

FOCUS ON REAL ESTATE ANALYSIS

Rebuilding After Katrina: An Owner's Perspective Two Years Later

BY JOHN A. MELTZER CRE, CCIM, AND NOAH SHLAES, CRE, FRICS

WE ARE TAUGHT TO THINK OF REAL ESTATE AS A STABLE INVESTMENT, with predictable behavior. Two years after Katrina struck, the rebuilding of our seven New Orleans properties is finally complete, and I have learned just how much I had taken for granted. I once thought that the portfolio was a convergence of location, bricks and mortar, and cash flow. After two years of hard work, I am now convinced that real estate requires more; it is a result largely of people, contracts, relationships and trust.

THE STORM

My own Katrina survival is another story, and to be sure, 360,000-square-feet of local real estate was not at the front of mind at the time of the storm. But once family members were safe and accounted for, company personnel and their families safe, I turned to the portfolio.

Roads were closed and access impossible. So starting with satellite photos, I learned what was still standing. When we finally got to the properties, we had gone from 100 percent occupied to completely vacant. Every roof was damaged by water, wind or tornado. The water and wind damage was obvious and clearly visible, but the separation of layers in the roofs lifted by tornadoes had destroyed the structural integrity of most of our roofs. One lightweight concrete decked roof required total replacement. Of a seven-property local portfolio, only parts of one small strip center and parts of one larger center were in good enough shape to reopen.

Even so, it was clear that we should rebuild. Our properties were recoverable, and they were located in areas that were not completely devastated. We decided to move forward as fast as we could. Would first completed and open win?

CONTRACTORS AND SUBCONTRACTORS

In the confusion that followed the storm, we were concerned that contractors would take shortcuts and take advantage of the situation, and that backlogs would build quickly. We needed someone we could trust—and fast. Even more, to get to the front of the backlog, we needed someone who trusted us.

My first call was to a former partner. A few years ago, we had sold our general construction business, Dana Corp., to Danny Chartier, now Chartier Construction. I called him a week after the storm and asked him if he was ready to go back to work. We prevailed on our 15-year history as partners.

About the Authors



John A. Meltzer, CRE, CCIM, is president of Meltzer Properties, a Metairie, La., and Ouray, Colo.-based owner/operator of commercial product. His practice has for 25 years specialized in using entrepreneurial strategies to turn around problem product, and the leasing, management and retrofit of office, retail and multi-family product.



Noah Shlaes, CRE, FRICS, is managing director-strategic consulting for Grubb and Ellis. His work focuses on real estate decision-making inside corporations, universities and government.

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Competition for contractors and subcontractors was intense. At this time, many owners had not yet settled on rebuilding, and they were waiting for word from insurers, government and other users. Decisiveness and a commitment to rebuild put us ahead of other builders when dealing with our general contractor, and our subcontractors as well. Past business relationships played heavily in our success. Most of our subcontractors knew us to be fast payers who understood construction. We had a history of success and the resources to back it up.

As a result, they committed to our projects. It took two weeks to arrange demolition crews to clear out wet sheetrock, doors, light fixtures, glass, etc. Demolition, normally the cheapest labor, had gone from \$8 an hour to as much as \$18 an hour in just two or three months after the storm.

Materials were at a premium. Our largest need would be gypsum board, and we concluded that due to the magnitude of the devastation, a shortage was coming. My brother Jeff ended up being our connection. Through his neighbor in Chicago, we were able to obtain two tractor trailers of gypsum board out of a Houston supply house. The move not only saved us substantial reconstruction time, but gypsum board prices skyrocketed shortly thereafter.

THE TENANTS

But what good is a finished product without tenants? Retenancing empty properties after devastation is scary. There are paragraphs in leases that most of us skim—paragraphs concerning disasters and business interruption and occupiable property.

In the month that followed the storm, some 40 percent of our tenants contacted us by telephone, email and written notice to cancel their leases pursuant to these clauses. Constant communication was the key to holding on to the rest.

Rebuilding was going to take longer than the leases allowed, so we had to brief tenants on a regular basis about the progress of reconstruction. While some tenants' spaces were not badly damaged, the businesses had no personnel. In spaces that were not completely damaged, some tenants asked us to move or store their furniture, to protect property, and much later to move it back in when work was complete. Their former employees were scattered across the country, and we did our part to keep the tenants'

headquarters offices in Texas, Minnesota, or wherever, confident and contented. They worked on restaffing, and we made sure they had a place to restaff.

MORTGAGE HOLDERS

During this period of devastation and uncertainty, I needed to preserve cash and credit so that recovery could move as fast as possible. At the time, almost all rental income had stopped, with no clear indication of who, what, when, where and how businesses would start again. So I contacted each lender to request two to three months of loan payment deferral.

