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SQUARE FEET

Alabama Pension Fund Plows Millions Into Property in Its Own Backyard

By DAN LUZADDER

MOBILE, Ala. — When David Bronner, the chief executive of the Retirement Systems of Alabama, the pension fund for public employees in the state, first discussed making a major investment in this city, he had an ultimatum for local leaders: show that you're willing to rebuild the city's education system, and the money will flow.

Mr. Bronner, 64, who has steered the fortunes of the retirement system for 36 years, already had what he thought was a good idea. He would help Mobile rebuild its deteriorated downtown and its self-image — starting with the renovation of the Battle House hotel, which had once been the heart of the city's downtown.

But, first, he wanted a commitment from Mobilians that they were willing to invest in themselves by raising taxes to pay for better education. "Without education, how can we attract business and industry?" Mr. Bronner said.

A bond issue for public school reform was approved in 2003, and two years later it began to rain money in Mobile — an investment by the retirement system of some \$650 million so far.

Today, the Battle House hotel, which had been closed for more than three decades, has been restored to its antebellum elegance. Its rooms and suites are as well appointed as any luxury hotel in the region, and its spa has become a draw for tourists.

The hotel lobby connects to the 35-story RSA Battle House Tower, a sparkling 470,000-square-foot high-rise that is the first truly Class A office space in Mobile, offering tenants the highest-quality space and most advanced technology available in the city. At 745 feet, the tower is also the tallest building on the Gulf Coast east of Houston.

The Battle House Tower, which opened in 2007, is just one of a number of investments that Mr. Bronner has shepherded within Mobile.

His agency also built a new cruise port for \$16.1 million: the Alabama Cruise Terminal, a 302,000-square-foot docking area that has attracted cruise ships to the city, including some that used New Orleans as a port before [Hurricane Katrina](#). It spent \$97.3 million to buy and restore the 534,000-square-foot Grand Hotel across the water on the eastern arm of the Bay of Mobile, after it was damaged by the wind from Katrina. And the fund most recently spent \$6.7 million to buy the 300,000-square-foot, 34-story former AmSouth Bank Building, built in 1965. It is under reconstruction for conversion into the city's second Class A office tower.

Donald Epley, a professor of real estate and the director of the Mitchell College of Business Center for Real Estate Studies at the University of South Alabama in Mobile, said the retirement system's investments here — and its even larger investments upstate in Alabama's state capital, Montgomery — reflected a bet not just on the individual projects but also on the state's economy.

"If you are going to talk about office space, you have to talk about employment, because that is what drives office space," Mr. Epley said. "So the story is one also of economic development success here."

The pension fund's initiatives have inspired small local banks and other lenders to back business development here, Mr. Epley said.

While the fund's investments have unquestionably helped the city weather the recession a bit better than some metropolitan areas, there have certainly been casualties. A review compiled by the Center for Real Estate Studies in September showed vacancy rates of about 18 percent in the first and second quarter of this year, based on availability in 191 commercial properties of all classes. By contrast, the rate in the first quarter of 2008 was 12.7 percent.

Mr. Bronner's vision of investing in Alabama reflects an unusual approach for a state pension fund. Most, he said, are content to turn their money over to an investment manager, and most operate from a single goal of enhancing the value of the retirement funds by wise investments.

But Mr. Bronner has a reputation for taking a longer view, and has invested in real estate as a way to create cultural changes in the state. The approach has on occasion made him controversial, with critics suggesting that spending on economic development by building, owning and operating major hotels and office buildings isn't the purpose of a state pension fund.

Mr. Bronner credits the fund's investment in hotels and resorts associated with the [Robert Trent Jones Golf Trail](#) in Alabama for creating a multibillion-dollar tourist economy in the state. The agency spent more than \$23 million building 11 luxury golf courses designed by Robert Trent Jones, and hundreds of millions more to build hotels and residential developments that the agency owns and operates at the courses. That move is credited with helping to attract business, like the immense new ThyssenKrupp Steel USA plant being constructed on the banks of the Mobile River, 30 miles north of the port city.

The Retirement Systems of Alabama has a story of revival of its own. Badly underfunded in the 1970s, with only \$500 million in the kitty, it was limping along in the shadows of the State Capitol building in Montgomery when some civic leaders recruited Mr. Bronner, then a young financial visionary from Minnesota, to become its chief executive.

At the time, state office workers were housed in dozens of places around Montgomery. One of his first steps, he said, was to devise a plan to consolidate the workers into several large office buildings — largely built by the retirement system.

Mr. Bronner cites other deals that he is proud of, like investing in [US Airways](#) when it was in bankruptcy earlier this decade, and buying the 3.8-million-square-foot 55 Water Street, the largest building by floor area in [New York City](#), according to [Emporis.com](#), a Web site with an extensive database on buildings.

From a \$500 million start, he has guided the agency into a \$28 billion financial juggernaut. Mr. Bronner is fond of dragging reporters to the balcony of the fund's well-appointed new office complex in Montgomery to gaze out at his symbolic signature — the green-trimmed rooftops of all the buildings that the fund has helped to build.

The fund's most recent annual report carries an aerial photograph of the city with all of the buildings it has financed taken out of the picture. "It makes a point," Mr. Bronner said with a grin. "This is what the city would look like without us."

The retirement system has had an even greater impact in Montgomery than in Mobile — 2.5 million square feet of commercial and state office space — where local commercial real estate developers like Jerry Kyser say investors are now eager to put money into new restaurants, offices and retailing in the city's downtown, including its new Alleyway project down the block from the retirement system's recently completed 395,000-square-foot Renaissance Hotel, which includes a 1,800-seat performing arts center and convention hall.

Back in Mobile, pedestrian traffic has returned to downtown day and night, said David Rasp, owner of Heroes, a longtime downtown watering hole, and of the new Royal Scam restaurant near the Battle House. New investors, he noted, are opening restaurants, pubs, boutiques and other ventures despite the current recession.

The Battle House, built in 1852 on the headquarters site for Andrew Jackson in the War of 1812, was a cultural icon for more than a century before it succumbed to age and neglect in the late 1970s. Now it has once again become the cultural heart of Mobile, a place for posh Mardi Gras parties.

It has all been, Mr. Rasp said, a "very, very good idea" for Mobile.

This article has been revised to reflect the following correction:

Correction: October 31, 2009

An article on the Square Feet pages on Wednesday about real estate investments by the Retirement Systems of Alabama misspelled the surname of a developer who commented on the impact of the organization's developments in Montgomery. He is Jerry Kyser, not Keyser.