



University of Maryland
Colvin Institute of Real Estate Development
2020 Case Study Challenge

Team #17



PROJECT OVERVIEW

Executive Summary

Lincoln Square is a contemporary mixed-use development that opened in 2018. Located in the Point Breeze neighborhood of South Philadelphia, the development consists of 548,000 square feet of residential space, 140,000 square feet of commercial space, and a pedestrian walkway. The vision of this development was to bring a positive impact to a blighted neighborhood by creating a retail corridor and transit-oriented development that connects South Philadelphia to Center City.

The proposal for this development began after a failed agreement with a local high school to relocate to this property. MIS Capital decided to take the contract with the City of Philadelphia for the property in order to redevelop the historic Philadelphia, Wilmington, and Baltimore railroad freight shed. Over time, MIS Capital partnered with Alterra Property Group and Kimco Realty to broaden the scope of the project from the trainshed redevelopment to the mixed-use development of the whole block.

Lincoln Square is a project that has not gone unnoticed. This development won the 2019 Preservation Alliance of Greater Philadelphia Economic Impact Award and the Pennsylvania Preservation's Economic Impact Award for the rehabilitation of the train shed. The awards are given to projects that celebrate the highest level of achievement in historic preservation for

- Preserving or protecting historic resources in the built environment.
- Historic building restoration, rehabilitation, or adaptive reuse.
- Sympathetic new construction or additions associated with historic properties.
- Educations or advocacy efforts related to historic preservation.
- Documentation of significant historic resources in the built environment.

Name: Lincoln Square

Address: Philadelphia, PA

Project Type: Mixed-Use

Development Cost: \$151.33M

Site Area: 3.4 Acres

Building Size:

Residential: 548,000sf

Commercial: 102,000sf

Grocery: 38,000sf

Features:

322 Apartments

435 Parking Spaces

7 Retail Stores

1 Grocery Store

Public Plaza & Pedestrian Walkway

Developers:

MIS Capital, LLC

Alterra Property Group, LLC

Kimco Realty

Garage, Retail, & Residential Architect:

BLT Architects

Trainshed Architect:

Kelly/Maiello Architects

Landscape Architect:

Cairone & Kaupp Architects

General Contractor:

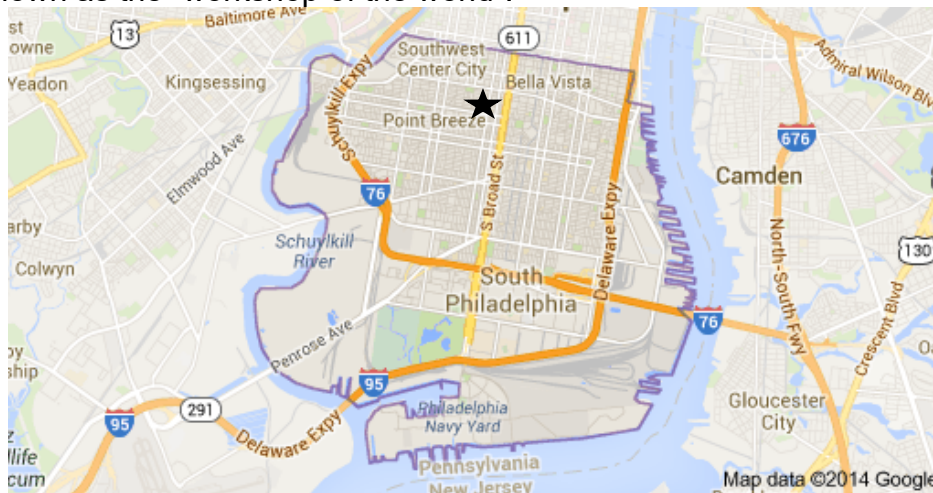
Intech Construction

Tenants:

Target, Starbucks, T-Mobile, Chipotle, JP Morgan Chase Bank, CVS, PetSmart, Insomnia Cookies, Wine & Spirits Shoppe, Sprouts Farmers Market

