

FRASER *F* CENTRE

UNIVERSITY OF MARYLAND

COLVIN INSTITUTE OF REAL
ESTATE DEVELOPMENT

2018 CASE STUDY CHALLENGE

TEAM 9



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EXECUTIVE SUMMARY

The Fraser Centre, a co-development project between Real Estate Capital Management (“RECM”) on behalf of Fraser Centre Investors LP (“FCI”) and Brickbox Enterprises (“Brickbox”), represents the most impactful and prominent development that State College, Pennsylvania has seen in the past 30+ years. The development team, a diverse mix of graduates from the local University, had not seen a plot of land for sale in the Downtown area since their enrollment in 1984. In 2013, a 1-acre parking lot went up for sale and these same alumni could not pass on the opportunity. The trendsetting development of the Fraser Centre was the catalyst for a new renaissance of high-end development in the Downtown State College market. The building, a 265,000-sf commercial mixed-use development containing retail, a hotel, luxury residential condominiums, and a Restaurant/Bar space. The 13-story high Fraser Centre would be 65 feet higher than any other building in the downtown area, and is located just one block away from both of the University’s campuses, as well as the main Residential and Student Housing corridors. This premium location perfectly complements the three main uses of the building.

Construction on the Fraser Centre began in October of 2014 and was delivered in November of 2016. The final product features 65,000 sf of retail space, 165 full-service hotel rooms, and 26 luxury condominiums, for a total cost of about \$53 million. A large part of the Fraser Center project was made possible due to the local Borough recognizing the significant gap that had formed over 30 years due to a combination of tremendous enrollment growth at the local University and a lack of economic development in the Downtown Market. Upon this realization, the Borough’s planning commission implemented a master plan in 2013 that rezoned specific lots Downtown to a Signature Zoning District (SZD) designation. The SZD code offered incentives to developers that made new development much more attractive. However, in order to conform to the SZD, developers were not allowed to build any student housing, as the Borough felt the area was already oversaturated.

Thanks to the borough’s new master plan, the developers of the Fraser Centre were able to secure all necessary permits, licenses, and other due diligence needed to begin development, all in less than a year. After securing \$10 million in Equity from FCI and other select investors, RECM was able to secure a \$23.5 million non-recourse construction loan, a \$15.5 million EB-5 non-recourse loan, and a \$4 million RACP grant from the state of Pennsylvania tailored towards spurring economic development.

The Fraser Center’s success in development *and* operation is thanks to the culmination of perfect timing in seizing an opportunity, the SZD designation placed on the lot, creative and low-cost sources of financing, and a surplus of passion, love, and support from the Development Team for the local University and surrounding community. The Fraser Centre, now a true staple in the community, was a project responsible for creating a market of its own as it lacked any direct competitors in the market. In identifying a need in the market, the developers and investors of the Fraser Centre took a risk to develop a major mixed-use building that was the first of its kind. These investors utilized financial creativity to get the project funded, which led to this project being the most emotionally and financially rewarding investment the developers have ever made.

THE OPPORTUNITY

The investment opportunity for the development team behind this project was truly unique in nature, especially for the downtown State College market. The 1-acre lot that the Fraser Centre now occupies was originally a paved parking lot that had been owned by a firm since 2005. The parking lot weathered the 2008 Financial Crisis and scandal at the local university, before its owner/the firm who own it decided to cut their losses and sell it in 2013. The previous owner had been trying to develop on the land for 8 years, but they faced obstacles throughout every decision they made. On top of the difficulties in acquiring zoning variances and other permits required for development, the firm also lacked the necessary skill and expertise to develop and finance a project of this size, on such a small plot of land, in a relatively dense area. This is exactly where Gary Brandeis and everyone involved in the Fraser Center Development had the competitive advantage.

When the Firm finally decided to sell the eyesore of a parking lot, RECM was quick to jump on the opportunity, as they had not seen a plot of land for sale in the Downtown market since 1984. With urgency, RECM was quick to act and paid a price of \$4 million for the land, which was considerably higher than the next highest bidder. Gary Brandeis and RECM paid a premium for the land because with their expertise in developing very similar buildings in very similar markets, they envisioned the tremendous value and potential that the plot of land was hiding. They also purchased the land just after the Borough released its master plan for Downtown, making it seem as though the investment was meant to be for these passionate graduates. The stars were aligning for RECM to take on this project, which would benefit the immediate community, and Downtown market forever.

Fraser Centre 217 West Beaver Ave

<i>Type</i>	<i>Mixed Use</i>
<i>Cost</i>	<i>\$53,000,000</i>
<i>Area</i>	<i>1 Acre</i>
<i>Size</i>	<i>265,000 sf</i>
<i>Hotel</i>	<i>165 Rooms</i>

THE VISION

Gary Brandeis and RECM acquired a plot of land that they were certain would generate value for the firm *and* Downtown market as a whole. The local development community viewed the plot of a land as a disastrous investment, but one man's trash is another man's treasure, and Gary Brandeis saw treasure, and a lot of it. Prior to RECM.'s purchase of the land, the local university was suffering from a terrible and heartbreaking scandal, and investors were pulling their money out of the local market fearing that the University's situation would lead to extremely unfavorable investor returns. After purchasing the ground of prime property Gary and his team understood that the goals of his firm and the Downtown market were aligned. The three major goals that both parties desired were as follows:

1. Deliver the first downtown State College hotel in the last 30 years. A luxurious 158 room hotel that occupants could enjoy views of neighboring mountains and the campus alike.
2. Provide 27,000 square feet of retail space. RECM saw that large-scale retailers like Target, Aldi, RiteAid, wanted to be in an urban location like downtown State College. There was also a lack of these large-scale retailers' presence within walking distance of students of the local university.
3. Build luxury condos that would be the first condominium development downtown since 1984



