

SPECIAL REPORT: COMMERCIAL REAL ESTATE'S TROUBLES



AKIRA SUWA / Staff Photographer

The Falls Center, with its 12-acre campus on Henry Avenue in Philadelphia's East Falls section, continues to evolve. A transformation that may cost \$103 million is under way to convert the site into a complex of apartments, offices, and stores. New tenants include a hospice run by the Visiting Nurse Association of Greater Philadelphia and a dialysis center.

# Falls Center is still evolving

The historic location of the Woman's Medical College of Pennsylvania is now becoming a medical and educational complex. Despite a bad commercial real estate market, the center continues to attract new tenants.

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There is no tidy commercial real estate category for the Falls Center.

The identity of the 12-acre campus on Henry Avenue in Philadelphia's East Falls section continues to evolve.

In 1929, Woman's Medical College of Pennsylvania opened there as the first medical school for women in the United States. That became Medical College of Pennsylvania, long known as MCP. Most recently, if only briefly, Woman's Medical Hospital operated there through part of 2005.

Today, a transformation that could cost \$103 million is under way to convert the once-institutional site into a trendy complex of apartments, offices, and stores.

It comes at a time when the region already has an abundance of unused space in all three categories. In downtown Philadelphia alone, there is more than five million square feet of vacant office space, with an additional 150,000

square feet expected by the end of this year, according to Grubb & Ellis Co., a national real-estate-services firm.

And yet, Falls Center is attracting tenants. So far, 16 occupy a total 213,500 of the 700,000 square feet

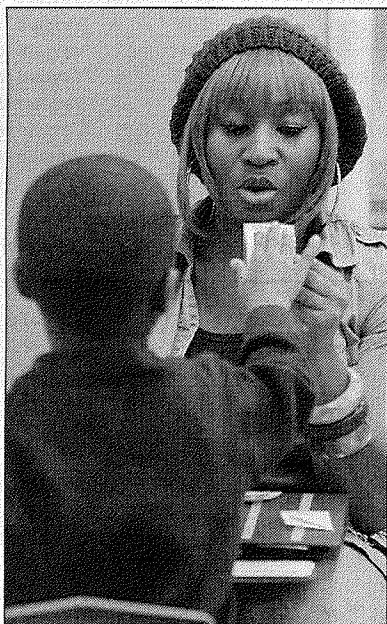
of existing space. Rents range from \$13.50 to \$23 per square foot, plus electric, depending on the amount of improvements required.

With the exception of a 20,000-square-foot plant leased by gelato-maker Capogiro L.L.C., which also plans to open a retail outlet at Falls Center, most of the renters are providing health-care and education services.

They include a charter school established by Eastern University, the Elwyn Seedlings

School for autistic children, administrative offices, a hospice run by the Visiting Nurse Association of Greater Philadelphia, and a dialysis center.

"Luckily, the tenants that like our space ... have dedicated funding



Cachet Bailey works with a child at the Elwyn Seedlings School, which is also at the Falls Center.



Students participate in John Winters' seventh-grade class at the Eastern University Academy Charter School, which is located at the renovated Falls Center in East Falls.

sources and endowments that haven't been crushed," said Jason Friedland, director of operations and investments at Iron Stone Real Estate Cos., the project's developer and one of its owners.

All but four of the tenants have signed leases since the recession's start in December 2007.

Friedland attributed the project's appeal, in part, to its being capitalized enough to meet tenant needs. The property's purchase and the

construction financing for the office phase of its redevelopment are being funded with a \$32 million loan from CapitalSource and \$13 million in equity from Iron Stone and Chevron USA. (Chevron is receiving \$6 million in federal tax credits for its equity investment.)

Many prospective tenants tell of similar circumstances prompting their search for new space, he said:

"Their lease is up, the landlord has no money, the space hasn't

been renovated in 15 years, so they want out."

Whether the project's residential component — including 150 market-rate apartments targeting medical students — will be an easy sell remains an unknown for now. It is stalled by the dismal lending environment.

"Our apartments are fully designed," Friedland said. "If we had money, we could start building tomorrow."