Context & Overview

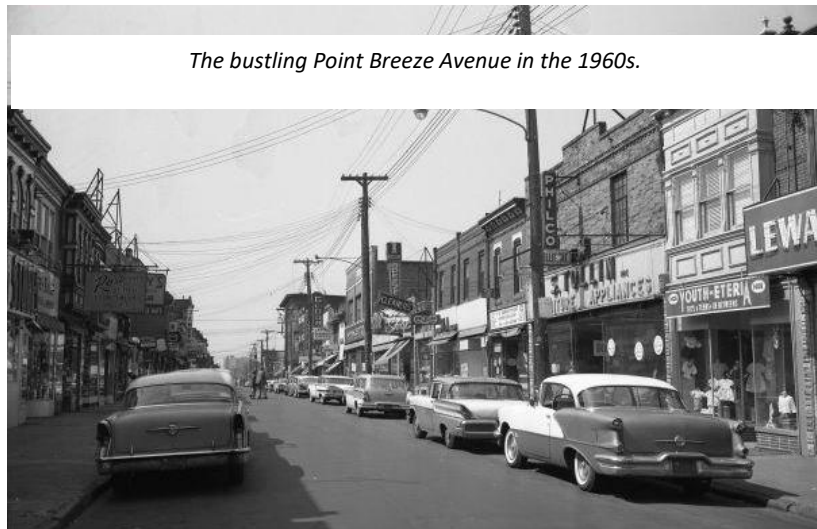
South Philadelphia began as a satellite town with small townships surrounding it. Towards the end of the Industrial Revolution, there was rapid population growth and urban development. This inflow was due to the migration of working-class laborers and immigration of immigrants searching for factory jobs and dock work. In 1854, South Philadelphia expanded to Center City's southern border and was incorporated into the City of Philadelphia with the passage of the Pennsylvania Legislature of City Council's Act of Consolidation. Its boundaries are defined by South Street to the north, and the Delaware and Schuylkill Rivers to the east, south, and west. Overtime, South Philadelphia grew to become a vital part of the large industrial base in Philadelphia as it became known as the "workshop of the world".



Lincoln Square is specifically located on the edge of the Philadelphia neighborhood of Point Breeze. Point Breeze was an area of land purchased by Joseph Bonaparte, Napoleon's Bonaparte's older brother, in 1816. In addition, Bonaparte purchased farms, orchards, meadows, and swamps and he built a large house with 12 miles of road to go around the property to create his estate. By the middle to late 1800s, the development of the City of Philadelphia continued westward towards the Delaware River and southward of Market Street. By the 1860s, Point Breeze was established as an area for oil refinery by the Atlantic Petroleum Storage Company aka the Atlantic Refining Company. On this property contained Long Lane, an avenue that connected the city proper to the east side of the river. This lane later turns into Point Breeze Avenue in 1895.

By the early 20th century, Point Breeze became a multicultural, working-class neighborhood. Point Breeze Avenue, "The Breeze", was a place to live, work, and play. This neighborhood was a self-sustaining, somewhat integrated neighborhood that did not have to rely on Center City for resources and entertainment.

By the 1960s, Point Breeze took a turn for the worse. The race riots due to inequality and police brutality led to the immense “white flight” not only in Point Breeze but in multiple South Philadelphia neighborhoods. By the 1970s, Point Breeze was hit with the heroin epidemic, and two decades later, the crack epidemic. Between the 1990s to 2000s, Point Breeze lost about 10% of their population.



In the 2000s, revitalization efforts have taken place in order to bring back the once vibrant neighborhood. Gentrification efforts along the Broad Street and Washington Avenue corridors have led to mixed reactions. Parts of the community are excited for change and for the younger generations to move-in, while others are upset their neighbors and families are being displaced by the rising property values and the millennials that can afford to replace them.

Developer Team

MIS Capital, LLC

MIS Capital is an innovative real estate development company, created by the founding principals, Steve Gendler and David Coleman, that incorporates design and constructive in order to construct transformative facilities. The company is built on the mission of being a social impact development company with the values of vision, leadership, and expertise as its foundation. The goal is to develop facilities and provide real estate planning, economic development research, and asset regeneration services on behalf of for-profit and non-profit organizations.



Alterra Property Group, LLC

Alterra Property Group, co-founded by Leo Addimando, is a Philadelphia-based real estate investment, development, and management company with expertise in adaptive reuse, new construction, residential, retail, office, and mixed-use developments. More specifically,



Alterra exercising their mastery in acquisition, entitlement, project/construction management, asset management, leasing, property management, accounting, and investor reporting. Since 2005, Alterra has performed over 100 real estate transactions across more than 15 states, more than \$2 billion in transaction volume, and \$750 million in completed development projects. Currently, Alterra manages over 2,000 upscale residential apartments under their residential management division, APG Living.

