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A Developer Bets on Detroit By Giving Old Hotel a Facelift

Mr. Ferchill Fought For Investors, Tax Breaks; Eisenhower Slept Here

By MIKE SPECTOR

DETROIT—This city's auto industry currently faces a historic meltdown. The real-estate market is so distressed that many houses here are cheaper than cars. A population flight to outlying suburbs—a trend that began four decades ago—continues, rivaling the exodus from hurricane-ravaged New Orleans.



John Ferchill

So why is an out-towner named John Ferchill betting on a \$180 million plan to turn an old hotel here into a deluxe destination with four-star rooms and luxury condominiums?

Since 1984, the 33-story Book-Cadillac hotel has stood gutted and abandoned on a downtown block surrounded by dormant storefronts and vacant buildings. Mr. Ferchill plans for it to open in the fall of 2008 as a 455-room Westin. The top eight floors will house 67 upscale condo units, most of which have already been sold. Penthouses commanded as much as \$1 million.

A 65-year-old developer from Cleveland who specializes in risky markets, Mr. Ferchill has made a fortune restoring historic buildings in troubled cities such as Buffalo and Pittsburgh. But downtown Detroit is his most audacious bet yet.

"I've got a lot on the line here," says Mr. Ferchill, whose company has assumed more than \$80 million in loans and other debt associated with the project. "I'm counting on the city of Detroit reviving itself in a manner that nobody expected to happen."

Last year, Detroit posted one of the highest unemployment rates in the nation, at 13.7%. Rampant crime, crumbling residential neighborhoods and troubled schools have long plagued the city.



A 1936 lithograph of the **Book-Cadillac hotel** in Detroit

But Mr. Ferchill thinks the start of a turnaround is already under way, as the city's new ballparks, casinos and multimillion-dollar housing developments have begun to lure more tourists and investors.

Many view the Book-Cadillac as a bellwether for any possible downtown revival—especially for the city's long-neglected west side. "The Book-Cadillac more or less tests the water as to whether or not a significant renewal will take place," says John Mogk, an expert on Detroit history who teaches land-use and urban development at Wayne State University's law school.

Brothers J.B., Frank and Herbert Book opened the property in December 1924. The spot: the site of the old Cadillac hotel, which had been named for Antoine de la Mothe Cadillac, a French fur trader who founded Detroit in 1701.

At the time, Detroit was thriving and home to a new booming auto industry. The city's richly ornate, Gilded Age architecture had earned it the nickname "Paris of the West." With their hotel, the Books wanted to transform downtown's Washington Boulevard into a kind of Midwestern Fifth Avenue. It was Detroit's tallest building and the tallest hotel in the world.

The Book opened amid huge fanfare. More than 2,000 guests descended and 3,000 more had to be turned away. Large crowds spilled onto Washington Boulevard when celebrities arrived, Eleanor Roosevelt and the New York Yankees among them. The hotel's lush Venetian lounges and ballrooms were main draws, places to be seen in and hold important meetings.

On May 2, 1939, Lou Gehrig, suffering from unexplainable weakness and decline in his play, pulled Yankees manager Joe McCarthy aside in the Book-Cadillac's lobby. The two headed to Mr. McCarthy's room, where Mr. Gehrig told his manager he intended to sit out that afternoon's game against the Detroit Tigers. The decision ended Mr. Gehrig's consecutive-games-played streak at 2,130.

In 1951, the Sheraton hotel corporation bought the Book, renaming it the "Sheraton-Cadillac." Among its guests: Presidents Truman, Eisenhower and Kennedy. Sammy Davis Jr. and Frank Sinatra met at the hotel for the first time there, historical preservationists say.

For two decades, business in both the city and the hotel remained robust. But even during the 1950s and 1960s, changes were taking place that would precipitate decline. Interstate highways began to cut through downtown neighborhoods. Obsolete manufacturing plants couldn't be expanded in the city's industrial areas because they backed up against crowded neighborhoods. So factories moved to Detroit's outskirts.