DEVELOPMENT TEAM

BRICKBOX ENTERPRISES LTD. CO – DEVELOPER

Gary Brandeis understood the impact his project would have on the local community so he contracted BrickBox Enterprises, a local developer, who also was a graduate of the local university. This ensured the project's goals would align with the improvement of the Downtown area. Brickbox Enterprises, Ltd., through its Property Development division, specializes in historic renovation, adaptive reuse of distressed properties, and ground up development. In addition to private redevelopment projects, the principles of the company have consulted with builders, private owners, governmental agents, and real estate professionals regarding land development, construction, and historic renovations. Brickbox Property Development projects are primarily located in Central Pennsylvania. Current and recent projects include:

- * Renovations of two downtown mid-rise buildings dedicated to student housing for Harrisburg University of Science and Technology
- * Extensive renovation of a historically-significant building in midtown Harrisburg, which had been vacant for the last 40 years, into 24 new residential units and first floor commercial space.
- * Remodeling and rebranding a former mid-rise apartment building into the area's first vertical planned community under the Uniform Planned Community Act; completing the project and selling out 76 units within two years.

REAL ESTATE CAPITAL MANAGEMENT LLC – CO-DEVELOPER

Real Estate Capital Management (“RECM”) works with a select group of clients and partners in all areas of commercial real estate investment management including the PB Balanced Property Fund. Regardless of the timing, RECM looks to add value through its hands-on approach to long-term strategies. Development goals are set and achievements are gained overtime – meaningful results take time to nurture. As such, most times RECM will forego temporary or quick fixes in favor of strategies that stand the test of time and are based on the fundamental aspects of their business.

RECM is not the typical real estate investor or manager. They bring a developer and property manager mentality to the investment management process. This means they tend to tackle processes and problems most investment managers leave to their on-site or property level staff. Overtime, creating daily solutions results in meaningful gains over a longer-term business plan. Most fund and investment managers are spreadsheet oriented – for RECM, its second nature to negotiate their own tenant leases and avoid costly commissions, investigate and implement creative capital improvement projects, or deal directly with tenant issues to ensure satisfaction. RECM also aggressively manages their assets' capital structures employing creative and flexible models that line up with the timing of their business plans. RECM has extensive development and operational experience with retail and hotel properties.



OGP ARCHITECTS, LLP – ARCHITECT

OGP Architects was the architect to the project set to take place before Gary Brandeis's acquisition of the land. This was a calculated decision by Gary and RECM because they contracted a firm that had a prior understanding of the land, and what was possible in terms of architecture. OGP Architects, LLP specializes in delivering innovative, intuitive, and cost-effective architecture and planning solutions for Industrial, Wellness, Fitness, and Commercial clients. The firm's three partners bring years of experience and complementary strengths to bear to provide clients with insight, perspective, and unparalleled consultation and service. With a core concentration in Industrial, Wellness, Fitness and Commercial design, the overall goal of the partners and the entire OGP team is to contribute to their clients' profitability and their physical environment. OGP has provided all of the architectural and schematic designs for The Fraser Centre. OGP recently completed The Legacy, a 165,500 SF student housing project in downtown State College in 2013.



LEONARD S. FIORE INC. – GENERAL CONTRACTOR

From their headquarters in Central Pennsylvania, Leonard S. Fiore Inc. has been building communities throughout the mid-Atlantic region, including New York, New Jersey, Maryland, Virginia, West Virginia and beyond. Leonard S. Fiore Inc. offers a wide variety of services such as design and build contracting to pre-construction services to construction management. Some notable projects in Local Community include:

Child Care Centre at Hort Woods – Penn State University

Juniata College Founders Hall

Borland Laboratory – Penn State College of Arts

Moore Building – Penn State College Health and Human Development

Life Sciences – Penn State Eberly College of Science

Forest Resources Building – Penn State School of Forest Resources

The Legacy – 165,000 SF high-rise student housing project in State College, PA.



MARKET OVERVIEW

The Local University in State College has a current enrollment of over 45,000 students and 18,000 professional and administrative staff that work on campus. This demographic serves as the area's economic base. The University provides State College with a stable economy, constantly improving due to the constant growth of the student population and university staff. Centre County also experiences the lowest unemployment rates in all of Pennsylvania, all thanks to the Local University. The university is home to a wide variety of significant athletics, arts, and theatre venues. A notable example is Beaver Stadium, the second largest football stadium in the country, and other facilities and events that attract over 1 million visitors annually. Additionally, given the location of State College in central Pennsylvania, it is a logical "drive-to" destination for state government or corporate meetings and events.



ATTRACTIONS TO THE AREA

ATHLETICS

29 NCAA Division 1 Men's and Women's athletic programs.

-

7 home football games each year with average attendance of over 100,000 people.

-

16,000 seat indoor basketball arena that hosts sports exhibitions, circuses, family shows, commencements, lectures, and Big Ten Basketball.

-

The 6,014 seat Pegula Ice Arena opened on 10/11/2013 is home to the Local University's men and women's NCAA Division 1 ice hockey teams.

ENTERTAINMENT

16,000 seat arena that hosts top-name performers in the music and entertainment industry. Recent notable appearances from, *Kanye West*, *Elton John*, *Kevin Hart* and *Metallica*.

-

The Festival of the Arts brings in over 100,000 visitors every July

-

Various summer camps that attract youth from various states including the local community

-

Theatre, Arts, and Concert venues located on campus and in downtown State College.

