

THE CAST IRON BUILDING

*718 Arch Street
Philadelphia, PA*



The Opportunity A host of issues confronted this beautiful 104,500-square-foot, seven-floor office building in Philadelphia: the bankruptcy of its owner, plans to construct a federal detention center only steps from its front door and a severe depression for commercial real estate in Philadelphia.

The Plan Acquire the building from the lender who had foreclosed on the property, manage the existing tenant base actively, secure new tenants, and thoroughly explore ramifications of the detention center construction and refinance when the real estate market turns.

The Result After an initial investment of only \$1.2 million, Corvest refinanced the property two years later for \$3.5 million and recently refinanced it for \$5.5 million, resulting in a healthy IRR for investors.

The Property Like many of Corvest's properties, the Cast Iron Building has a storied history. As part of Philadelphia's famed Lit Brothers complex, the Victorian cast iron façade that gives the building its name is an architectural masterpiece. The building's location at 7th and Arch streets was once a premier location adjacent to several federal government buildings, the Galleria Mall and the Market Street East SEPTA station. However, the deterioration of Market Street and proposals to build a 250-cell federal detention center on an adjacent parking lot had most potential buyers reluctant to consider the property. Compounding matters, the building's current owners had turned the property over to its lender in a deed in lieu of foreclosure. Since the property was 50% vacant at this time, the lender was anxious to sell. "We did our homework," says Michael

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Corenzwit, President and CEO of Corvest Realty Group, Inc. “I knew that this building was potentially a first-rate property, despite its difficulties at that time. Our whole strategy is focused on finding overlooked, out-of-favor properties like this that need capital improvements and professional management, so I knew that we could make it a great corporate office. My only question was about the prison going in next door. I decided to go speak to the architect personally.”

Corenzwit and his partners met with the prison’s architect and reviewed in-depth their designs and strategies. They realized that this would be a uniquely designed prison complex: an ultra-secure holding tank for soon-to-be-tried inmates. In reality, the prison would be unlike any other prison ever constructed in the United States, designed more like Class ‘A’ office space. “We realized that the prison would have no impact on real estate values. If anything, it would enhance property values.”

The Game Plan With its partner, AMC Delancey, Corvest acquired the building and, leveraging the seller’s desperation, paid a mere \$700,000.

“By investing in an undervalued property like this, we are able to commit the necessary capital and management talent to unlock hidden value for our investors. In this case, the capital needs were nominal because the previous owner had spent a total of \$15 million to acquire the property and renovate it, and had obtained a \$10 million mortgage. We had to make a modest amount of cosmetic improvements – only \$500,000 or so. We then worked with existing tenants to extend their leases and to fill any vacant space. Within the year, the building was 100% occupied.”

The Upshot With the building fully leased, Corvest was able to work with local lenders to refinance its interest in the Cast Iron Building. In 1998, after owning the property for two years, Corenzwit and his partners signed a new \$3.5 million mortgage on the property, enabling them to repay the equity invested plus provide a very substantial profit to the investors.

And the detention center? “The detention center turned out to be the most expensive ever constructed in the United States,” says Corenzwit. “The Federal Government went to great lengths to ensure that it would fit into the existing environment, creating a striking façade that doesn’t resemble a detention center in any way. The cost per cell to construct it is more expensive than some of the most luxurious condominiums in the city of Philadelphia. It is clearly an asset to the local community and we have never even seen the prisoners because they enter underground in a secure area.”

More recently, the construction of the National Constitution Center and the new Liberty Bell Pavilion just a few blocks from the Cast Iron Building has transformed the entire section of the city. The additional tourist traffic has caused more shops, restaurants and cafés to proliferate, driving property values even higher.