approximately 1/3 of the carbon footprint of the United States.

There was a significant investment in upgrading Seneca One's HVAC system reducing their energy usage by implementing high efficiency units. The simple task of upgrading old lighting systems to LED bulbs is one of the most cost-effective ways to further reduce energy consumption.

Douglas Jemal has a strong opinion of utilizing local businesses. His support of the local economy is a great way to reduce their carbon footprint even if it is on a small scale. Prioritizing small, local vendors from food prep to food suppliers to fill the food hall is an important facet in Jemal's vision. This is evident by Jemal partnering with small farms and specifically one local farm that produces vegetables and greens in old storage containers.

In addition to the green features inside the building, the site is also serviced through several different types of transportation. Specifically, the metro rail system (NFTA) runs right underneath the building.



The property is also proximate to Buffalo's Amtrak Station and the NFTA Bus Station.

Finally, the site is proximate to the major highways in downtown Buffalo, which include Interstate 190, which runs directly south of the building, Route 33, which runs to the east of the site, and Route 5, which connects downtown Buffalo to Buffalo's outer harbor, and which has an onramp to the west of the site.

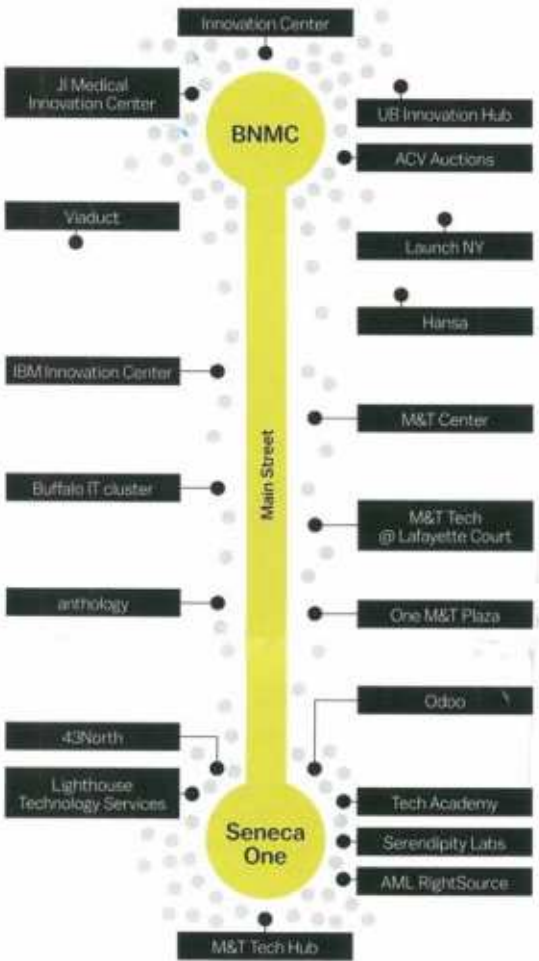




# OPERATIONAL ISSUES

Purchasing a historic building rarely comes without operational challenges and Seneca One is no exception. Exterior walls were added to create a courtyard adjacent to local shops outside the building. This courtyard was a necessary addition due to the high wind speeds going through the area of the building. One of the first due diligence studies conducted by Douglas was a wind study, which identified challenges with the large hardscape plaza at the time.

Pictured below is the before and after the addition of the courtyard and local shops. Another challenge was ACM abatement. In addition, another challenge was to complement and link other activity going on in downtown Buffalo, specifically the operations of M&T Bank, which is the anchor tenant in the building, occupying several floors.



Plaza Before Renovation



Plaza After Renovation










# EXIT STRATEGY

Douglas currently has no plans or intentions to sell Seneca One. Douglas claims this building is very important to him and close to his heart, and does not anticipate giving up the building or what he has created. He is very involved in Seneca One and makes it into Buffalo every week to be there.

Douglas is 82 years old and with time will have to pass over his responsibilities when it comes to Seneca One. The future of the company will continue to

stay within the family as it's been. Douglas has two sons who currently reside in D.C., but are very involved in Buffalo. Seneca One will continue to stay in good hands in the coming years with the great team they have built in Buffalo.