RETAIL MARKET

The downtown State College retail market consists of mostly dated, small scale commercial space. Due to the Fraser Centre's modern format and large-scale retail spaces, with the next largest space being a mere 8,000 sf, there is no direct competition in the market. While there are some more "modern" retailers in downtown State College, such as Urban Outfitters and CVS, there was a serious lack of big box retailers in the downtown area. Most of the larger scale retailers are located outside of downtown State College, along the main roadways in and out of town, which, consequently, are out of walking distance from the University and the primary university residential areas.

Gary knew at the time that big retailers like Walmart, Target, REI, etc., were looking for large format space that were located in denser areas near universities so they could be within walking distance of students and supply them with all of their living needs. Due to the demand for retail space that experienced high levels of walking traffic, and the Fraser Center project meeting that criteria exactly, Gary Brandeis was able to sign the retailers "Target" and "H&M." These retailers signed long-term leases, along with the restaurant chain known as "Federal Taphouse" to fill the project's restaurant space.

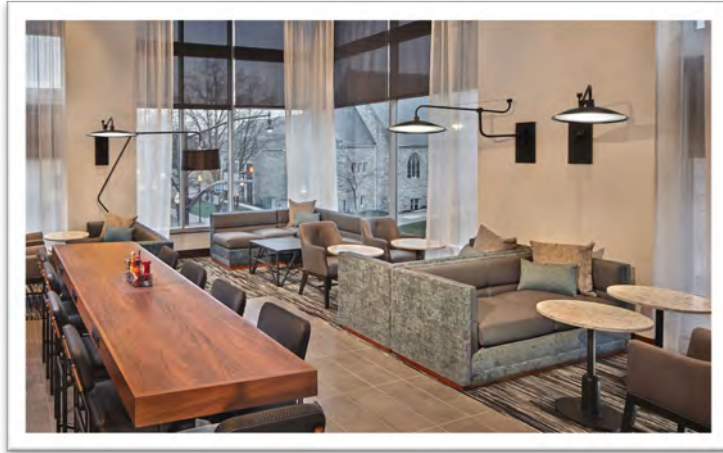
HOTEL MARKET

The hotel market for this project was not State College in entirety, instead, it was the downtown State College submarket. This was due to the lack of supply and premium that customers were willing to pay for convenient access. Downtown, there are three competing hotel properties; the Days Inn, The Atherton Hotel, and The Nittany Lion Inn, which were built in 1965, 1987, and 1931 respectively. These hotels are the only competing properties that are within



walking distance of the Campus and all other downtown dining, shopping, and entertainment experiences. Their ease of access/walking distance to the heavily populated downtown area eliminates the need for their customers to drive into town and *hope* they find parking. The convenience of the three previously existing hotels, explains why their customers are willing to pay premiums in rates, resulting in higher ADR's and Occupancies in the downtown area. Due to the age and condition of the competing properties they have been downgraded to class "B" hotels. The competing properties are also out-of-date, as they lack the new furnishings, upgraded amenities, and upscale reservation systems that exist with the new Hyatt Place.

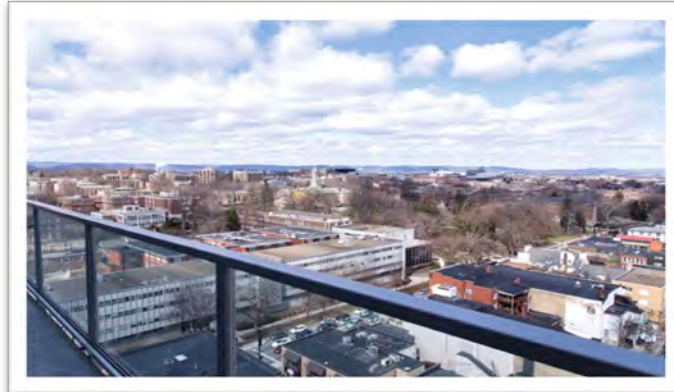
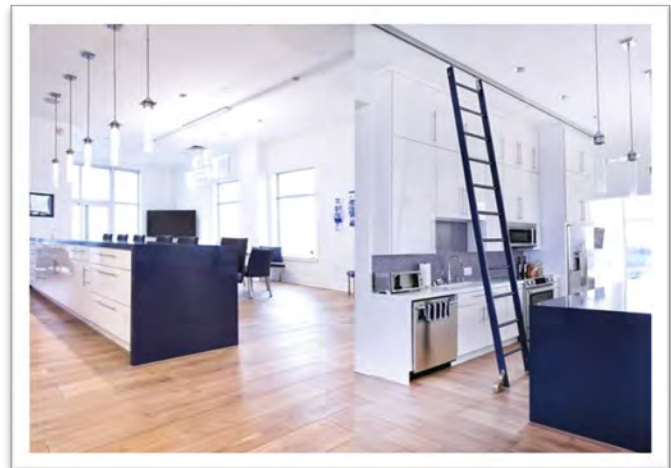
All other hotels in the State College market are mostly select service hotels and are nowhere near walking distance to campus and downtown. The State College hotel market



is comprised mostly of select service hotels from names such as Marriott, Hilton, and Holiday Inn. All of the reasons listed above, combined with the fact that Hyatt had not yet entered the hot State College market, allowed Gary Brandeis to sign Hyatt to a 20-year agreement for a premium location in a market that lacked quality supply, but most importantly had no shortage of demand.

RESIDENTIAL CONDOMINIUM MARKET

Prior to the Fraser Centre being built, the residential condominium market in this area was nonexistent. Although no one had taken the leap to test the waters of the condo market in State College, Gary felt that if he was not allowed to tap into the student housing market due to the signature zoning district designation placed on the lot, he would be the first to venture into the unknown. Gary's leap of faith paid off, as he sold 16 of the available 26 condos immediately after offering them for sale. The Fraser Center now has only 4 residential units left to sell, and because of that, Gary and RECM's priority is getting "the best price" for these units, not simply selling them to anyone who would buy. The success in selling the condominium units speaks to the fact that there was a hidden demand for luxury residential space in the State College market.