Kimco Realty Corporation

Kimco Realty is a real estate investment trust (REIT) headquartered in Jericho, New York. The company's specialty for the past 60 years is its shopping center acquisitions, development, and management which is reflected by the fact that this company is one of North America's largest publicly traded owners and operators of open-air, grocery shopping centers and mixed-use developments. Kimco's mission is to create developments for everyday living that encourages community and delivers value to all of its stakeholders. With their values of integrity, creativity, and stability in hand, Kimco has interests in over 400 properties leading to 70 million square feet of gross leasable space in top metropolitan markets across the country.



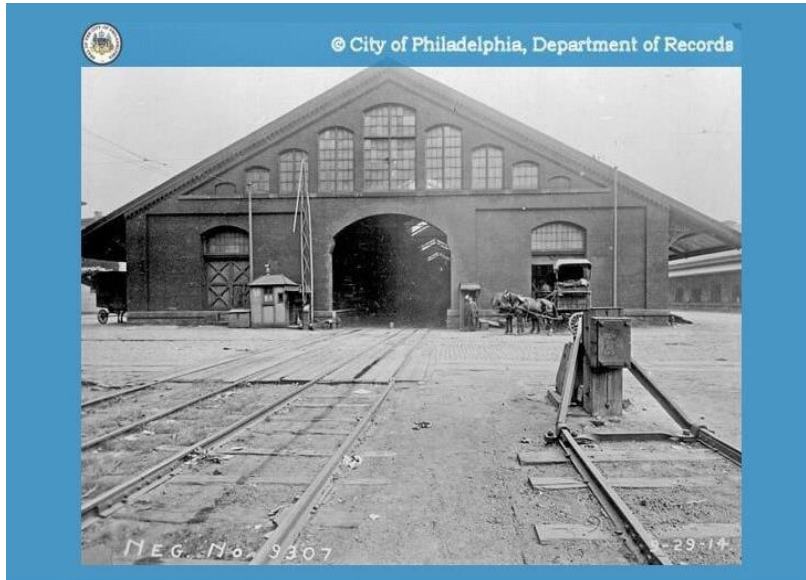
Intech Construction

Founded in 1986 by Craig Sabatino and Will Schwartz, Intech Construction is a Philadelphia-based construction firm that is built on the mission of being a service-oriented, personalized approach to the construction industry which honors craftsmanship, quality, and integrity. This design-build company primarily serves academic and cultural institutions, healthcare, hospitality, business sectors, and private development. Some of their more well-known completed projects include, One Riverside, 500 Walnut, The Newman Center, and Thomas Jefferson University's Kay and Harold Ronson Health and Applied Science Center. Currently, Intech Construction is constructing the Pennovation Lab and Arthaus, and the SORA West.



Developer's Vision

MIS Capital's original vision of this site may not be the vision anyone would have



The original Philadelphia, Wilmington & Baltimore Railroad Freight Shed.

thought it would be.

Originally, a Philadelphia school wanted to move their current school location to this site. However, the school was split on how to go about accomplishing this objective. The school board wanted MIS Capital to get the property under agreement, but the Principal and other school officials were not ready for these actions. Due to the school's indecisiveness, MIS Capital kept the process going for trying to get the school's name or MIS Capital's name on the contract. In the end,

the school delayed for too long and MIS Capital received the contract after falling in love with the historic trainshed on the site. The 38,000 square foot trainshed was placed under contract in 2008 with the vision to restore it and place it on the National Register for Historic Places. The main missions of MIS Capital are to save buildings and to make immense impacts on neighborhoods in need. The rehabilitation of the trainshed was the perfect project to achieve both of these goals.

