

A VISION OF VALUE

Cafritz Interests converts challenging properties into profit

VIRGINIA MYERS KELLY – The Washington Construction News Special Feature

Cafritz Interests doesn't simply develop properties. It develops value.

Finding unusual properties and applying the range of experience among its principals to ferret out the potential in each project has become a trademark of Cafritz Interests, a diversified, entrepreneurial re-developer with top-shelf name recognition in the Washington area. The enterprise, says Conrad Cafritz, chairman of the company, requires not only the depth of experience inherent in a family with Washington development roots that reach back to 1919, but also "a certain amount of vision."

Cafritz Interests began 35 years ago after Conrad Cafritz graduated from Yale and began a real estate development business. In 1988, Steven M. Peer joined the company, bringing more than 22 years of management and development experience to the group. He is now president of Cafritz Interests. Don Minkler, president of Potomac Hospitality Service, the hotel and corporate housing arm of Cafritz Interests, came on board in 1992.

Because Cafritz focuses on value and opportunity, it does not specialize in one type of project. Far from it. "We really do run the gamut," says Peer, describing projects that range from office complexes and hotels – a good chunk of business due to the nature of the Washington area construction market – to shopping centers, luxury condominiums, student housing, assisted liv-

ing facilities, and industrial properties. Two high-end Washington restaurants – Dish at The River Inn and Circle Bistro—have provided an opportunity for the aesthetic innovation Conrad Cafritz seeks by drawing in nationally acclaimed designer Adamstein & Demetriou.

What many, though not all, of the projects have in common is the potential for transformation: transformation from properties with lackluster or negative financial profiles to ones that are highly profitable.

One such conversion is underway at a half-million-square-foot manufacturing plant in Allentown, Pennsylvania. Cafritz bought Whitehall Riverside at \$4 a square foot. Once it's been converted to warehouse space, it will rent for \$2 to \$3 a foot; multiply that by nine or ten and you realize the end value of the enterprise. "To find a property anywhere in America at \$4 a square foot and increase it to \$30 or \$40 a foot is fairly extraordinary," says Cafritz.

Similarly, a 1955 office building in Milwaukee is now slated for a transformation that fits right in with its geographic area. Located near Marquette University, the seven-story building will convert to a 350-bed student housing complex with all the current concepts folded in – four-bedroom, two-bath units, the preferred arrangement among students, with lounges and complete Internet capability. There will also be an art element, says Cafritz: a light scul-



ture modeled after the work of artist Dan Flavin installed in partnership with the art department of the university. The 160,000-square-foot property was purchased at \$20 a square foot; Cafritz estimates that by the time it is finished, it will be worth \$50,000 per bed.

A third project currently commanding attention is a radical re-development of a Best Western Hotel under the gondolas in Steamboat Springs, Colorado. Riding a wave of tear-down redevelopment, Cafritz Interests is razing a two-story Best Western to create a six-to-eight-floor complex of ski-in ski-out condominiums. The difference in value is expected to jump from \$150 per square foot to \$600 per square foot – "A rare opportunity," says Cafritz, who recognizes a need for luxury condos that can support a kind of urban renewal of the base area – the restaurants, bars, and activity centers that supplement fun on the slopes for so many vacationing families.

In fact, seeing trends like the renewal wave in Steamboat is part of what makes Cafritz Interests successful. In addition to Steamboat's rejuvenation, a surge of interest in second homes made that project a logical choice. Baby boomers, Cafritz notes, are eager to buy in.

Similarly, the echo boom is hitting college campuses – hence, the Milwaukee student housing project is a good bet. "There are a number of years when demand will exceed supply," says Cafritz, who plans to continue to look

for campus development opportunities.

Cafritz is able to undertake such varied projects largely because of its size, notes Peer. "Because we're small, we have the ability to be flexible," he says. The company adapts to opportunities that present themselves – "rather than imposing our structure on the outside." Another project influenced by external fluctuations is the Palmer Club in Sarasota, Fla. This property became available when the assisted living market crashed; Cafritz Interests bought it for one third of its original construction cost and converted it to independent living.

Similarly successful but structurally different from the development side of Cafritz Interests is the firm's involvement through Potomac Hospitality Services with Marriott ExecuStay, a long-term corporate housing venture. Potomac Hospitality Services currently owns and manages three ExecuStay franchises, in Hartford, Philadelphia, and Chicago, and has done so well Marriott awarded the firm Marriott



ExecStay's Partnership Circle Award for 2004. This franchise provides a virtual inventory of housing made available to executives who need accommodation for 30 days or more. Cafritz Interests has leased properties to Marriott for this purpose in the past, has been in hotel development since 1976, and has dealt with corporate housing for 10 years, so it was a natural progression to capitalize on the Marriott name and continue in a similar vein.

These types of activities illustrate the "deep value opportunities" that have become the foundation of current Cafritz Interests projects, says Conrad Cafritz. It's a significant shift from the late 1980s and early 1990s, when the company went through what Cafritz describes as a "devolution." At that time, it focused on high volume and short-term financing to weather a financial downslide.

Innovative financing is still a significant factor in Cafritz' success. At Security West Cafritz Interests negotiated a \$100



million refinancing at a fixed 4.63 percent interest rate, adjusting its timing so that it hit within 15 days of a historically low interest rate. Security West is an 800,000-square-foot property with an additional 2 million square foot development potential. The project is located at the intersection of Security Boulevard and the Baltimore Beltway.

Over the years, Cafritz Interests has applied its acumen not only to financially successful development, but to charities. Peer has been deeply involved in Rebuilding Together/Christmas in April, and founded a program that for 10 years engaged students from Woodson Senior High School in the development process. From obtaining loans to hiring engineers and architects, finding contractors and selling properties, students navigate the process, and if they made a profit, split it among themselves. Peer has helped them turn over 10 houses in 10 years.

The Christmas in April program helps low-income,

elderly and often infirm residents of the District repair and renovate their homes, soliciting help from business sponsors who loan their employees for work at the jobsites. Each year, the program has helped renovate 100 to 150 homes for people in need in the District of Columbia.

Cafritz' philanthropic contributions have focused on heavy involvement with the PEN/Faulkner writing awards, as well as the Woodrow Wilson Center, the Brookings Institution, and the Democratic Leadership Council.

It's a wide range of activity for a relatively small office. Apart from the array of tasks - zoning, bidding, construction, design - there is a wide cast of professionals engaged by Cafritz Interests, and a variety of projects. "It changes every single day," says Peer, who says the dynamic change is what he loves about his work. "It's just a great puzzle that keeps you stimulated."

