BANKER & TRADESMAN
THE REAL ESTATE, BANKING AND COMMERCIAL WEEKLY FOR MASSACHUSETTS

May 28, 2007

Moving on Up: Repositioning Office Buildings to Maximize ROI

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When there is an increase in the demand for office space, many developers focus on creating value by upgrading older, lower quality buildings to meet the need. Existing buildings that look dated, are functionally obsolete, or were originally designed for a different purpose can often be renovated less expensively and faster than possible through new construction. These buildings may be in excellent locations, with historical or architectural significance, and can generate significantly more revenue if they have a better "position" in the real estate market.

The first step is to determine where the building should fit in the area real estate market. Should it be an "A+" building or a "B-" building? Clearly the amount of money invested is related to the grade of the resulting building and therefore the amount of rent the building will be able to generate in the future.

Before any decisions can be made, the building itself needs to be studied in depth. This requires, at the very least, the participation of architects and engineers. To begin, much can be learned from studying original building drawings, if they are available. Reviewing past building permits received and maintenance records will give you an idea of what work has been done and when.

Careful study must be undertaken to know what is required to be upgraded in an existing building. In fact, there is a separate section in the Massachusetts State Building Code devoted to this type of project, as there are significant differences compared to constructing a new building. You need to discuss what might not be required but *desired* to improve the safety of the building. For instance, although it might not be required to pressurize the egress stairs, it is generally considered an important safety feature. The recent smoky fire in a Cambridge office building showed the critical role stair pressurization plays in building evacuations.

If the construction cost is greater than 30% of the assessed building value, the building is required by law to fully comply with accessibility requirements. Buildings in Massachusetts are subject to both the Massachusetts Architectural Access Board regulations as well as the Americans with Disabilities Act (ADA). An accessible entrance, bathrooms, stairs, and elevators are just a few things which must be provided to provide equal access.

Understanding how the building will be used is critical. Whether or not the floors are conducive to single tenant or multi-tenant use is a very important decision which will have an impact on the design of the mechanical and electrical systems. The location of the stairs and elevators play a large role in the layout of the floor. If excessive corridors are required to allow for proper egress of multiple tenants, the space will be less desirable. Generally, it makes sense to have an architect lay out different options to determine if the floor can be efficiently used for multiple tenants or if it would be better suited to a single tenant.

The quality of elevator service in a building has a huge impact on tenant satisfaction. New office buildings have high-tech elevator systems that decrease waiting times dramatically. In order to compete for tenants with newer buildings, elevator upgrades may offer a high rate of return on investment.

Older office buildings often have stairs that do not comply with current building codes. They may have winders, or inadequate railings, or may not be properly separated from office areas. Again, a careful code review must be done to determine what upgrades are required, but safety must be a prime consideration.

Bathrooms are another area critical to tenant satisfaction. Older bathrooms rarely meet new tenant requirements. Replacing fixtures with water-saving models with automatic operation is an excellent way to increase energy and water efficiency and reduce building operating costs. Older bathrooms rarely meet accessibility codes and it needs to be determined if the existing spaces can accommodate accessible stalls and maneuvering space. If the bathrooms can not be enlarged, it could be possible to build a separate accessible toilet room near by.

First impressions count. There are a few areas where it is desirable to spend a little extra money on aesthetic changes. Building entries and lobbies fall under this category because they are strongly tied into the identity and "branding" of a building. Redesigning these areas can go a long way in changing the way people feel about the building.

The location of the building matters, too. If the building is in a busy area, there will be services nearby available to tenants. If not, a good way to attract tenants to a more isolated area is to provide some critical amenities such as food service, a convenience store, a fitness center, parking, dry cleaning pickup, etc.

When examining the building's structural system, you need to determine if it has the necessary floor load capacity for a modern office building. Modern open plan offices require in-the-floor power and data feeds, so the structural slab must be able to accommodate coring. Additionally, if you are spending over 50% of the assessed building value, you must undertake a seismic review.

Older buildings often have extremely inefficient heating, ventilation and air conditioning (HVAC) systems. An HVAC upgrade can dramatically lower building operating costs.

Today's wired tenants demand higher electrical service support than was the case when many older buildings were constructed. A review must be done of the electrical service to determine if it is adequate. In addition, many tenants require back-up generator power to preserve their data in the event of an emergency.

As you can see, there are many things to consider when upgrading a building. Once the building conditions have been fully studied, the next step would be to outline a project scope and carefully evaluate the costs of design and construction versus the potential return on investment.

A two-tiered approach that evaluates the scope and costs of achieving a "B+" building versus an "A" building could be taken. This would provide "what if" scenarios: If we spend *x* dollars to upgrade the building, then we could achieve *y* dollars per square foot in rent. By comparing two or three scenarios, you can make an educated decision about how to proceed with repositioning the building.

Upgrading a building can be a complex procedure. However, if current market demand and the location are right, a design "face lift" can go a long way towards increasing the appeal – and ultimately – the value of your building.

About the Author

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