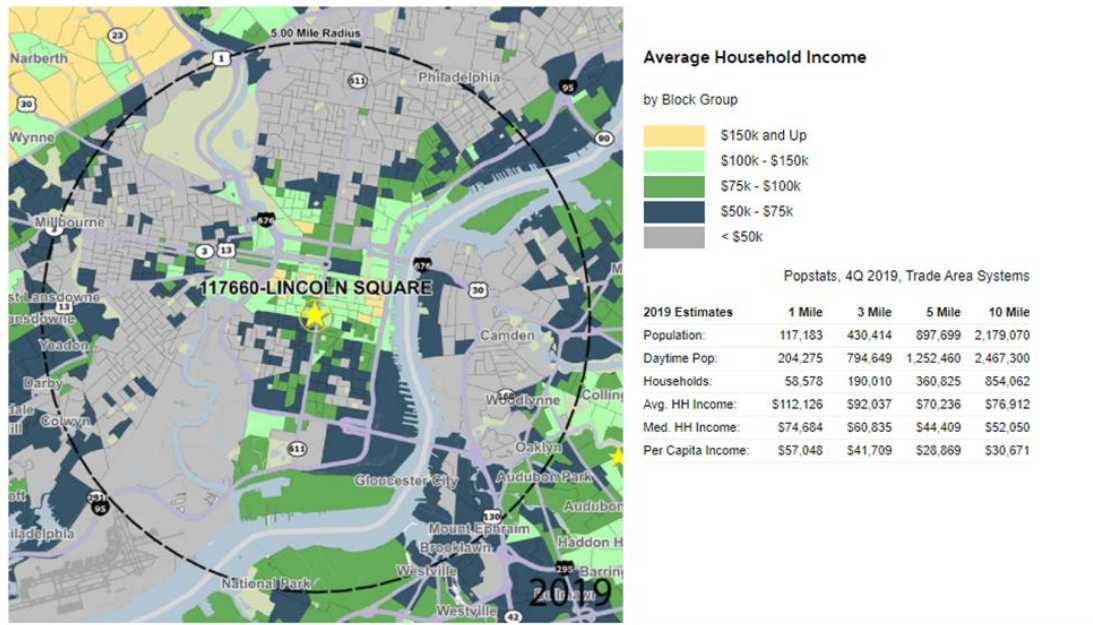


The creation of Lincoln Square was influenced by the goal of diminishing the blight at the edge of Center City, Philadelphia and becoming the premier gateway to the Avenue of the Arts at the same time. This prior empty plot of land was seen as a black hole in the neighborhood for decades before it became a vision for helping to merge Center City and South Philadelphia by providing ample retail and hundreds of residents to the neighborhood.

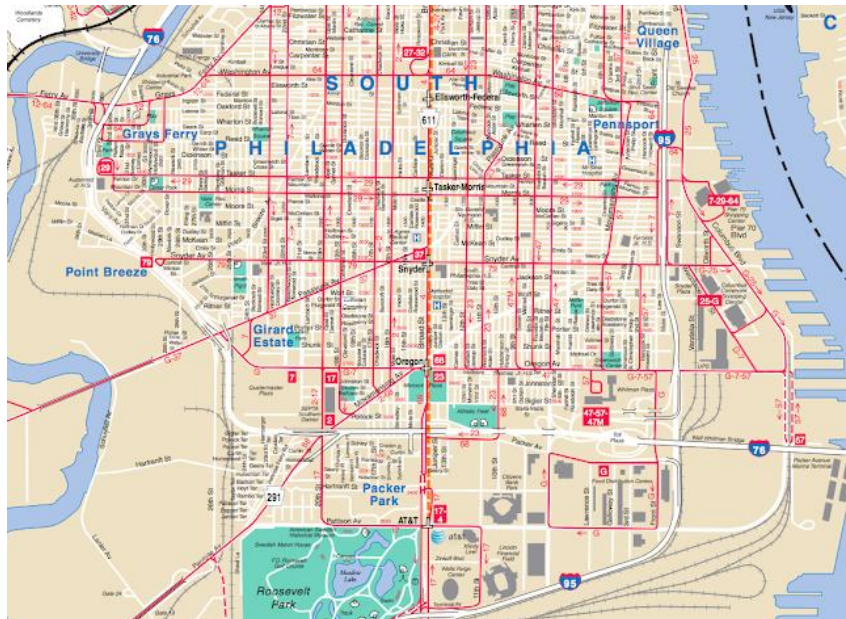
Ultimately, the motivation behind this development was to add to the neighborhood housing demand, increase property values, and more notably, lead to increased development along South Broad street and Washington Avenue.

Market Analysis

Point Breeze is a neighborhood in South Philadelphia with a population of 16,957. The neighborhood delivers an “urban suburban mix” as it provides the nightlife and diversity of a city, while giving residents the sense of community that the suburbs is known for.



Lincoln Square is classified as a transit-oriented development. The development received a walk score of 96, a bike score of 85, and a transit score of 81. This means that most daily errands do not require a car and that transit is convenient for most trips. The Broad Street Line services the neighborhood as well as provides an easy connection to the Market-Frankford Line, numerous bus routes, and trolley lines. SEPTA’s number 2, 17, and 29 bus routes run through this area and connect to Center City Philadelphia and other neighborhoods. In addition, the Philadelphia International Airport is about six miles away and requires no more than 12-15 minutes of travel to get there.



