

FOCUS ON REUSE

ADAPTIVE REUSE: THE MOVIE

by Dale Anne Reiss



This year, movie theater owners are expected to close hundreds more under-performing theaters across the United States. But not all of these properties have to sit dark and empty.

The real estate industry has a long history of breathing new life into seemingly 'dead' assets, most recently—and notably—in the adaptive reuse of surplus bank branches. The wave of mergers and consolidations in the financial services industry beginning in the 1990s and continuing today has resulted in a vibrant market for discarded bank branch assets and very creative adaptive reuse of these facilities. Bank buildings have been repositioned as retail shops, office buildings, Internet cafes, and even medical centers.

Now the real estate industry is faced with another major area of opportunity, one that will result in even more creative reuse of specialized buildings and also, perhaps, in the establishment of an entirely new industry for the 21st century.

The rapid growth of multiplex cinemas in the 1990s created a glut of movie theaters—leaving some theater companies struggling to survive. According to the industry's own trade group, the National Association of Theater Owners, between 1990 and 1999, the number of theater screens nationwide increased 56 per cent from 23,814 to 37,185.

But demand has not kept up with this increasing supply. In 1999, the number of theater admissions totaled 1.5 billion – the same number as in 1948. And the cost of operating theaters has risen even faster than ticket prices. Industry analysts conservatively estimate that as much as 15 percent of the 7,500 existing movie theaters in the U.S. will have to close. Many of these will be smaller, marginal theaters but even the major national theater chains are facing a major economic crisis that will require the closing of many of their theater properties. Recently, Loews Cineplex Entertainment Corp. announced plans to shutter 112 of its theaters—some 676 screens—nationwide. Loews is not unique; many other major chains will have to adopt similar plans.

The fact of these closings delivers two clear opportunities to the real estate industry. Clearly, the chains owning their own screens will have to adopt fairly aggressive disposition programs to move these redundant assets off their books and potentially recoup some value from their investment. As assets sitting on their books, these theaters are already tying up valuable capital. Disposition strategies will have to take into account the other portfolios sure to hit the market around the same time.

Other properties are leased from third-party owners. Several chains have already filed for bankruptcy, and in some cases are attempting to break leases and return the properties to the owners. So the issue of surplus theaters could have broad impact, encompassing not only the chains themselves but also

other owners of theater properties. To the right real estate experts, these properties may no longer have value as theaters, but they could have value as other types of facilities. The good news is that since real estate is all about location, and these theaters typically are in prime locations in large population centers, the same theaters that once drew movie-goers could attract a diverse new base of consumers, like students, shoppers, or fitness buffs seeking a whole new range of goods and services. In fact, they can be renovated and repositioned for a variety of community, educational, recreational, commercial, retail, and other uses.

In Raleigh-Durham, North Carolina, a former theater is being converted into a huge fitness center. In other communities, developers are looking at opportunities to convert theaters into big-box retail outlets, storage facilities, supermarkets, and many other uses. Alternatives are impacted by the type of theater and its location. And in some places, community leaders, theater owners, real estate investors, and government agencies have partnered in the renovation and conversion of historic theaters to new uses such as performing arts centers. One of the most promising uses for theaters could be in education, especially in the area of distance learning.

"The trend towards lifelong education is increasing the demand for training facilities outside the traditional classroom, and theaters offer a new venue. Theaters equipped with high-definition video, satellite, and Web technologies could be transformed into learning centers," according to Tom Wade, president of Enterprise Broadcasting Corporation (EBC). In addition to looking at creating a new breed of learning centers, the Scotts Valley, California-based company is currently moving ahead with plans to use high-definition video to sell high-end luxury items and services—by broadcasting to specially equipped theaters in upscale malls throughout the U.S. Many of these theaters are adjacent to, or part of, the community center mix.

"High-definition video has broad applications not only in commerce but in education," Wade notes. As a next-wave messaging platform, broadcast cinema could also be used to educate and train students in a range of subjects from computer basics to advanced surgical techniques. "It has enormous power to increase the retention of viewers—people remember in stark detail what they saw. They feel as if they have actually experienced what they've seen."

Over the years, properties that no longer served their original purpose have found new life in a different venue. The same could be true of theaters. Movie theater chains could partner with real estate developers or owners in evaluating alternative uses for shuttered theaters, developing reuse plans, finding equity capital to finance renovation projects, and structuring transactions such as sales, sale-leasebacks, or joint-ventures that would enable theater owners to cash out or retain an interest in repositioned properties.

Although real estate is a fixed asset, it can be highly adaptable. Theater owners should explore their options and consider the opportunities in finding new uses for their properties. They won't be the first to see an opportunity in the challenge. These owners only have to look at the banking industry to see that adaptive reuse is a vital component of the real estate industry's ongoing development.

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