In addition to Seneca One, Douglas Development owns several other properties in the Buffalo-Niagara market, several of which are pictured below:

|   |   |  |
|---|---|--|
|  <p>Police Apartments<br/>Residential</p>                                   |  <p>Statler<br/>Residential, Under Development</p>            |  <p>Seneca One<br/>Office, Residential, Retail</p>                             |
|  <p>The Mansion on Delaware<br/>Historic, Hotel</p>                        |  <p>625 Alberta Drive<br/>Retail</p>                         |  <p>Hyatt Regency Buffalo /<br/>Hotel and Conference<br/>Center<br/>Hotel</p> |
|  <p>Mahoney Building<br/>Office, Restaurant, Retail, Under Development</p> |  <p>Meidenbauer House<br/>Residential, Under Development</p> |  <p>The Richardson Hotel<br/>Historic, Hotel, Restaurant</p>                  |

# INNOVATION AND IMPACT OF DEVELOPMENT

Doug Jamal wanted to redesign the nonexistent lobby to force interaction with staff. The previous method of getting into your office was to take the elevator from the parking garage to your desired floor. The redesign implemented a large lobby space highlighting the large open space and some historical artifacts from previous tenants. The main tenant at one point was M&T bank, Jamal utilized an old vault as a primary focal point in the lobby. The space also includes a large sitting area and an event space with a bar. The lobby was designed with the idea of bringing in the public, it was not intended to be a space for only the office and residential tenants.

Jamal wanted to make Seneca One the tech hub of the city. Their strategic partnership with 42 North is integral in achieving their goal. 42 North is a tech incubator that offers a competition and subsequently a funding source for these new businesses. Winners of funding of the 42 North competition have the ability to take space for a year in the Seneca One building. As Seneca One is used as an incubator space, Douglas Development utilized an innovative lease for their tenants. This innovative lease was denoted as Pay as You Grow. The idea behind this is to cultivate a growth partnership between Douglas Development and the tenant. Offering smaller tenants that are trying to grow the ability to grow without the burden of having a rigid lease forcing either a restriction on employee growth or having to accurately project the future

size which requires extra funding towards the tenant's space that could otherwise be used to expand their business.

The impact of Douglas Developments success with Seneca One is hugely beneficial for the City of Buffalo. Seneca One is the most prominent building downtown that was previously discussed to be torn down. It has returned to the status as an anchor building of Buffalo with fully leased residential & commercial space. The commercial space is heavily focused on recreational enjoyment with the focal point being Other Half Brewery.

Douglas Development has had numerous awards from personal awards to awards given to their projects and the firm. They received numerous awards in Buffalo and specifically the Golden Brick award in 2021 for the redevelopment success of Seneca One.



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# PROJECT FINANCING

## OVERVIEW

The financing for this mixed use value-add project is difficult especially in the City of Buffalo. As we have seen in the market analysis, 94% of the development projects in Buffalo received some sort of tax incentive through the Erie County IDA. We have to estimate the project financing for Seneca One, utilizing information through public facing sources.

Seneca One looks to have at least two phases. The original redevelopment of the tower took some of the office space and turned it into 115 luxury units and assigned some of the lower mezzanine office into retail space. Incorporating upgraded HVAC, a complete redesign of the lobby space & main mezzanine, exterior wall surrounding the plaza, and painting the building to its signature terracotta red, the redevelopment of Seneca One will complete the main phase of the project.

## DEVELOPMENT COSTS

Total redevelopment costs for this phase total \$45 million. This number does not, however, include the purchase price for the building and land. Douglas Development purchased the former HSBC Center for \$12 million, bringing total project costs for the initial phase to \$57 million. The debt to equity sourced is unknown but looking at public information Seneca One has a mortgage of \$53 million at the time of permanent conversion. Any equity for the project was provided by Douglas Jemal, however the recorded ownership structure of Jemal Seneca's LLC that owns Seneca One is 99% owned by

Douglas Jemal and 1% owned by Paul Millstein, the Vice President of development for Douglas Development. The breakdown of the redevelopment costs consists of \$25 million in building renovation, \$15.225 million in infrastructure upgrades, \$4 million in new equipment, and \$275,000 of soft costs.