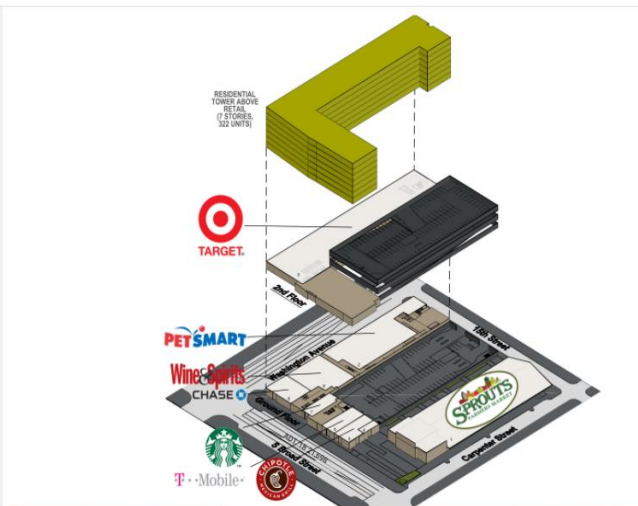
There are high demands for large grocery stores in many low-income neighborhoods in Philadelphia where all that is accessible are small mom-and-pop stores. Since so few corner stores have fresh fruit and vegetables, Point Breeze residents have to make a 20-minute trek to the nearest ACME and Whole Foods, which are located a few neighborhoods away. In Point Breeze, the US Census statistics showed that one of every four residents live in poverty even though the neighborhood is heavily gentrifying. In 2017, the median household income rose from \$29,342 in 2010 to \$37,879. In addition, the Reinvestment Fund conducted a study about the accessibility to groceries in the City. The study found that there was a 56% decrease in limited supermarket accessibility between 2005 and 2013.

Project Description



Lincoln Square is a 550,000 square foot, 130-foot tall transit-oriented development on 3.4 acres of land within the boundaries of Broad Street and 15th street, and Carpenter Street and Washington Avenue.

| # | Tenant | SQ FT |
|---|------------------------|--------|
| 1 | Sprouts Farmers Market | 32,000 |
| 2 | PetSmart | 15,360 |
| 3 | Target | 36,215 |
| 4 | Insomnia Cookies | 600 |
| 5 | Chipotle Mexican Grill | 2,266 |
| 6 | T-Mobile | 2,500 |
| 7 | Starbucks Coffee | 1,875 |
| 8 | JPMorgan Chase Bank | 2,919 |
| 9 | Wine & Spirits Shoppe | 7,491 |



This eight-story complex is split into five sections. The southern and eastern sections consist of a one-level of retail spaces with seven floors of apartments. The retail space contains the tenants of Target, Starbucks, T-Mobile, Chipotle, JP Morgan Chase Bank, CVS,

PetSmart, Insomnia Cookies, and Wine & Spirits Shoppe. The apartments comprise of 322 units with 548,000 square feet of space. The unit sizes range from 380 square feet micro units to 1,427 square feet 3-bedroom units. The inner portion of the complex includes a four-level parking garage with 144 bike spaces and 435 car spaces. In

addition, there is a pedestrian walkway, the Lincoln Walk, that allows for community gatherings and community-oriented events.



The PW&B trainshed right before construction started on its rehabilitation.

The north section is made up of a historic trainshed that was redeveloped and expanded into a 38,000 square foot Sprouts Farmers Market with a public plaza in the front. This remarkable trainshed was constructed in 1876 and is famous for being a part of the major hub for the Philadelphia-Wilmington-Baltimore Railroad Line as well as a funeral stop for President Abraham Lincoln. In 1861, President-Elect Lincoln secretly visited the train station during a forecasted assassination attempt on his life. He was personally escorted to Washington DC using this train line and when he arrived, his secret service used the message of “Plums delivered nuts safely” to telegraph Mrs. Lincoln that her husband arrived safely. After President Lincoln’s passing, he was being transported to Illinois, home state, for his funeral. Along the way, his coffin was unloaded and carried in a procession to Independence Hall for a memorial ceremony in his honor. This development was named in honor of President Abraham Lincoln’s presence on the site when he had secretly boarded a train on the night of February 22, 1861, days before his 1st inauguration on March 4th, and publicly in 1865 after his assassination.



