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Economic Factors Drive Adaptive Reuse

By Michael Russo, Contributing Editor

Barker Block in Los Angeles' Arts District

In his 1999 book Architecture Reborn, author Kenneth Powell chronicles the history of adaptive reuse. He says the main reason for reuse throughout history has been economics, and that is the key driver for adaptive reuse today.

"I'm a big fan of adaptive reuse," says Henry Cisneros, former three-term mayor of San Antonio and U.S. Secretary of Housing and Urban Development for the Clinton Administration from 1993-1997. "It is going to be a big part of urban development going forward."

In the 1980s, Cisneros changed San Antonio's image from "a poor and sleepy town to a culturally and economically vibrant model for the future of urban America," according to a 1999 Texas Monthly article. Cisneros and his staff accomplished this through extensive downtown riverfront redevelopment and adaptive reuse.

"So many of the economic regeneration challenges this country faces are in older cities where the industrial economy has gone away," Cisneros told MHN. "Our best hope for revitalization is a new economy using what's already there."

Today, Cisneros serves as founder and executive chairman of Los Angeles-based development company City-View. Two of CityView's recent projects include Barker Block in Los Angeles' Arts District and T-Lofts (the "T" stands for Tennessee Ave.).

Barker is a reuse of a furniture manufacturing site that helped generate a local artists' colony, as well as attractive residential and retail sites. The second phase of the project opened a few weeks ago.

T-Lofts, a remake of an old textile factory on Tennessee St., is also doing "exceedingly well," says Cisneros, with only two units left for sale out of a total of 88.

"We very much advocate a 'restoration economy,' which is based on using what is already there," says Cisneros. "By injecting new uses in older structures in a respectful way, we can transform downtown areas by bringing people, offices and retail establishments into these historic structures."

The for-sale market softens

CityView bills itself as a national institutional real estate investor that develops strategic partnerships with real estate developers and home builders. One of its partners is builder and developer Lee Homes, a company that began working in Southern California in the early 1960s—long before Cisneros and CityView arrived.

Lee Homes was arguably the first company to expand into for-sale adaptive reuse in 2003 and finished more than 400 for-sale units in the Los Angeles area.

Jeff Lee, president, tells it like it is: "The condo market has dried up and the economics are making it difficult on adaptive reuse," he says. "When it costs you $200 per square foot to fix a building—and you can only sell it for $350—you can't make any money on your investment."

This is particularly true in the for-sale market, which is typically devoid of federal, state and municipal tax breaks and other incentives.

A recent example of Lee's work is ALTA Lofts reuse project in Lincoln Heights, which is considered the birthplace of Los Angeles. These lofts, which start in the $200,000 range, are a good deal by most standards and show off many of the historic Fuller Paint Company building's original features. The project sits adjacent to a light rail station and down the street from the Brewery Arts Complex.

"There will always be people who will love living with exposed brick, fire sprinklers, high ceilings and the old 'loft' look," says Lee. "There are as many decorating solutions as there are units, and no two adaptive reuse lofts wind up being alike."

In the meantime, CityView remains committed to urban sites in Los Angeles, with a disproportionate involvement in existing structures and adaptive reuse. The company is renovating an old downtown office in Long Beach for residential use, in a for-sale market that's currently hard to crack.

WinnDevelopment adapts

Larry Curtis, president of Boston-based WinnDevelopment, is not Superman, but his company has saved dozens of communities from one of their worst nightmares—seeing dilapidated downtown buildings bringing down property values and pretty much everything else.

Through historic preservation and adaptive reuse, WinnDevelopment and design collaborator The Architectural Team (TAT) in Chelsea, Mass. have helped many municipalities increase community connectivity and offer new life to businesses and services without consuming land that is either unavailable or inappropriate for development. The result is often a strengthened, sustainable downtown community with residents, offices, retail, entertainment and restaurants all reinforcing each other and supporting a livable neighborhood where people can walk or access public transportation.

However, even with federal and state tax incentives and a community that's predisposed to the development, the task is never easy.

"We've found some great buildings for reuse, but they are in weak markets that just won't work," says Curtis. "It's a typical real estate consideration that's not unique, but it's more acute with adaptive reuse. You don't have a choice where to locate the building. You use what's there."

What's more, adaptive reuse is entirely building-dependent. Along with attractive exposed brick veneers and

high ceilings comes awkward eight-foot column grids or floor space that is too deep to use for apartments simply from a window-wall perspective.

