

Local developers recycle difficult real estate

by Suzy Frisch

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Real Estate Recycling, co-owned by Paul Hyde (pictured), will redevelop the former Howe Fertilizer site in Brooklyn Center for a new business park. (Staff photo: Bill Klotz)

For 15 years, Real Estate Recycling has tackled some of the dirtiest and most contaminated parcels of land in the Twin Cities and Milwaukee, renovating the properties into functional, tax-paying developments. This niche has helped the Minneapolis-based company grow into one of the largest commercial developers in the state.

Owned and operated by two attorneys - Paul Hyde and his father, Mac Hyde - and partner Jeff Hall, the company's strategy has helped it thrive during the Great Recession. Co-owner Paul Hyde explains the operations of the company in this Q&A.

Q. What does your company do?

A. We focus on redeveloping difficult sites both here and in Milwaukee. These brownfield sites have pollution or old buildings that need to be demolished or substandard soils for construction. We go in and work with our partner cities and clean up and redevelop the sites with new, modern buildings.

Q. Why take on these complex projects?

A. There is very good real estate available if you can get through the issues associated with cleaning up the pollution and redeveloping the property. We trade some environmental risks for less real estate risk. These properties are donut holes. There is full development around them, they are near great infrastructure like highways, close to a good employee base, and it's very easy to get to customers from these sites.

Q. How did you get started?

A. My father, Mac Hyde, is an environmental lawyer, and he did two of the first volunteer cleanup and redevelopment projects in Minnesota. I was also practicing law at the time and thought it would be fun to take his expertise and try to use it for our own development. We

needed a third partner, and Jeff Hall, who has a Harvard MBA, started with us from the very beginning. Once we got our first project done it was a matter of trying to replicate that success.

Q. What was your first project?

A. It was the Midway Business Center. The site had been the Lewis Bolt and Nut Company at University and 280. We did that project in 1996 and 1997 and sold it to First Industrial. That proved we could take a polluted site that nobody wanted and turn it into marketable real estate.

Q. What other projects have you worked on?

A. We did three buildings in the France Avenue Business Park starting in 2000. It used to be a company that treated telephone poles and railroad ties with creosote. None of that was regulated then. But when they shut down they left behind quite a mess. It took five years to redevelop, and it was a federal and state Superfund site. We've developed three of those, which is probably more than anybody.

Q. How did you move into Milwaukee?

A. Jeff had some friends here say, 'There are a lot of these properties in Milwaukee; you should go take a look.' And through some overlapping relationships, he flew there and met people and found a property and bought it. And we have a foothold in Milwaukee and have been doing great work there ever since. We've done 10 buildings there.

Q. What are you working on now?

A. We have a site in Minneapolis that was an old fertilizer manufacturer and distributor near Brooklyn Center. This new project would be the Minneapolis Business Center II, and it would be a 60,000-square-foot office/warehouse building. Perhaps by summer and fall of next year, if we have tenant demand, we'll get that one going.

Q. What challenges do you typically face?

A. One of the most challenging things is to assemble the funding to pay for the cleanup. It's highly competitive because so many projects are trying to get funding. Now that funding is being targeted by people trying to solve the budget deficit, and that's a real concern. For a modest amount of public funding, this redevelopment creates massive benefits with new jobs, property tax-base increases and eliminates old, blighted properties and pollution. Our concern is that funding remains intact and be increased because it's a green jobs creator extraordinaire.

Q. How have you thrived during the recession?

A. In large part that's due to our business plan to put new, modern industrial buildings on these infill sites. Even in a downturn, what little demand there is wants to be in these locations. Also, we've managed to stay very small and nimble and keep our overhead low. Moreover, we've kept a good focus on the risks we're taking; we weren't trying to do too many projects at once. And finally, we didn't have a lot of short-term bank loans. Once we fill a building we put long-term financing on it, and it's a much more sustainable way to finance real estate. You have to build what you know and what you're good at and be careful with how you finance it.

Q. What are your future plans?

A. We plan to grow in the two markets we're in. We see a lot of opportunity to do that. And history has showed us that you can do well in the early part of a recovery if the older buildings have filled up and you're one of the first with a new product. It takes some careful timing. We're excited about our track record and we're looking forward to continuing to grow in the next cycle.

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