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OliverMcMillan Adapts To The Market

OliverMcMillan has found opportunities in the recession that have led to successful projects.

Randall Shearin

With a successful track record of creating mixed-use projects and more than 33 years in the business, development firm OliverMcMillan has restarted stalled and distressed developments throughout the country and seen success in a time when not many developers can put a shovel in the ground. With \$1.5 billion worth of new or broken developments in the works, the San Diego-based company is busier than ever and growing in size.

Shopping Center Business recently interviewed CEO Morgan Dene Oliver while he was in Atlanta to be part of InterFace Retail: Atlanta.

Mixed-Use Background

OliverMcMillan has always been known for its mixed-use projects. From its roots as a developer in downtown San Diego to its successes with large-scale projects like The Glen Town Center in Glenview, Illinois, and the G Street corridor in downtown San Diego, the company's projects have turned heads and brought attention to markets nationwide. OliverMcMillan has never been a company to turn down a challenging project that others might walk away from, or shy away from working with municipalities to get a difficult project completed. That willingness to take on projects considered impossible to get done has built quite a reputation for the company, which has completed more than \$2.5 billion worth of commercial real estate projects.

The company became well known nationally in the late '90s for its work in San Diego. In its hometown — company principals Dene Oliver and Jim McMillan are natives — OliverMcMillan developed a number of small and mid-size projects in the '80s and '90s, and continues to shape the face of "America's Finest City." The company's work in the Gaslamp quarter brought it awards as it re-gentrified parts of downtown San Diego, where today it's the largest private landowner. OliverMcMillan still does a lot of development work in its own backyard. Most recently, the company completed The Lofts at 777 Sixth, a mixed-use retail and residential condominium project in downtown San Diego.



OliverMcMillan is the largest private landowner in downtown San Diego. Pictured is its mixed-use Lofts at 777 Sixth project.

OliverMcMillan made a big impact in mixed-use with its award-winning The Glen Town Center. The project was one of the first in the U.S. to turn a former military base into a mixed-use development. At the time, it was the largest project OliverMcMillan had undertaken, and the naysayers were everywhere.

In addition to its capabilities,

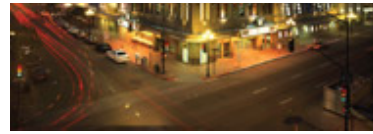
OliverMcMillan has had strong backing from its capital partners to make its projects reality. The company relies heavily on private equity and institutional equity to back its projects, and it hasn't let its investors down over the years, sticking with projects in good

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times and bad.

A Bump In The Road

In early 2008, OliverMcMillan had everything going for it, including a string of proposed developments that seemed sure to get off the ground. While the company had few issues during the recession, the collapse of the nation's financial markets put a hold on many of its plans. The timing was lucky, in a sense; while OliverMcMillan had a lot of plans, it had little under construction and just a few loans coming due, all of which were swiftly refinanced.



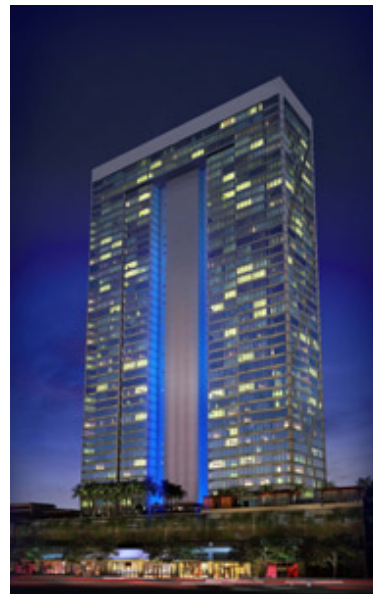
The Gaslamp 15 Theatres, operated by Pacific Theatres, is among OliverMcMillan's projects in downtown San Diego.

"When Lehman Brothers melted down, like everyone, we weren't sure how deeply equity would be eroded," says Oliver. "We didn't know how deep the recession would go, or how long it would last. We had been through it before and knew how to hunker down!"