Middle-class residents fled the city after violent race riots in the late 1960s and stopped coming downtown to see lawyers, doctors and other professionals. Detroit tried to rescue its scarred downtown in the late 1970s with the construction of four office towers, known as the Renaissance Center. But most of the complex's success came from peeling away businesses from the city's west side, near the Book-Cadillac. The unintended effect: Many west-side buildings were emptied, and restaurants and other businesses there declined. The Book suffered, too. It changed ownership several times between 1975 and 1980, when occupancy rates slumped.

The Book-Cadillac was barely clinging to life in 1980 when California Gov. Ronald Reagan visited the hotel during the Republican National Convention. By this time, a series of ownership changes had restored the hotel's name back to the "Book." Amid plummeting demand, the hotel shuttered in 1984. The city devised various plans to redevelop the hotel, but none stuck. A consortium of private investors bought the Book, but left the hotel idle.

By the early 1990s, demand for commercial space remained weak and millions of square feet downtown sat either vacant or minimally occupied. Subsequent attempts to draw businesses and residents to the city center never quite took off.

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The city regained control of the Book in 2001, but determined it was too expensive to save and slated it for demolition. When Kwame Kilpatrick became mayor the following year, however, he ordered officials to try to find developers for as many abandoned historic buildings as possible.

Despite its fragile state, Detroit has always been a serious sports town, and centrally located. Visitors have easy access to the Motor City via highways and bridges that reach Michigan suburbs, Windsor, Ontario, and parts of Ohio. Eventually, investors—such as Mike Ilitch, the owner of the Tigers who built a new baseball stadium for the team in 2000—decided to test the downtown market. Although devoid of modern amenities, the area was attractive because of its location and entertainment potential.

In recent years, Detroit has attracted \$435 million in investments to develop rundown buildings and other properties. As host to the 2006 Super Bowl, the city beautified its Campus Martius Park, which sits in the center of downtown. A residential neighborhood on the city's east side covering 88 acres will eventually boast more than 300 new homes. Plans are also under way for scores of new condominiums on the city's waterfront, with investments totaling more than \$500 million.

According to a recent Brookings Institution report, about 5.6 million people visit downtown Detroit each year for sports games and other events, such as concerts and conventions. "If we keep a quarter of those people in the city overnight . . . it really shouldn't be hard to fill this hotel," says Chris Ferchill, Mr. Ferchill's son and business associate.

Mr. Ferchill stumbled into real estate in the late 1970s after a stint with a local phone company. He eventually founded the Ferchill Group in 1978, and started working on subsidized housing projects. Over the years, the company shifted to office buildings before devoting most of its time to renovating historic buildings.

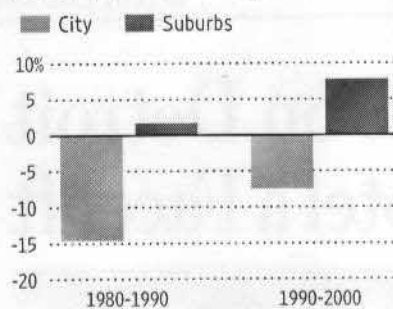
In parachuting into what he calls "second tier" markets, Mr. Ferchill's strategy is usually the same. First he identifies cities that appear to be on the cusp of resurgence—often giving extra points to those with new baseball parks, which tend to spur growth in the entertainment sector. He then pinpoints voids in the upscale housing and hospitality markets, targeting historic properties in hopes of rallying various public and private players to help fund their costly rehabilitations.

He first tackled Detroit in 2003 by building a Hilton Garden Inn, a midpriced, 198-room hotel in the downtown business district. The hotel, one of few in the area, boasts a healthy occupancy rate of about 70%. He also set his sights on the Book-Cadillac.

The city, though, had first tapped another developer: Historic Hospitality Investments,

Motoring Out

Detroit's city population has declined as more people move to the suburbs. Percent population change:



Source: Brookings Institution analysis of U.S. Census data

a subsidiary of Kimberly-Clark Corp. It had already earned a reputation as a publicly traded company committed to restoring dormant historic structures. Mr. Ferchill felt he could do a better job. He told city officials to "call me when they fail."

