

Portland Mobility Hub

Executive Summary

In April 2008, NOYACK Capital purchased the 1987-constructed Gateway Garage, a five-story parking facility containing approximately 600 parking spaces, located in Portland's Arts District on the west side of downtown.

By the Numbers

- Year Acquired: 2008
- Square Footage: 208,375 SF
- Purchase Price: \$10.45MM
- Asset Value: \$27.1MM (1)
- Existing Debt: \$13.4MM (2)
- Interest Rate: 4.05%
- Remaining Loan Term: 5.2 Years (2)

NOYACK paid \$10.45 million for the property, assuming an existing loan from the seller, with a highly attractive loan-to-value ratio of less than 50%. The plan was to replace the debt with a new loan from a local bank who believed in the future of the region.

Additionally, as part of the value-add plan, NOYACK is transforming the property from a structured parking facility into a mobility hub, representing NOYACK's innovative entrance into the mobility hub market. The initial investment has already yielded significant returns, with a refinance at better terms and an appraisal 259% above the original purchase price by 2020.

Investment Thesis

NOYACK Capital's research into parking garages highlighted that they are typically centrally located, large structures that often occupy an entire city block, have excellent means of access and egress, and while parking alone is a good business, garages can be underutilized. Additionally, the potential to add value by reclassifying the use of the property into a more expensive category - a mobility hub - was too great to pass up.

In particular, Gateway Garage was an attractive opportunity because of key local demand drivers and low market saturation. The garage would benefit from strong transient demand due to the array of dining, nightlife, arts, and hotels nearby. Additionally, Portland receives a 1-2 point cap rate premium in comparison to Boston and New York due to its low market saturation.

Deal Stage

When NOYACK began exploring the possibility of purchasing Gateway Garage, it was part of a package deal that also included a medical office building. After exploring the parking garage category, NOYACK realized they could be successful in this new asset class and acquired it at a favorable price, with the plan to add value and improve profitability.

Debt Strategy

As described above, NOYACK Capital assumed an existing loan from the seller with a loan-to-value ratio of less than 50%. An optimal loan-to-value ratio for a parking garage is 65%. The plan was to replace the debt with a new loan from a local bank who believed in the future of the region.

In spite of the timing of the acquisition - approaching the bottom of the Great Recession - NOYACK was able to refinance the property with better terms from a local lender who believed in the future of the region. This resulted in a lower basis and increased returns for investors.

Operational Improvements

NOYACK posits that there are three key questions that must be answered when underwriting a property:

1. Is this an attractive entry price relative to future returns?
2. Can we operate the property in a way that improves profitability as currently constituted?
3. Can we enhance and add to the existing revenue sources as well as improve the future value of the asset by repositioning into a more expensive asset class?

When NOYACK purchased Gateway Garage, they knew the answer to all three questions would be 'yes.' The entry price was favorable and NOYACK conducted extensive research, including a pro forma analysis, to support their decision to move forward with the purchase.

Based on their findings, they were confident they could improve profitability through operational improvements, such as installing an automated parking system. This system also allowed for more efficient operations, lowered labor costs, improved customer satisfaction, and reduced losses by theft.

After taking ownership of Gateway Garage, NOYACK Capital realized that a more comprehensive engineering study should have been conducted as part of the due diligence process. This would have revealed that the steel in the garage needed to be replaced. While this was an unanticipated cost, NOYACK quickly fixed the problem and learned from the experience to conduct more thorough due diligence in the future.

Additionally, the value-add plan to transform the facility into a newly created asset class - mobility hub - would attract new revenue sources and enhance the value of the property. Proactive marketing efforts assisted in leasing the garage to capacity. NOYACK partnered with Maine Medical Center, the largest regional healthcare provider, to provide parking for 400 to 600 vehicles from 2008 to present.

Value Creation: Category Transformation

NOYACK Capital plan on doing even more revenue enhancements as we transform this asset into the full vision of a mobility hub, with cold storage capacity for local grocers; EV charging stations; next mile logistics operations i.e. Walmart and Amazon lockers; and potentially the siting of cloud kitchens within the facility, serving a local community.



Technology Improvements

The garage can now be equipped with LIDAR scanning sensors allowing NOYACK to employ dynamic pricing strategies. Prices can be raised and dropped depending upon inventory with the push of a button on a manager's smartphone. In addition to these changes, NOYACK can also install LED boards in the garage. These boards are WiFi-enabled to allow for the real-time dynamic pricing previously mentioned. For example, if there is a time of day where occupancy is low then the prices can be lowered by the manager instantly on the LED price board. Through integrations with apps like Google Maps and Waze, the Portland Mobility Hub is able to offer instant promotions and discounts pushed directly to people's phones via geofencing and digital advertising. This targeted marketing has been extremely successful in filling up the garage and maximizing revenue.

Takeaways

NOYACK exceeds return expectations for its investors in several ways:

1. Determination - amidst a financial crisis, they purchased a property that they believed in and continued to invest in it, eventually turning it into a successful business. Found a local lender who cared about the region in Portland. We convinced them of our acumen and seriousness of longer term relationship. Came up with money, assumed existing smaller loan, found replacement loan from a local bank.
2. Creativity - they were able to see the potential in repurposing the property into a new asset class, which led to increased profitability.
3. Continuous improvement - discovering an engineering flaw led to them enhancing their due diligence process.
4. Technology Savvy - using automation, they were able to improve the efficiency and profitability of the property.

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