The easiest solution for OliverMcMillan was to place its developments on hold and ride out the market. It was able to refinance its maturing loans because of its longstanding relationships with the lenders, and the fact that the assets collateralizing the loans weren't troubled. The company reduced its size, scaling down by about 10 employees.

However, OliverMcMillan didn't sit still during the recession. The company realized there were opportunities in the down market and acted aggressively.

Key to its quick recovery was an investment opportunity in May 2009. The company was asked to consider purchasing the liens on a high-rise multifamily project that had stalled under construction in Honolulu. OliverMcMillan partnered with one of its lead equity investment partners, acquired the liens and foreclosed on the tower. It re-branded the tower, now known as Pacifica, and restarted construction. At the end of 2010, the project was underway again. The company had \$50 million in non-recourse financing and \$100 million worth of sales before it restarted construction; it pre-sold 150 units prior to construction on the 48-story mid-rise tower that contains retail and 487 residential units. Today, the building is 86 percent pre-sold and has had over \$225 million in sales. It will open in October 2011. That success has led OliverMcMillan to another new Honolulu project, a \$300 million, 50-story condo tower with retail and luxury auto dealerships at the base in the Ala Moana area of Honolulu.



Pacifica, a condo and retail project in Honolulu that OliverMcMillan assumed and re-engineered during the recession, will open in October.

Two and a half years later, OliverMcMillan is gearing up to resume development. It has called back a number of employees and hired a new managing director of retail services, Jeff Zeigler. Overall, it has grown its workforce by 35 percent since its lowest period in 2009. The senior team at OliverMcMillan all remained in place with Paul Buss, Dan Nishikawa, Bill Persky and John Shaw.

Resuming Projects

Now that the sky is clearing, OliverMcMillan is clearing the cobwebs off several stalled projects and pounding the pavement to get the gears turning again. Along

the way, it has found a few broken projects from other developers — victims of the recession — that it's acquiring so it can work its magic.

In San Francisco, OliverMcMillan resurrected a broken asset from a developer, plugging \$5 million into a nearly completed mixed-use building to make it better and more marketable. The company's broad experience leads it to many projects.

"We are a large boutique mixed-use firm," says Oliver. "We have a depth of experience because we've been doing this for 30 years. The fact that we've been willing to approach very complicated projects is due to our strong and deep management bench that features broad experience and professional degrees in law, business, real estate, architecture, engineering, finance, marketing and property management. We also have an acceptance in that we know we're going to make mistakes. It's not all of your successes that make you a strong platform."

You learn from stubbed toes and bloody noses, too. We're still learning."

OliverMcMillan is also making its mark in Atlanta, where it's in the process of acquiring the project known as The Streets of Buckhead. Originally assembled by amassing a number of small parcels of land, the project was envisioned as an upscale retail center flanked by multifamily and hotel space. OliverMcMillan intends on carrying out much of that vision, with its own twist. The company confirmed recently that it will have two luxury multifamily towers as part of the project, and it's considering adding a theater complex to the mix of entertainment, retail and offices.

"At the end of the day, this project will cost in excess of \$700 million," says Oliver. "It can't be taken lightly, and it has to be successful. We look forward to finishing a world-class development with inspiring retail, great restaurants and cafés, two residential towers, and boutique offices. We will be adding our own unique touches to create a luxury shopping district in Buckhead that will be the envy of the South. All of us understand it has been painful for everyone to have this development in the middle of Buckhead stalled for the last 2 years, and we will do all we can, with the help of the local community, to restart, finish, and open this local gem."



Buckhead Atlanta is planned to be a massive mixed-use project in the heart of Atlanta's upscale Buckhead district.