Currently, this trainshed is listed on Philadelphia's Historic Register and the National Register for Historic Places. The project is named after President Lincoln's actions of trying to bridge the country back together. Lincoln Square is a symbolic metaphor for wanting to bridge South Philadelphia and Center City together.

Planning & Entitlement Difficulties

After MIS Capital placed the project under contract, the problem at hand was still what could be done with the property. MIS Capital purchased the property in order to rehabilitate the train station in order to bring a positive impact to the community. As time went on, the vision became more and more unrealistic as the financial cost of the project kept increasing and the parking requirements by the city led to the diminishing of the benefits that were sought after. From 2008 to 2015, there were various strategies to find a more viable solution. The option involved included a new building focused on the Arts, and a new sustainable headquarters for a local cultural society. On the other hand, the City of Philadelphia wanted the site to be a retail destination for the community. Even though a retail presence was strongly desired, South Broad Street has a reputation for failing retail complexes. In order to make the most of the site and to bring the most impact to the community, MIS Capital decided to partner with Alterra Property Group and Kimco Realty to create a retail destination, create apartments, and rehabilitate the trainshed by using their close proximity to local transportation to their advantage.



After deciding to develop the whole block, the developers had to have it rezoned from industrial to commercial mixed use. This had to be done as industrial zoning does not permit dining, housing, or retail amenities. Furthermore, the developers had to obtain a zoning permit in order to make the three existing plots of land on the block, 1000 South Broad Street, 1020 South Broad Street, and 1001 South 15th Street, one contiguous plot of land for the

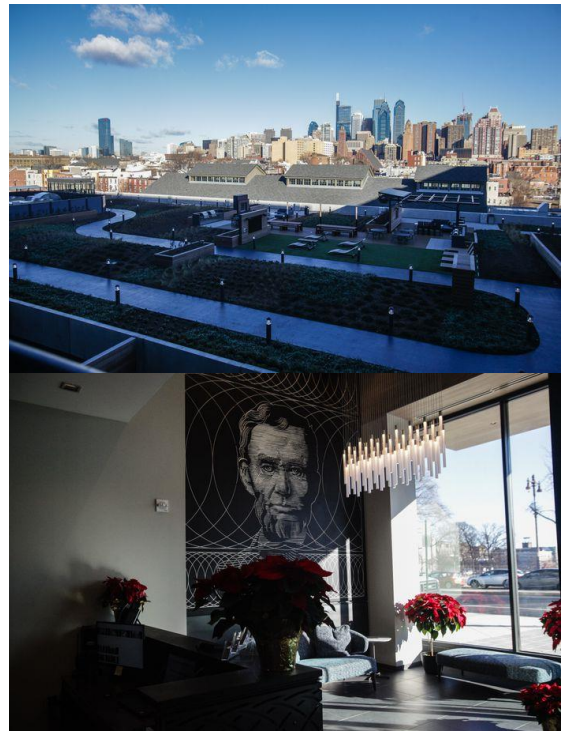
development.

During the preconstruction phase, hazardous and contaminated soils within the trainshed footprint were remediated due to the land being used as a train station from 1876 to 1976. The remediation of the hazardous materials was required before the sale of the property was finalized by the Philadelphia Industrial Development Corporation (PIDC) in order for the developers to acquire the land for free from the City.

Sustainable Design Features

Residential Spaces

The residential units provide access to ample sunlight for its residents by delivering floor-to-ceiling windows in every unit. Some units have private terraces. There are amenities available for the tenants that promote socializing through entertainment and spaces for gathering as well as promoting healthy lifestyles. Some of these amenities can be located on the garage rooftop deck including an outdoor track, a roof terrace with two grills, fire pits, fireplace hearth, outdoor movie wall, and 85” TV screens. Within the complex there is a fitness center where residents can also use to destress and meet their neighbors.





Historic Preservation

The centerpiece of Lincoln Square, the Trainshed, was rehabilitated and redeveloped into a grocery retail space. The trainshed shell was left intact, but the structure did receive some major upgrades. The building received a new roof, windows, and restored doors. There were new brick and glass additions that serve as an entrance to the grocery store. On the other hand, the original wooden ceiling and steel

frames were left exposed. The original train station timber was removed in order to bring the building to grade level, and the timber was sold to a salvager in New Jersey who used the timber to create smaller boards for repurposing. In addition, the original green sliding doors, about 25 of them, were all reused as furnishings around the interior of the grocery store.

