

DEVELOPING

Pittsburgh

Spring 2016

Developing The Riverfronts

**Office and Industrial
Market Reports**

Profiling 3 Crossings

**The Jobs Market:
Pittsburgh vs. Its Peers**

NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

PITTSBURGH CHAPTER

Developer Profile



The site of Three Rivers Stadium has become home to \$145 million in new commercial space. Photo by Charles Uhl.

Continental Real Estate Companies

Almost 20 years after Continental Real Estate Companies purchased the 256 acres that made up the former U.S. Steel Homestead Works from the Park Corporation, it's easy to forget that not everyone thought the developer was crazy for imagining a live/work/play community there. It only seemed that way at the time. You can count Continental's Chairman, Frank Kass, among those who weren't sure.

"When they first took me to the site, they took me in from the wrong side, from the south, and I said get me out of here," Kass recalls with a chuckle. "But when they took me in from the north it was a different story."

The six-year, \$300 million investment marked a significant turning point in how the brownfield sites in Pittsburgh would be viewed. It also marked the first major project Continental Real Estate Companies undertook outside its home turf in Columbus, OH, where Kass and partner Jack Lucks had grown an office supply business into one of the larger office furniture suppliers in Central Ohio. In 1973, the partners had seen a trend developing and heard enough from their customers to inspire Kass and Lucks to grow

their business to include real estate development.

"When I graduated from Ohio State University in 1965 the interstate highway system was being built. If you were from a flat city like Columbus, that changed everything," Kass explains. "We had highways coming through Columbus going in every direction. Businesses were moving all over the area and Columbus was one of the only Midwestern cities that wasn't shrinking because it wasn't a manufacturing center."

"Our office furniture business was supplying many of the companies that were growing. I wasn't satisfied with getting three-to-five percent of their capital expenditures; I wanted to have the whole building," he continues.

Starting at first with good customers, Continental began building offices in the suburbs for companies looking to move their businesses closer to their homes. The developer purchased well-located land and built its first spec office building, beginning a long financing relationship with Nationwide Insurance. Over the next two decades the developer stayed close to its customers, nimbly shifting direction to build what the market wanted.

By the early 1980s, Continental had begun to build small retail projects when it formed a partnership with Robert Walter and his food wholesaling business, Cardinal Foods (later Cardinal Healthcare). Believing that there was demand in smaller towns for grocery store-anchored shopping centers, Continental developed eight centers with Cardinal's "Mr. Monkeysworth" stores as anchors in small towns in Central Ohio. With the retail development experience and relationships formed developing with Cardinal Foods, Continental Real Estate expanded its retail portfolio

by building larger centers in both Columbus and Dayton.

In 1986 and 1987, the savings and loan industry began to experience steep losses from overextending credit and the fallout froze lending across the board. Like with the financial crisis that would occur 20 years later, lenders looked at apartments as the best property type for credit, since many more consumers were renting than owning.

Continental developed a golf-course community, called Turnberry, in the Columbus suburb of Pickerington in 1988. Spurred by the success of Turnberry, Continental built similar multi-family communities in the up-and-coming Columbus suburbs of Reynoldsburg, Gahanna, Westerville and Dublin, which were located adjacent to Columbus's I-270 belt line.

By the early years of the Clinton Administration, the economy had recovered from recession and credit had normalized. Continental Real Estate teamed with CASTO to

redevelop a former Lennox Industries manufacturing plant that was located across two main roads from Ohio State University's campus. Reclaiming the contaminated industrial site, Continental developed a 350,000 square foot big box center, Lennox Town Center, which opened in 1996. It was at that point that a chance visit from a Pittsburgh real estate broker opened a door to a new opportunity.

Kevin Langholz, now principal at Hanna Langholz Wilson Ellis, was visiting family in Columbus and had the opportunity to see Lennox Town Square. Langholz contacted Frank Kass to gauge his interest in redeveloping the site of the former U.S. Steel Homestead Works and introduced him to the Park family, whose company had demolished the steel mill, remediated the site and were looking to put a plan in place to develop the property.

Barry Ford was working for the Park Corporation on the Homestead site. He stayed in Pittsburgh after law

CORPORATE / EDUCATION / GOVERNMENT / HEALTH CARE



Search our **New Site** or **Showroom** for thousands of designs and ideas.



visit: MTLEBOFFICE.COM call: 412.344.430 explore: OUR SHOWROOM

school and was helping to develop a game plan for the property and crafting a new zoning plan that worked for all three of the municipalities in which the former mill sits. The Park Corp. had an idea that Homestead could work as a mixed-use and lifestyle center similar to those being developed around the country.

"A mile and half away are some of Pittsburgh's great residential communities and they didn't have access to great regional shopping. It was that thought that started the process," remembers Ford. "We went out and searched the country for a development partner. The Park family are manufacturing and industrial experts, but we knew we needed a commercial development partner to join the team."

Langholz's introduction brought Kass and Ford together at the International Council of Shopping Centers annual convention. The two men sensed that there could be a good partnership right away and began

working on a plan for developing what would become The Waterfront. After Kass's first impression wore off, he says that they quickly realized that the traditional one-mile, three-mile and five-mile radius analysis wasn't going to work for the Homestead location. Looking at the density and demographics along axes rather than circles yielded results the developers weren't expecting. The metrics were actually much better than most deals.

"We saw something in that site that people living in Pittsburgh didn't see. It's not that we were clairvoyant but if you grew up in Pittsburgh, Homestead was an out-of-luck, blue collar town [by 1996]," notes Kass. "There were affluent communities to the north and we realized that if we could get access from the [Homestead Grays] Bridge it would be more attractive."