"We do eight to 10 reuse projects a year," says Curtis. "On the last three, we were handed full construction drawings previously completed by earlier development teams; after review by The Architectural Team, it was clear they weren't viable—certainly not consistent with marketplace acceptability."

Even for a firm as experienced and knowledgeable as TAT, many of the historic mill conversions present challenges that could cripple a project. "First, you need to understand the physical limitations of the building and the site, as the seemingly right location can often come with unsuspecting pitfalls," says TAT Founding Principal Robert Verrier, AIA.

One example is The Apartments at Boott Mills in Lowell, Mass., which is one of many old mills converted by Winn and TAT. Verrier insisted that the first floor of the mill be raised 18 inches.

"Some people thought we were crazy, but the first floor of the building was below the 100-year flood plain," explains Verrier. "Eight months after the building was occupied, we had a '100-year' storm. The water level rose to one brick course below the first floor and would have ruined 40-50 apartments."

A thorough structural investigation is mandatory for any reuse project, as are environmental studies, which are a standard lending requirement.

"You may also have to contend with lead, asbestos, oil contamination, dry rot—essentially wet buildings being 'eaten alive' by microorganisms," says Verrier. "Also, the older non-reinforced masonry structures are not strong enough from a seismic and lateral wind perspective. They can take the vertical loads, but don't have the horizontal strengths required by modern building codes."

The challenge for The Architectural Team and others who specialize in adaptive reuse is creating as-built drawings for facilities that were highly modified over time. These architects often work in a vacuum where accurate specifications are nonexistent.

On the other hand, "the quirky nature of these former mill buildings often offer far more interesting space for renters or owners than anyone could conceive of or afford when constructing a new apartment—such as larger open spaces with high ceilings, exposed wood beams and brick detailing—making them more marketable," adds Ed Bradford, AIA, LEED AP, associate, TAT.

It is also generally considered more economical for a developer to reconstruct a building than to build a new one. "Adaptive reuse is the 'poster child' of sustainability," says Michael Binette, AIA and principal of TAT. "The 'greenest' building is the one that already exists, and reuse is by far the most sustainable approach to multi-housing development, eliminating the need for all the embodied energy associated with not just the actual construction of the base building shell, but also the production of all of its individual materials and components."

A catalyst for revitalization

There is also the satisfaction that comes with revitalizing not just a building, but serving as the catalyst for the renaissance of an entire neighborhood.

The Baker Chocolate Factory complex in Dorchester, Mass., is a good example. TAT began working on the 14-acre complex more than 25 years ago. When the chocolate company relocated after 120 years in business, it left eight empty buildings and what was to become a blighted neighborhood behind.

The first phase of reconstruction saw three historic mills converted into 143 apartments, developed by leading preservation advocate and developer, the late Robert Kuehn of Boston's Keen Development, and later purchased by Beacon Communities. Subsequent phases involved three other buildings by WinnDevelopment, which were converted into mixed-income residential properties.

"We finished the last of eight buildings in December," says Verrier. "As a result of this redevelopment, we've seen an entire community have an economic resurgence—restaurants, local mom-and-pop businesses and even a Starbucks recognized the benefits of moving into this revitalized neighborhood."

With lending tight, TAT's clients are also finding that it's easier to raise a significant portion of equity for these projects through tax credits.

"There's no economic downturn when it comes to the adaptive reuse of historic structures," says Verrier. Between federal and state historic tax credits, often coupled with New Markets Tax Credits and/or Low Income Housing Tax Credits, there is immediate access to equity of upwards of fifty cents for every dollar of total actual construction cost spent. These credits are sold by the developer to investors looking to reduce their own tax burden through the purchase of such credits. Of course, the demand for these tax credits has waned, to some extent, due to the economic slowdown.

"It is more difficult to sell the credits, but less so than during the height of the financial crisis," says WinnDevelopment's Curtis. "The fact is that we have never been unable to sell a [tax] credit."

Also, many tax credits are bought by corporations that have a vested interest in the buildings and communities being revitalized. Zoning and entitlements also tend to go smoother when municipalities are on board (see sidebar).

Add to this the savings in demolition, foundations and the construction of the entire building envelope, and developers can afford to build larger units than in new construction. Some of TAT's mill projects also offer plenty of land for parking.

"Historic rehabs almost always require you to think both creatively and strategically," says Binette. "That's why developers surround themselves with design, construction and environmental teams that have [successfully] been down that road before."

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