Due to the utter devastation, they all were willing to discuss a grace period, but none for more than a few months so that everyone had time to assess the situation. Local banks, with their firsthand knowledge, were first to offer several months of zero payments, which, it was agreed, would be paid back upon insurance reimbursements.

Not all lenders were as understanding. One loan, originally made through a conduit, was eventually granted a few months of loan payment deferral. In my naiveté, I had assumed that this would simplify my situation. I hadn't considered that the respite in payments came at a high price: the loan was transferred to Special Assets, which is a whole different animal. The documentation requirements, mandatory inspections at my expense and constant communication required under the deferral provision, were an enormous drain on my time and resources. Had I known the depth of time, expense and effort it would take to satisfy the CMBC requirements for a classified Special Asset, I would have borrowed the money elsewhere to make those payments.

INSURERS

Devastation on this scale overwhelmed the insurers. Even so, as the insured (and the victim), my most important communication was with my insurers and their adjusters.

I learned to call early, call often, and document every phone call, every piece of wet sheetrock and every new nail. If I made their jobs easier, my financial future would reap the results. In the high-pressure, post-Katrina environment, adjusters were overloaded initially, so insurers moved them around.

On some properties I worked with two or three adjusters over the course of the claim. This meant providing duplicate documentation with each change.

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The Portfolio		
	TOTAL SQUARE FEET	DAMAGE
4621 West Napoleon Building	43,000 sq. ft.	\$2.6MM Rebuilt. Sold November 2007
Woodmere Square Shopping Center	79,700 sq.ft.	\$3.4MM
Northlake Shopping Center	163,000 sq.ft.	\$1.2MM
Terry Parkway Shopping Center	17,700 sq.ft.	\$1.1MM
Willowbend Shopping Center	48,800 sq.ft.	\$2.5MM Not rebuilt. Sold January 2008
518 Conti - French Quarter residential	3,532 sq.ft.	\$10,000
3005 Tolmas – Residential	2500 sq.ft.	\$127,000

Anything I could do to make their job easier, I did. As frustrating as it might have been, if they lost an invoice or a bid, I sent it again, sometimes several times. Their problems were my problems.

PROPERTY MANAGEMENT

Operating properties during reconstruction and after completion took on different emphasis, skills and analysis. Since police protection was in short supply, we were required to put fencing around our tractor trailers in the parking lot, so gypsum board and other building materials would not be stolen. Before the storm, unemptied trash cans or uneven HVAC temperatures were typically addressed within one day. A year after the storm though, some of the properties were occupied, but perfect management was not yet obtainable because of janitorial labor shortages or plumbing technician shortages. Though it did not happen often, we occasionally had to remind tenants and their headquarters of the depth of the devastation. Communication is at the core of good property management, but it was crucial post-Katrina. Even today, quality labor and technical support in many areas of sales, service or construction is still not up to pre-storm levels.

Keeping properties clean was a constant problem. Most of our product is strip retail, and big parking lots were magnets for trash. We kept one of our subs busy weekly, but it was important for our retailers.

Mold analysis and remediation was a constant concern. These contractors were also in short supply. Here, the squeaky wheel theory and our GC got their attention to address our issues.

PERMITTING AND ZONING

As a result of Katrina, the rules had changed for permitting and zoning. All this new work called for new reconstruction drawings, but architectural and engineering services were in great demand and short supply. Governmental approvals of those plans were in even shorter supply. Successful approvals called for hand delivery of everything, and a wait of hours or days for simple permits.

At the beginning, where time was essential and we had no idea how long approvals would take, we let the permitting office know what we were up to, but commenced demolition without the required documentation.

THE RESULT

Now that the reconstruction is all but complete, and we are back to 100 percent occupancy, I have time to think.

What have I learned?

First, the things that I had taken for granted were the things that mattered most—old friendships; our reputation with contractors, lenders and tenants; the obscure and seldom-used clauses in leases. All of these things took on new prominence and dictated whether we would succeed or fail.

Next on my “lessons learned” list was how important it was to keep a continuous focus on prioritization. The balance between time and money had shifted, and anything that created time or accelerated construction was usually worth the cost. Money was a jigsaw puzzle, and the few properties that still had paying tenants were my edge pieces. They got consistent, sometimes daily visits, focus, and resources.

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Information and communication were crucial.

Backups, cell phones, radios and multiple copies of everything are crucial.

Lastly, it was important to focus on the real concerns of others. Their problems were our problems. Money and

contracts work well in a stable world, but when the wind hits and the water rises, you're not the only one thinking about survival. If your employees, contractors, lenders and tenants are convinced that helping you and working with you is their best path to safety, that's what they'll do. ■