The property needed \$35 million in infrastructure improvements. The roads and utilities that existed were antiquated and needed to be

replaced. The team spent three years developing a plan for infrastructure and zoning before work began on the project in 1999.

"Continental stepped in about half-way through the process and provided all the marketing we needed," Ford says. "Who could come here? What kind of stores would come here? Could we do office? Could we do apartments?"

As the planning for the Waterfront dragged on it became expedient for Continental to buy out the Park Corporation's share of the project. The acquisition was quite amicable; in fact, the Park family has invested in many of the projects Continental had developed since then. Continental also came away with another valuable asset, hiring Barry Ford to continue working on the complicated plan for the development. Ford, who now serves as president of development, was excited for the chance to see the project through and saw little downside to changing employers at that point.



We know what it takes to achieve success.

Nobody reaches the top without support.

Our experienced bankers are committed to helping your business grow.

S&T Bank
800.325.2265 • stbank.com

MEMBER FDIC



Continental's first major project in Pittsburgh was the transformation of the former U.S. Steel Homestead Works into a \$300 million lifestyle center.

"I thought it would be a great company to work for. I readily jumped on board when Continental took over the project," he says. "I was willing to take the chance that at the end either I'd be done and would find another job, which was fine, or I'd move to Columbus. And here I am 20 years later and we've done \$600 million worth of development in the region, which has been great for us. This project was a great catapult, if you will, for staying here and doing more work."

During the decade that followed, Continental Real Estate bought the Galleria in Mount Lebanon and revitalized that property and developed the Streets of Cranberry from the ground up. The company also branched out around the U.S., as retail clients encouraged Continental to follow up successful projects in one city with another in a new city. By Kass's count, Continental has developed projects in 20 major cities, from Portland to New Jersey. Like at other times through the firm's history, Continental's management has proven to be nimble, leaving retail development when the Great Recession hit in favor of multi-family and student housing projects.

Ford points out that Continental likes to be a good partner on deals,

being as aware of what the company doesn't know as what it does. In Pittsburgh that has led to partnerships with hotel developers Concord Hospitality on a handful of projects, and with Dick Donley's Chaska Property Advisors on the Pittsburgh International Business Park.

Continental has grown a large construction business in its Continental Building Systems but has maintained a lean real estate office in Pittsburgh. Besides Ford, the office at the Waterfront includes Mike Hudec, vice president of development, and Tina Mechling, vice president of marketing. With support from Continental's headquarters in Columbus, Ford says the operation in Pittsburgh is able to take advantage of the local knowledge of its staff to pursue opportunities. That model was helpful when the company pursued its second major deal in Pittsburgh, the development of the North Shore property where the former Three Rivers Stadium stood.

At the time when the Steelers and Pirates were looking for a developer to partner with on the project, Continental was busy with other projects and felt that the competition for the development deal would be too stiff for them to succeed. Barry Ford wasn't ready to concede the opportunity without trying.

"I wanted to do it. You talk about a forever project; this was a forever project. The reason they wanted us to participate was because the owners of the Steelers were regularly coming to the Waterfront," says Ford. "Frank was reluctant, wondering what the chances were that we would win."

Ford hatched a plan to win his boss over.

"It was a beautiful spring day. The new stadiums were being finished. And that whole beautiful riverfront park was being put in place with that esplanade between the two stadiums," he recalls. "Frank and I had been at the Galleria. We were driving back to the Waterfront but instead of going right on the Fort Pitt Bridge towards Homestead, I went left towards the North Shore. We pulled up to the riverfront and we walked down to the river and the park and he said 'OK but don't spend too much money working on this'. A couple months later we were meeting with the Pirates and Steelers and they have become good friends and valued clients."

That partnership has blossomed into \$145 million in development by Ford's estimate. So far, the development involves four office buildings,

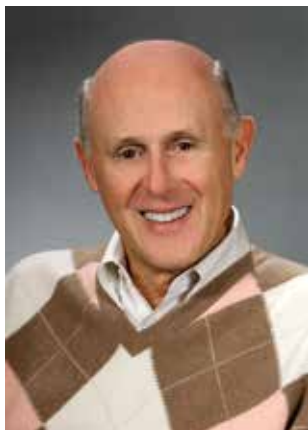
the Hyatt Place hotel and Stage AE. Later this year, Continental expects to have a plan in place for developing one of the two remaining key parcels of the North Shore for residential use. One additional large parcel and a small lot remain to be developed.

Continental Real Estate will continue to look for opportunities for partnerships and development in the Pittsburgh market. In two decades, the company has undertaken two signature projects that have had a lasting impact on development in the region. Frank Kass looks at Pittsburgh not just as a market full of opportunity but also as a town full of kindred spirits.

"We like Pittsburgh. It's different from Columbus from the standpoint of old industrial city versus state capital, hills and valley versus pancake flat, but the people are really alike," Kass says. "We were really welcomed in Pittsburgh. We welcome people in Columbus. We didn't find that in Indianapolis or Cleveland or Cincinnati, but we did in Pittsburgh." DP



Barry Ford



Frank Kass

Commercial Loans*

**You need capital.
Northwest has what
you're looking for.**

The Northwest difference:

- Strong relationships
- Low fees
- Competitive rates
- Fast turnaround
- Local decision making
- Customized financing



28 offices to serve you in Greater Pittsburgh

1-877-672-5678 | northwest.com

*Subject to credit approval. See Bank for details. Northwest Bank is Member FDIC.



PEOPLE WHO CARE

- ...about our clients' success
- ...about our associates
- ...about our Pittsburgh community



Construction Management | General Contracting
continental-buildingsystems.com