CAPITAL FORMATION

EQUITY - \$10 MILLION

The first source of financing that needed to come to fruition was the required Equity for the deal itself. RECM had already worked with their Senior lender to figure out how much they would need to contribute, and settled at \$10 million equity investment requirement. Since both Brickbox, and RECM co-developed the Fraser Centre, they split the equity contribution 50/50. RECM will be investing 50% of their required equity investment out of their PB (Property Balanced) Fund and the other 50% will be syndicated from select investors. A visual breakdown of the equity partners' financing is as follows:

BRIDGE LOAN - \$8 MILLION

RECM needed to secure a Bridge Loan of \$8 million in order to fund the first Phase of the development project which included building the infrastructure and structural foundation of the building. They needed the loan to cover the cost because the EB-5 Financing was taking longer than expected to come through.

SENIOR CONSTRUCTION LOAN - \$23.5 MILLION

RECM secured a \$23.5 million loan from Fulton Bank out of Lancaster, PA. Thanks to the EB-5 Financing that they secured as well, the senior lender agreed to grant the developers a non-recourse loan due to the lower loan-to-cost which translated into less financial risk for the lender. The loan was a 5-year note, Libor+2.85% interest rate that was IO for the first 3 years with 2, 1-year extension options. The last 2 years of the loan will include principal reduction based on a 25-year amortization schedule.

JUNIOR EB-5 LOAN - \$15.5 MILLION

In 1990, the United States Department of Immigration created the Immigrant Investor Program, also known as EB-5, in order to stimulate the U.S. economy through job creation and capital investment by foreign investors. EB-5 financing provides developers in the U.S. the opportunity to obtain debt at lower than market interest rates through foreign investment, in exchange for Green Cards granted to the foreign investors. In order for the investors to qualify for the Green Card, they must invest at least \$500,000 each. When RECM applied for EB-5 Financing, they qualified for a \$20 million max non-recourse loan from foreign investors thanks to the 500 jobs being created by the project as well as the economic value added. Gary Brandeis and other representatives from the Development team then went the China to gauge investor interest, they approached 31 different investors that each pledged \$500k for an investment total of \$15.5 million.

The EB-5 financing would take a 2nd lien position, meaning it is subordinate to the senior construction loan thus reducing the Senior lender’s risk. The loan is interest-only at a 5% rate and has a five-year term with two 1-year extension options and no prepayment penalties after 2 years. The EB-5 loan helped fund the completion of core and shell construction, as well as pay off the Bridge loan. At the time of completion, \$12.5 million of the initial loan was returned to the investors and the remaining \$3 million was held in escrow by the Senior lender until the retail and hotel components of the project were completed and open for business. Once those parameters were met, the remaining \$3 million was returned to the investors, providing the them with the full return of their capital. Overall, the EB-5 loan made the Senior loan far easier to get, due to the reduced exposure to financial risk, which also allowed for the loan to be non-recourse, leaving no personal assets on the line for the developers.

RACP GRANT/INCENTIVES - \$4 MILLION GRANT AND \$500K FF&E

The RACP grant that was awarded to the Fraser Centre project by the state of Pennsylvania through their Redevelopment Capital Assistance Program is intended to help fund the acquisition and development of regional economic improvement projects that generate substantial increases in employment, tax revenues, and other measures of economic activity in the region’s economy. RECM applied for the grant and negotiated with the state government to obtain the \$4 million grant to be added to their capital stack. The grant was applied to Phase I of the construction project, which involved construction of the required infrastructure for the building including site work, foundations, utilities, and street improvements, and Phase II which involves the vertical construction of the retail, hotel, and residential portions of the building would be financed via the other sources of capital.

Originally, the grant was applied to the entire project, and it requires the developers to pay Prevailing Wages for the required labor, which is 15-40% higher than traditional market wages, so by splitting the project into two phases, the developers were able to

Capital Stack	
Equity	\$10,000,000
Bridge Loan	\$8,000,000
Construction Loan	\$23,500,000
EB-5	\$15,500,000
RACP Grant	\$4,000,000
Hyatt FF&E	\$500,000

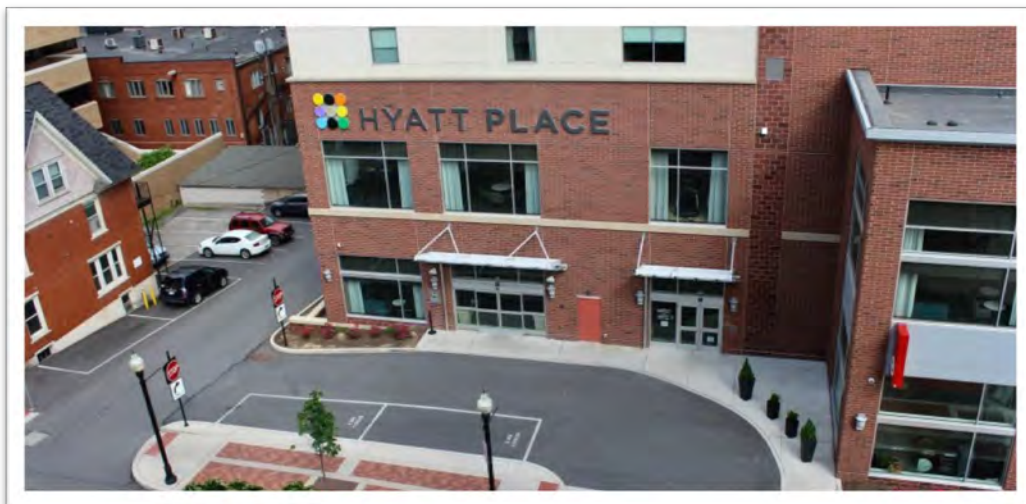
save a considerable amount of money on labor costs. On top of the RACP grant, Hyatt Hotels pledged \$500,000 for Furniture, Fittings, and Equipment (FF&E) upon signing the 20-year franchise agreement. This FF&E funding helped purchase \$30,000 worth of artwork that was themed for the local University, which gave the hotel a strong sense of place. The RACP was crucial to the success of the project as well as getting investors to sign on to the investment, as they perceived less financial risk as a result of securing the grant.