Douglas Jemal has a reported net worth of \$150 million, with this extensive amount of capital we can assume that the financial institutions that Douglas Development has positive relationships with would give them favorable loan terms. During the time period where Douglas Development would be securing their construction loan the fed fund rate was sub 1% in late 2016 to a high of 1.50% in 2017, with the financial institutions additional basis points we can make the assumption that the interest rate could fall anywhere from 4% to 5%. With relatively low interest rates and a strong backing of a high wealth should yield an 80% loan-to-cost for the proposed renovations. This would yield \$36 million in bank financing with the remaining \$9 million as the equity position. Unfortunately, the financing structure of the purchase of the former HSBC Center is unknown but taking a similar approach to financing of 80% loan-to-cost approach yields \$9.6 million in bank financing with an equity position of \$2.4 million. Total project costs could realistically be \$45.6 million in bank financing with an equity position of \$11.4 million.

As Seneca One converted to permanent financing, the City of Buffalo has Seneca One's total assessed value of \$36.5 million at a 70% appraised value. This yields a full market value of \$52.15 million. Public records show a mortgage of \$53 million on this property. When Seneca One converted to permanent financing in 2020, the fed fund rate could have been sub 1%. With a low interest rate and strong financial backing, a debt service coverage ratio might have been as low as 1.15. This could yield a monthly payment of \$275,000 for permanent conversion. This puts the required net operating income to \$320,000.

## **REVENUE**

The Seneca One tower has multiple revenue streams. They have income generation through their office, retail, and residential tenants, as well as smaller revenue generators of their event space, food hall, lobby bar, and three rooftop broadcast towers. To reach the required net operating income, we can make the assumption between all three asset classes that are incorporated into Seneca One a safe operating expense could be around 40%. With our assumptions in place the revenue of Seneca One would have to be \$800,000 per month or a yearly revenue of \$9.6 million.

The residential units are at 100% occupancy rate we can only assume that because they are advertised as luxury units they will be commanding the higher range of rental income. The 115 units are broken down at an unknown percentage of studio, 1 bedroom, 2 bedroom, and 3 bedroom units. The studio apartments are furnished which is a new trend for the City of Buffalo. Making the assumption that the average rental income from all the units average out to be \$1600. On top of the base rental rate, there are extra fees that are associated with their residential units. They include parking garage fee, pent rent fee, and application fee. In total we can make the assumption that their residential revenue stream nears \$200,000 a month.

The both retail and office space at Seneca One incorporates the lion's share of the square footage of the tower. Looking at similar Class A retail and office in the Central Business District we can see a range of rental rates from \$16 - \$20 PSF. With over 1 million square feet of Class A commercial space, if Douglas Development was able to reach market vacancy for the submarket in 2022 they would be at 3.3% vacancy for retail and 16.7% vacancy for office.



This would bring in a potential revenue of \$1.25 million a month, this revenue stream doesn't take into account any tenant improvements. Taking a conservative approach of 20% of the potential income to cover the tenant improvements we get a total revenue stream of \$1 million.

The revenue that is generated from the event space, food hall, lobby bar, and three rooftop broadcast towers would be insignificant compared to the main revenue streams for Seneca One. These are mainly amenities focused on providing a better experience for tenants and visitors to Seneca One.

Combining all the revenue streams for Seneca One, we can see that depending on how well Douglas Development is able to keep the tower stabilized they could see a total revenue of \$1.2 million. As commercial tenants fluctuate because of the size of the tower and type of commercial tenants they are appealing to, maintaining the current submarket vacancy rate will be difficult. This does provide Seneca One with a large profit potential when the building is leased to the market rate vacancy.

## CONCLUSION

The renaissance of the former HSBC Tower was an impressive feat by Douglas Development. The risk involved with purchasing an empty building that can sway the office market in a significant way by losing two tenants is considerable. The ability of Douglas Development to utilize strong development fundamentals with a strong understanding of the local market and submarkets and having the ability to convince potential anchor tenants to invest into Seneca One resulted in the most influential projects in Buffalo. The City of Buffalo has been teetering on the precipice of revitalization for half a decade prior to the purchase of the Seneca One tower. With the change in mentality by turning Seneca One into the main tech hub and incubator, Buffalo has been designated as a Tech Hub with its growing employment sector. Seneca One has had major role in Buffalo receiving this designation. On top of designation, the area around Seneca One has boomed in activity from the work, live, play atmosphere that is promoted heavily by Douglas Development. This signature development has revitalized the downtown core and has created much needed downtown activity pushing Buffalo past the precipice into a new era.