In late 2003, unable to arrange the necessary financing, Historic Hospitality pulled the plug. "There were a number of difficulties with the project that would have made it uneconomically viable in our view," a Kimberly-Clark spokesman says. "It just was not coming together."

Detroit next turned to Mr. Ferchill. He committed \$4 million in equity to the project, plus about \$8 million for start-up costs such as market studies and architectural designs. He also courted local officials to arrange a complex web of more than 15 public and private investors, including Meijer Inc., the Midwestern grocery-store chain.

About \$24 million came from two of Detroit's pension boards, which cover both the city's general retirement system and police and fire funds. At first, the boards were skeptical: Mr. Ferchill had not yet secured all the hotel's financing and the pension shepherds were concerned about their risk exposure. "We didn't want to be the first one to jump into the project," recalls Jeffrey Beasley, Detroit's treasurer and a member of both pension boards.

But Mr. Ferchill obtained letters of commitment from other investors and made the deal more palatable by allowing the pension boards to put up money as loans and secure a small ownership stake in the hotel. Most important, Mr. Ferchill made sure the general retirement board would be a "second tier" investor—second in line to get its money back in the event of foreclosure, behind only a \$50 million loan from iStar Financial Inc., a real-estate financing company.

One of Mr. Ferchill's biggest challenges came when Meijer threatened to withdraw its promised \$7.4 million after state politicians eliminated a key tax credit it expected

to claim. Days before lawmakers' summer recess, the Ferchill Group successfully lobbied legislators, and then the governor's office, for special concessions. The result: a new law preserving the tax-credit for Meijer and others, keeping the company's investment in the deal.

In another coup, Mr. Ferchill landed millions by placing a conservation easement on the Book-Cadillac, which forbids him from building more condos atop the hotel's existing structure. The move allowed Mr. Ferchill to write off the estimated forgone profits as a charitable gift and pass the tax benefit to other partners. Attracted by the prospect of receiving a large portion of those tax benefits, National City Corp., the big bank chain, agreed to invest more than \$28 million in the Book-Cadillac.

Some in Michigan doubt that new hotels and condos can return the city to greatness. "It will never, ever be the same as it was in the heyday of Motown," says L. Brooks Patterson, a native Detroit and chief executive of nearby Oakland County, a prosperous suburb. "Detroit didn't fall from grace overnight and there isn't going to be a silver bullet that slays the bad-news dragon."

But Mr. Ferchill is gambling he can find older empty nesters and young professionals who "want to be in the middle of the action," he says. Many have yearned to live downtown for some time but couldn't find the right place, he says.

One of them is Bob Bartlett, a 49-year-old divorcee who just bought a \$1 million penthouse, sight unseen. Mr. Bartlett's new three-story home, once it's completed, will feature a spacious entryway, two bedrooms, two-and-a-half bathrooms and a view of the city skyline.

Mr. Bartlett, who is moving from a nearby, affluent suburb, exults at the opportunity to live just steps away from what he calls the city's "hidden gems": small jazz clubs, local bodegas and well-regarded restaurants like Twingo's and Mosaic. He'll be a short distance from the Detroit Institute of Arts, Detroit Symphony Orchestra and three professional sports venues. "It's just so much in the hub of things," says Mr. Bartlett, an insurance-industry consultant. "Watch out, Chicago."

Shortly after the Book-Cadillac deal, another developer approached Detroit officials to build a separate condo project on top of the hotel's adjacent garage. David Di Rita who says his Detroit company has sold about half of the yet-to-be-built units, including penthouses for as much as \$800,000, said the Book-Cadillac "accelerated the notion that the [downtown] Washington Boulevard area could sustain high-end residential, restaurants and shops."

"It's no accident that [the mayor] talked about the Detroit Tigers and the Book-Cadillac hotel" in his recent state of the city address, Mr. Ferchill says. "These are the two things" that are going to bring Detroit back, he says.