PLANNING AND ENTITLEMENTS

Gary Brandeis was criticized for constructing a mixed use building on a plot of land that was believed by the local development community to be a disastrous investment. Two vital construction essentials for a mixed-use building were missing unless RECM went through an entitlement process. RECM found that the cost of constructing the required amount of below ground parking spaces, in accordance with the SZD, was far too high for their comfort. By negotiating the 89-year operating agreement with the adjacent parking garages for the 106 reserved spaces, they were able to only build 57 below-grade parking spaces and save an excess of \$5 million in construction costs. Of course, before they signed the operating agreement, they needed to receive approval from the Borough that this provision was okay, and the Borough agreed that they met all parking requirements under the SZD.

The second issue was that their hotel did not have a drop-off and pickup station, which is expected of hotels comparable to the Fraser Center. The Fraser Center was also in a densely populated area, which made a pickup and drop-off station even more of a necessity. RECM needed a zoning variance to have a curb cut which would allow traffic from both directions to come into the provided pickup station. The entrance to the curb cut would be located on Beaver Avenue, which is a State road, requiring Gary to go through both the Borough and the State for approvals on the curb cut. Negotiating with the Borough was the easy part because of how much communication there has been between them and the development team thus far. Dealing with the State Government, when requesting the approval from PennDOT, proved to be a difficult, drawn-out, headache of a process for Gary and the rest of his team. After jumping through many hoops and over hurdles with the State, RECM finally received the approval for the curb cut.

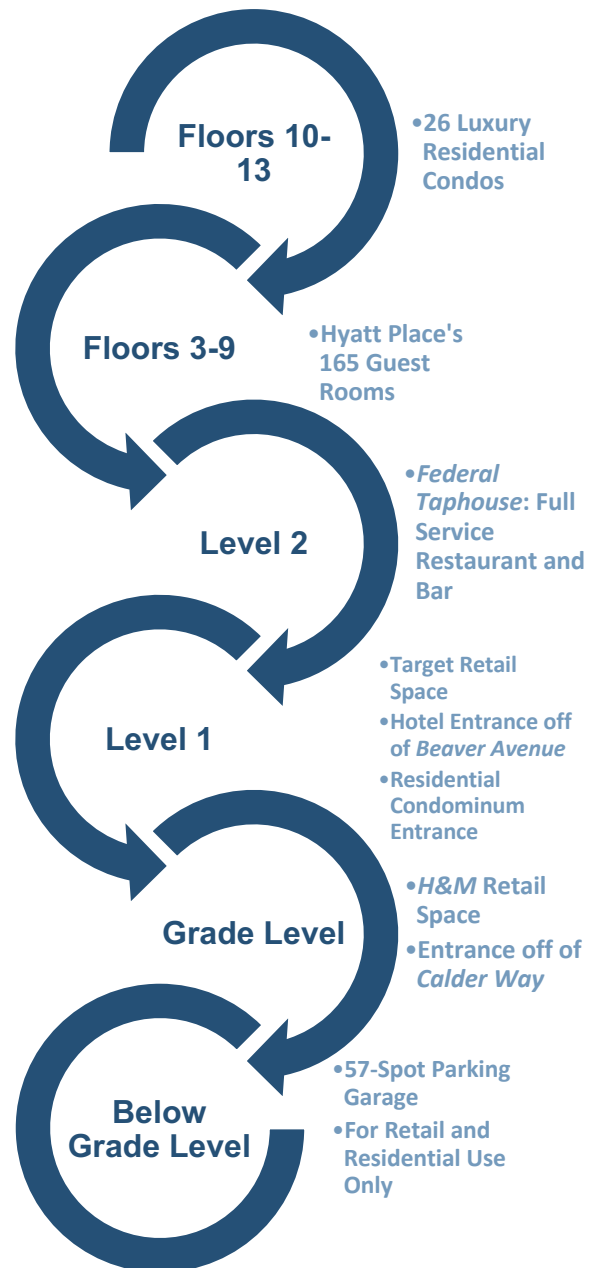
One feature that is typical of Hyatt Place hotels is a bar located in the lobby/lounge area. The cost of a liquor license in PA is about \$500,000, however, Pennsylvania has a law in place that says any hotel built with 99 or more rooms, are granted a liquor license by right, meaning Gary would not have to spend any money on a liquor license, being that the Hyatt Place has 165 rooms. This is just another small aspect of this project that made it seem almost too good to be true for the developers and partners of the Fraser Centre.