OliverMcMillan has also begun work on a new marketing campaign for the project, rebranding it Buckhead Atlanta. Ultimately, the Buckhead Atlanta project is anticipated to be in excess of 1.5 million square feet and include a number of uses like hotel and office. OliverMcMillan has already been in talks with retailers and other prospective tenants and hopes to restart construction in 2011. The development also represents OliverMcMillan's easternmost presence in the U.S.; it's not done work before east of Chicago. For more on this project, see Abe Schear's interview with Dene Oliver on page 110.

In Houston, OliverMcMillan is also restarting its River Oaks District project. The project is anticipated to have approximately 250,000 square feet of new retail space, 50 luxury apartments developed in one phase. The \$350 million project is expected to begin opening in spring 2014.



"We were well into the planning process before the downturn and had 700 apartments existing at the site that carried the project during the downturn," says Oliver.

The apartment project had cash flow, enabling OliverMcMillan to sit on the rest of the development.

OliverMcMillan plans to restart development on its River Oaks mixed-use project in Houston in the near future.

In Ontario, California, the company is getting ready to resume development of its 50-acre Historic Guasti District property in late 2011. The project uses the historic buildings of the former Guasti vineyards as a base for mixed-use and entertainment development. On a compact site, the Guasti District is anticipated to offer 400,000 square feet of retail, 600,000 square feet of office, 400 residential units and two hotels. OliverMcMillan plans to incorporate the approximately 175,000 square feet of historic buildings into the new development.

OliverMcMillan has also been developing parcels of land it owns in downtown San Diego block-by-block. It's been adding apartments and condominiums with retail underneath, as demand requires.

In Coralville, Iowa, near Iowa City, OliverMcMillan is working a new mixed-use project called Iowa River City that incorporates retail, hotel and medical office space. The 330,000-square-foot retail town center will be anchored by a Von Maur department store. Currently under construction is a 200,000-square-foot medical office building whose major tenant will be the University of Iowa Medical School. A 250-room Marriott-branded hotel is also finished. OliverMcMillan is working closely with the city of Coralville, which assembled the 180-acre site.

OliverMcMillan has done 18 public-private partnership developments over the course of its 33-year career, and raised more than \$200 million in public/municipal contributions from its partnerships. As a result, the company knows how to work with municipalities, including politicians, their staffs and their constituents. That's made the company very popular among cities.

New Avenues

While OliverMcMillan has always been known for its mixed-use projects, the company is now looking to expand its portfolio to include more traditional office and residential projects. The

company is moving on to more traditional projects, and smaller projects. The recession has taught the company that there's a need for someone to fix a lot of stalled projects.

OliverMcMillan is in the process of creating a financial vehicle that will enable it to acquire smaller value-add properties. The company is mainly looking for mixed-use, retail and multifamily properties to acquire using this fund, which will also enable it to get more involved with smaller projects. Most acquisitions will be in the range of \$15 million to \$50 million, as opposed to its larger projects, like Guasti and Buckhead, which are hundreds of millions of dollars. The company is creating a capitalization of about \$500 million for this effort, half of which will be equity. It expects to have this complete, and be ready for acquisitions, this fall.

"Our mindset has not been where we'd hit some singles or doubles," says Oliver. "We've been hitting triples and home runs. We'd like to round our portfolio to include smaller projects so we can even out the business cycle."

In any development, regardless of size, OliverMcMillan has one requirement: it must be the only developer. It won't co-develop, even on mixed-use projects.

"You can't have two people holding the steering wheel at 70 miles per hour down a highway," says Oliver. "We've been willing to be diversified into condominiums, apartments, retail, luxury retail, entertainment, office and hotel. If you don't know all product types, it's tough to be an urban mixed-use developer."

Another requirement is that projects make a difference for the community and the area's residents. For that reason, OliverMcMillan pays special attention to amenities in its multifamily projects and to details like landscaping, signage and public spaces in its mixed-use and retail developments.

"If we can't do a project that's a life-enhancing experience for the end user, then we're not going to do it," says Oliver. "We're not going to do things just simply make money and do financial engineering. That's not our niche."

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