Public Spaces

Lincoln Walk, the pedestrian walkway that stretches from Broad Street to 15th Street, provides members of the community an extra route to get from South Philadelphia to Center City using greener methods of transportation, such as biking and walking. The public plaza, located in front of the Sprouts Farmers Market, is a place created for community engagement and gatherings. New bike lanes were also inserted on the stretch of land behind the development along 15th Street.



Project Financing

The project's total development cost was about \$152 million, which was 100% equity-financed through a fixed loan.

| |
|---|
| \$0 Pre-Acquisition Costs |
| ----- |
| \$12.8 Million Property Costs |
| ----- |
| \$16.811 Million Soft Costs |
| ----- |
| \$6.097 Million Onsite Costs |
| ----- |
| \$110.983 Million Hard Costs |
| ----- |
| \$4.643 Million Capitalized Interest |
| ----- |
| <u>\$151.334 Million Development Cost</u> |

The residential portion of the project cost \$84.63 million and was 55.92% of the total development cost. Roughly, \$77.10 million are hard costs and \$7.53 million are soft costs

The \$34.22 million retail portion makes up 22.6% of the total project cost. Of this amount, hard costs comprise \$24.94 million and soft costs include \$9.28 million. The trainshed rehabilitation received two grants totaling \$2.5 million by the Pennsylvania Department of Community and Economic Development. First, the Industrial Sites Reuse Program (ISRP), provides grants and low-interest loan financing to perform environmental site assessments and remediation work at former industrial sites. The second grant, The Multimodal Transportation Fund, encourages economic development and ensures a safe and dependable transportation system is available for Pennsylvania residents.

Current Operational Issues

Since March 2020, businesses throughout the country and around the world have needed to deal with the global Covid-19 pandemic. The coronavirus has affected each country differently, each state differently, and even each city and town differently due to the impact it has on each community. Many of the eastern states of the United States decided to shutdown non-essential businesses and stop landlords and mortgagors from evicting tenants and homebuyers from March to around August. Because of this shutdown, many small businesses have closed, large businesses are filing for bankruptcy, and many residents do not know when they will be evicted from their homes.

Philadelphia, specifically, was the last county in Pennsylvania to enter the green phase of reopening due to their struggles of keeping their Covid-19 numbers down for 14 days straight. Due to the shutdown, Philadelphia has lost \$4 billion in tax revenues due to tourism halting and more than 70,000 people who work in the travel and tourism

industries losing their job. The City has estimated that this will take Philadelphia three to four years to recover from this loss. In addition, Philadelphia is estimated to lose \$344 million to \$647 million in tax revenue for fiscal year 2020 and 2021. These estimates assume that Philadelphia will get hit harder economically before starting to make a slow recovery in fiscal year 2022.

Although Philadelphia as a whole was hit hard by the pandemic, the same cannot be said for Lincoln Square. During the pandemic, Lincoln Square has maintained a 5% vacancy rate for its residential side and 0% physical vacancy rate for its retail side. The only downside Lincoln Square faced during the pandemic is that their Starbucks and Sprint stores closed their locations until non-essential retail stores were allowed to open their doors during mid-summer 2020.

Development's Impact

Lincoln Square was constructed under the original mission of saving a historic trainshed by giving it a second chance at life, but in the end the project turned into something more. This project was undertaken to provide the greatest social impact to the community on which this development serves. The transformation of a former industrial train station to a productive and blossoming community that generates taxes and jobs to boost Philadelphia's economy is a major key component in the city's thriving community. This development has generated 2,000 construction jobs and 400 permanent jobs from the inception of the project to its finish. In addition, the property generates tax revenue for the City of Philadelphia including property taxes, sales taxes, wage taxes, and liquor taxes.

Lincoln Square's impact on the neighborhood should not be understated. The development acts as a retail corridor to the surrounding neighborhoods and provides housing to hundreds of new residents. The project reshaped a noticeable blight at the edge of Center City and created a gateway to the Avenue of the Arts. Lincoln Square provides this low-income yet gentrifying neighborhood with an affordable grocery store that supplies healthy products, which is an amenity that this neighborhood has never experience. Not only can Lincoln Square greatly add to the neighborhood's property values, but it can create further opportunities for development along South Broad Street and Washington Avenue.

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