SITE AND BUILDING ANALYSIS

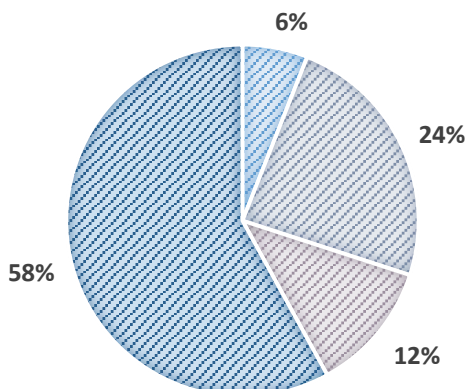
The site that the Fraser Centre sits on is on the corner of West Beaver Avenue and South Fraser Street in Downtown State College. The building is built on about 1-acre lot that was a mere parking lot, prior to development. The Fraser Centre stands 13 stories high, with a total of 265,000 square feet, and 57 below-grade parking spots reserved for employees of the retail operations, and the tenants of the residential condominiums. This groundbreaking development represented a new landmark in a market that has seen a significant gap in development within the last 30 years.

The lot is zoned under a "Signature Zoning District" designation allowing for a far denser building due to an increased Floor-to-Area Ratio (FAR), reductions on height limits, and provisions made for other aspects of development in order to make the development process easier. The building contains a concrete and steel reinforced base, metal frame, with a mix of brick, metal plating, and EIFS, which is a Stucco like material. The building also features balconies for select



SPACE DISTRIBUTION

■ Restaurant ■ Retail ■ Condos ■ Hotel



RETAIL PORTION:

The Fraser Centre's retail space, contained in the first 3 levels of the building, consists of about 65,000 sf of large-format floor plates, which have the possibility of being subdivided in order to accommodate the most profitable and efficient mix of tenants. This large format space was nonexistent in the market, as the next largest space in the downtown area was approximately 8,000 sf. Due to the lack of supply of retail space of this size, demand for it has grown considerably as the local university has grown over the years. The demand came mostly from larger retailers that were desperately looking to enter markets close to large campuses with heavy foot traffic.

In order to effectively capture the demand from these retailers and enhance the leasing process, RECM engaged Michael Salove Company's University division (MSCU) to market the Fraser Centre. MSCU has plenty of experience with college-town leasing, which is why they created a division of the company dedicated solely to university-related projects. However, the leases were originally going to be in place for the retail spaces fell through, and RECM had to lease up the space themselves, which led to signing Target, H&M, and the Federal Tapouse for long-term leases.

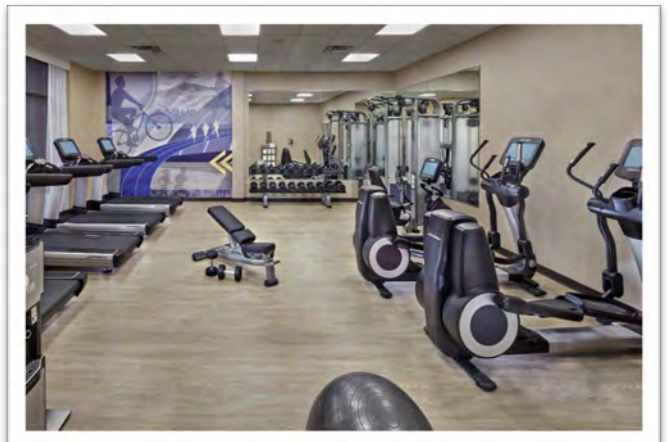
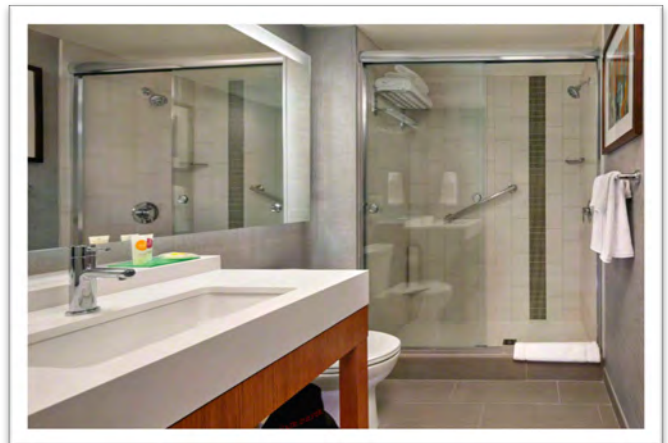
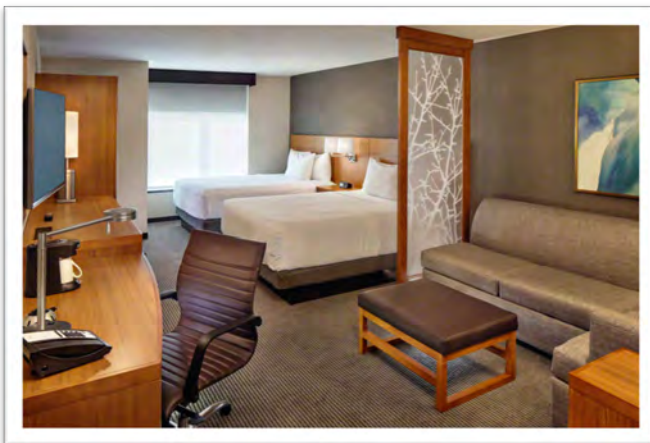
The "Grade" level retail, which is be occupied by H&M, has a footprint of about 19,000 square feet that was signed to a 10-year lease expiring in 2027. The 2nd retail level houses Target, which has a Starbucks in it as well, and has an overall footprint of about 27,000 square feet signed for a 15-year lease expiring in the year 2032.



HOTEL PORTION:

RECM, which is mostly known for its focus on the hospitality sector, successfully negotiated a 20-year franchise agreement with Hyatt Hotels to have their first-ever asset in the State College area. Hyatt Place will act as the anchor for the Fraser Centre as it will occupy the most space, consisting of an entrance on the first level of the building along Beaver Avenue, leading up to a lobby with a reception desk, bar/lounge, and 5,000 square feet of meeting space on the second level, followed by 165 signature guest rooms with contemporary designs on levels 3 through 9 of the building.

Hyatt's "Hyatt Place" product line features modern, in-demand product design, smart features throughout the building and in the guest rooms, and a relaxed service model. Thanks to generosity of a \$500,000 FF&E (Furniture, Fittings, & Equipment) contribution from Hyatt Hotels, the hotel features state of the art amenities, a large fitness center, business center, a and high-end breakfast bar. Amenities range from free Wi-Fi, spacious guest rooms with a wide range of layouts, one-stop food market, full service bar, etc. in the hotel's common areas. The rooms being offered are a hybrid between an extended stay room and a transient room, meaning they are a seating area along with a separate sleeping area, all of the highest quality. Hyatt Hotel's strong brand recognition allows it to demand competitive market rates alongside the hotel's comparable properties, of which there are very few. Hyatt Place is considered to be in a market of its own in the Downtown area, producing ADR's and occupancies above that of any competition. Their target demographic for this type of hotel is typically the individual guests either visiting their children at school, business individuals traveling to the area for a meeting in the available meeting space, and any mid- to upper-class travelers that value quality, comfort, and location.

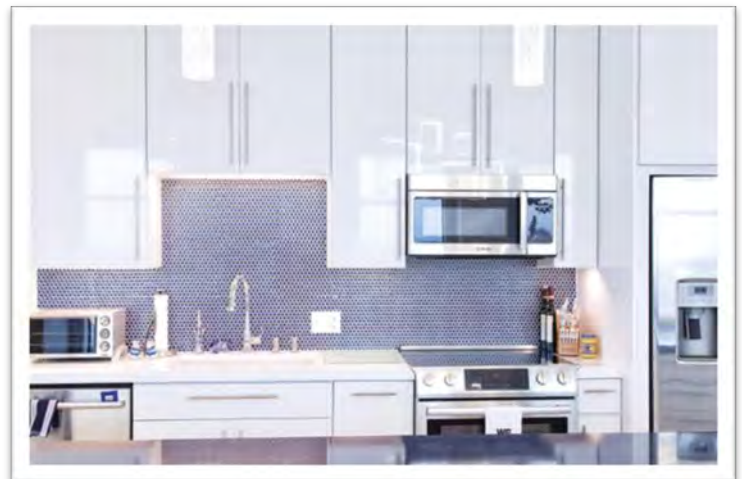
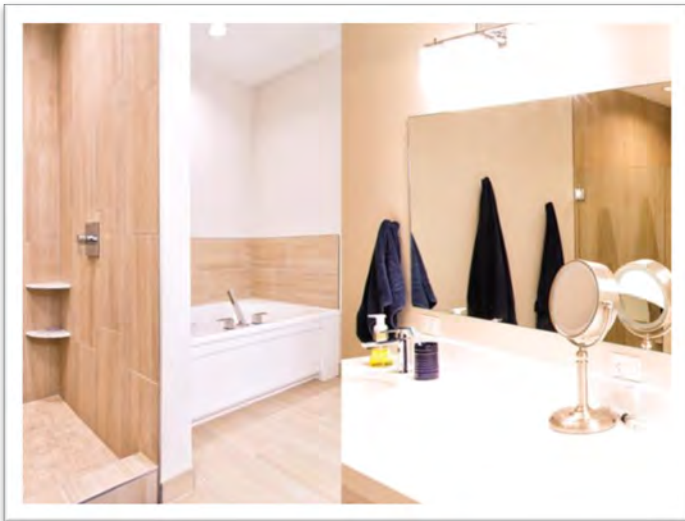
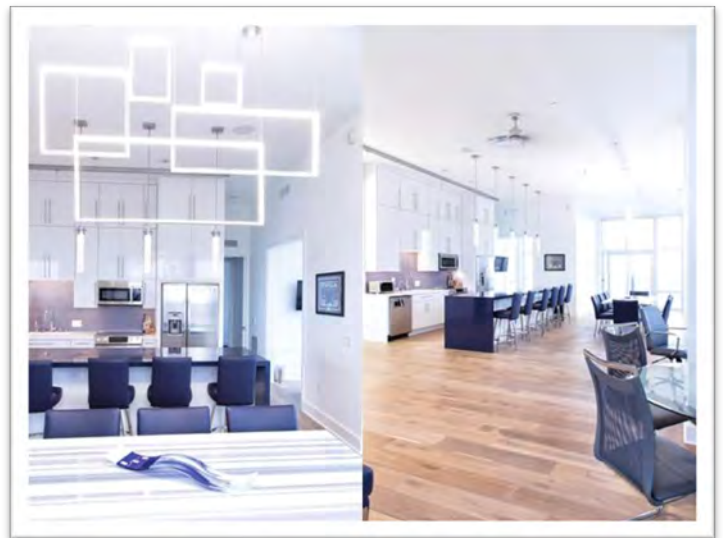


RESIDENTIAL PORTION:

The four floors at the top of the building houses the Residential Condominium portion of the building. There are 26 total units with layouts ranging from 1000-2800 square feet, which further break down into 5 one-bedroom units, 15 two-bedroom units, and 6 three-bedroom units, 4 of which are Penthouse style.

The units are truly elegant in nature, setting a standard for any other condo's that come online in the future. The units feature one or more balconies with unencumbered views of Happy Valley, floor-to-ceiling expansive glass walls, and 12+ foot ceilings. Due to the sheer height of the building, some of the units have views into the Football stadium located on campus, which cannot be said of any other asset in the market. Also, because of the layout of the surrounding neighborhood and the zoning that goes along with it, it is very unlikely that any other building will be built that can obstruct those views.

They are home to luxury kitchens and baths containing granite countertops, stainless steel appliances, and hardwood flooring in living and dining areas. All units also have individually controlled air conditioning and heat, with energy efficient appliances.



CURRENT OPERATIONAL ISSUES

The Fraser Centre had three operational issues that they did not foresee when they were constructing the mixed-use building. After the opening in the fall of 2016, the owner noticed a shortage of elevators, faulty washing machines, and unpleasant fumes coming from the restaurant and affecting the hotel guests.

When constructing a mixed-use building, estimating the proper amount of elevator capacity can be troublesome. The Fraser Centre had two elevators for the hotel that could not keep up with the hectic weekends for special events like football games. The owner and operator solved the problem by coming to an agreement with the residential condominium owners where they would allow hotel guests to use their two elevators only forty-five days out of the year. The operators of the Hyatt had to install special software into the residential elevators so they could be controlled during the busy weekends by both residents and hotel guests. In exchange for the use of the elevator, the residents were granted use of the Hotel's fitness center on the second floor. The two extra elevators increased their elevator capacity by 100%.

During the initial months of opening, residents and hotel guests noticed that their rooms were vibrating at certain points in the day. They were unsure why this was the case until they stumbled upon the fact that the Hotel's massive commercial washing machines were shaking the entire building. A structural engineer was hired to diagnose the problem, after which he put the washing machines on a specially designed shock absorption plate, which ultimately prevented the building from shaking in the future.

Once hotel guests above the Federal Taphouse Bar and Grill were settling in their rooms and noticed that cooking fumes from the restaurant were entering their rooms because there are air intake vents on the sides of the building. The operational staff could not just tell the restaurant to stop cooking or abandon their lease. After trying to rectify this problem in multiple ways, the staff decided that the smell was coming solely from their smoker. They spoke with the managers of the Federal Taphouse and agreed to buy them an internal smoker for their cooking that had no exhaust, thus solving the issue of the smelly hotel rooms.



INNOVATION AND IMPACT

The innovative minds behind the Fraser Centre decided that there were three shortages in the Downtown State College Real Estate market. State College's Downtown was lacking large-format retail, an up-to-date hotel, and residential condominiums. The local college student community is exploited by the local downtown stores and their high convenience prices for groceries and common household goods.

When trying to attract big name retailers to the property, Gary had some representatives from Target fly into town to check out the space. The representative asked Gary to take him to the most popular grocery store. When they arrived at the store, the representative began to analyze the prices being asked for some goods and comparing them to what Target typically sells them for. The Target representative picked up a 64-ounce bottle of Tide laundry detergent for sale for \$11. The representative then turned to Gary and told him, "We sell this in our stores for \$6" and it was that exact moment that Target was sold on the retail space. This story truly points out how the developers successfully recognized a need for the large-format retail space and filling that space with a big retail name that would supply the local college student community with all of their needs for a low cost.

The State College area's population is largely international, which Gary saw as an opportunity to attract an international retailer, preferably low-cost clothing. This is when H&M, a company in 57 different countries and a total of 247 stores worldwide approached RECM and inquired about the space, as they knew they could thrive in the Downtown market. H&M, built on a concept called Fast Fashion, is a clothing retailer where customers can purchase clothing for a reasonable price and be able to buy new clothing the next season to catch up on the latest fashion trends. Knowing this, H&M jumped on the opportunity

The local University is home the second largest football stadium in the entire country, which means that available Hotel space on game day weekends is basically non-existent. The Atherton Hotel and Days Inn were both built 30 years ago, which presented a demand for a higher quality and newer hotel in the Downtown area. Both of the hotels were also two blocks further away from campus than Hyatt Place at the Fraser Centre, which proved to be an attractive aspect for potential hotel guests. In addition to the lack of a newer hotel in the area, there was also a significant lack of conference room space. The developer of the Fraser Centre decided that they would include 5,000 sf of conference space because they saw that State College was a perfect drive-to midway point between Philadelphia and Pittsburgh and companies would be the main source of demand for the conference space. The Hyatt Place's superior quality and location allows for the operators of the hotel to charge higher rates than any hotel in the area, so it is clear that the development team was successful in their analysis of the hotel market in State College.

The majority of the residential living options in the Downtown area are all student housing related, and the residential condominium market was essentially non-existent. The developers gauged interest for condominium units via word-of-mouth and were met with astounding demand. The demand for condos proved to be true when 16 of the 26 condos were sold before the project was even complete, and there are only 4 condos left to be sold to this date. The 4 penthouses offered on the upper floors of the building are all sold out, and each sold for \$2 million+. The equity investors in the project were able to recoup their investment before the building was even operational, almost entirely due to the pre-sales of the condominiums. Needless to say, the investors were ecstatic.

After witnessing the success that the operators of the Fraser Centre experienced, a development renaissance erupted in the Downtown State College area, with new developments shooting up in every direction. The Fraser Centre was responsible for an incredible amount of investment flowing into the area, spurring tremendous economic growth for the local economy. This project may have been the first of its kind, but it certainly was not the last

EXIT STRATEGY

Gary Brandeis and his team at RECM constructed a mixed-use project in an extremely desirable area that changed the downtown State College market forever. The Fraser Centre's 265,000 square foot space is seen as a generational asset by RECM. Gary and RECM understand that Fraser Centre has a tremendous possibility of long-term growth, and will continue to exceed expectations.

After holding this asset for a 10-year hold, RECM believes that they can market their mixed use building to institutional investors, in the hopes that the investor will replace RECM's equity stake while still retaining a 10% stake in the Fraser Centre for the lifetime of the property.

