In making decisions about the future of an older building, a clear understanding of the terminology is important to avoid confusion and misrepresentation. The three “R”s of working with older buildings are renovation, rehabilitation and restoration. In addition, adaptive re-use, which can occur in any of the “R”s, is the conversion of a building from its original function to a new use. The following discussion presents the commonly accepted definitions of these terms. In practice, however, they are too often used imprecisely. It is wise for developers, brokers and appraisers to describe exactly what extent of capital improvements and design changes have been or will be made to a building to eliminate confusion over nomenclature.

**Renovation**

A renovation results in an essentially new building within the framework of an old one. It typically meets new building code requirements. Complete tenant evacuation during construction is necessary, although floor-by-floor renovation is sometimes possible.

This term often is used interchangeably with rehabilitation, but should not be. Its goal is a building that is like new, rather than one that is fully repaired. A minimum renovation usually includes replacement of the entire elevator, HVAC, plumbing, fire protection and electrical systems as well as revamping of exits, fire separations and structural systems to meet new construction codes. Roof replacement and repair or replacement of exterior enclosure elements such as walls, windows and doors also are frequently part of a renovation.

In a total renovation, major elements such as elevators, stairs, duct shafts, lavatories, mechanical rooms, building entrances and even lobby locations are added, relocated or reconfigured for functional, efficiency or marketability reasons. The former Goldblatt Department Store in Chicago is an example of this type of renovation and adaptive reuse. The renovation also included stripping back to structural steel a blank brick wall and adding a new facade and entry plaza on the building’s north side.

The real estate market frequently uses the term “gut rehabilitation” to describe a total renovation in which the entire interior except for the floors is ripped out to make new tenant space. A renovation of this nature requires tenant evacuation. The rent loss during the construction period is generally capitalized as part of the development cost.

An example of a renovation project is the Templeton Mutual Center in St. Petersburg, Fla. In St. Petersburg in the mid 1960s, Florida National Bank built a six-story building of nearly 100,000 square feet for bank and captive law and accounting tenant occupancy. Emptied as a result of bank mergers and tenant flight to newer, more efficient office buildings, the building was vacant and, due to its abandonment by several developers in the mid 1980s, had gained the reputation of being infeasible.

A building analysis showed that because of the split, exterior core plan configuration, multi-tenant common corridors caused greatly decreased plan efficiencies. The exterior cores also reduced the amount of window space and the span between windows. All three characteristics pointed away from the small professional firms that characterized the primary tenant market in St. Petersburg.

The architect recommended that an optimum use would be a single tenant per floor or for the entire building. With multiple tenants, rehabilitation costs, which are based on gross square footage, would be excessive in relation to usable office area. The eventual result was a much lower original purchase price for the developer and a specifically targeted marketing effort that obtained the Templeton Mutual Funds Headquarters and Operations Group as sole occupant of the building.

The company’s computer, conference, filing/storage and other operational support functions were ideal
for the deeper interior spaces. At the same time, the operations staff still had reasonable views from their open plan, interior offices. Executives suites and offices were clustered in corners. The pre-existing plan was well configured for its new use. The tenant and developer are both satisfied and the building is fully occupied.

Rehabilitation

Rehabilitation is generally considered to be less substantial than renovation even though it usually involves repair of all the building’s basic systems and elements of construction. Repair may include replacement or strengthening of deficient or damaged structural elements. Repair of leaks and damage to roofs and exterior walls, windows and doors also are typically included. Frequently, moving parts of elevators, mechanical, electrical plumbing and fire protection systems are overhauled, rebuilt or replaced.

During a rehabilitation, the building’s systems are brought into general conformance with local codes and ordinances. Occasionally, special rehabilitation and landmark sections in local codes make it easier to achieve conformance. Such sections typically allow for the possibility of “grandfathering” pre-existing deficiencies or “archaic,” non-conforming construction systems and techniques through a series of tradeoffs. Installation of sophisticated life safety alarm systems or automatic fire suppression systems are commonly requested tradeoffs. Generally, local building code officials and fire marshals are slow to allow non-conforming conditions but are willing to discuss methods for diminishing risk. On occasion, local codes and ordinances can be reinterpreted to allow for variances.

For example, a re-interpretation of a local electric code saved nearly $2 million on an $11 million project. Under the prior interpretation of the code, any work performed on a non-conforming existing system eliminated its “grandfathered” status and mandated the need to replace all attached circuits and elements in the electrical system. With the concurrence of local officials, “work” was redefined to exclude the act of disconnecting circuits that were no longer necessary. Unneeded and unused circuits were disconnected from the old service while usable circuits were kept in place. A new service was then installed for all new electrical requirements. More than two-thirds of the original electrical system was retained.

Many building codes contain a “percentage of replacement cost” clause for older buildings that sets a threshold above which they must conform to codes intended for new construction. Though such thresh-
olds are occasionally contradicted by rehabilitation and landmark clauses in the same code, they are often troublesome and enforced strictly by code officials who feel they are being pressured by the development team.

On occasion, in order to stay below such thresholds, outside professionals, contractors and appraisers are required to certify or give an opinion that the cost of work is within the percentage criteria. Escalation of the value of a 1923 dollar to current value is one technique that has been used successfully. Consideration of the cost of replacing “priceless” ornamentation and “irreplaceable” decoration can also be used to avoid the threshold. As with any subjective interpretation, the owner, architect and contractors should endeavor to meet the intent of the code as it relates to health, safety and welfare. A substantial unsafe condition should always be eliminated.

Restoration

A restoration project attempts to restore a building to its original condition or to its condition at a certain date. Decisions are generally made based on historic data, early photographs or original architectural documents. An example of restoration is Colonial Williamsburg, Va., which has been reconstructed to a specific era in the town’s history.

The issue of restoration is often related to and confused with issues of preservation and landmark designation and certification. Certification or approval by landmark agencies of the work done in improving a structure is a complex but generally optional step. It is undertaken for reasons ranging from obtaining tax credits to obtaining marketing advantage. Certification is occasionally required by local ordinances or by conditions of sale.

Landmark requirements rarely call for restoration, which requires proof of authenticity of the original or period condition. Instead, landmark agencies tend to favor conformance with the federal guidelines stated in the “Secretary of the Interior’s Standards for Rehabilitation of Historic Structures,” discussed in the next section. These standards call for preserving and rehabilitating all elements of merit that do not distract from the historic integrity of the structure. For instance, a classically detailed office building built in 1895 with a remodeled but well designed 1930s art deco lobby could be rehabilitated and receive certification despite the generally incongruous appearance of lobby and exterior.

Rehabilitation of Historic Structures

A certified historic rehabilitation qualifies for a tax credit of 20 percent of the rehabilitation cost. Guidelines are contained in the “Secretary of the Interiors Standards for Rehabilitation of Historic Structures.” As with most building codes, the final interpretation of requirements may vary with location and official. Typically, however, interpretations are consistent. Each certification and interpre-
An evolving consensus was confronted in combining the 1871 Page Brothers Building and the 1921 Chicago Theater into a single mixed-use building consisting of offices, retail space and a performing arts theater. Both buildings were listed on the National Register of Historic Places. To make the project feasible, a complex financing structure was devised involving government grants and loans and investor equity capital.

It was decided that the six-story cast iron and masonry facades of the office building would be restored while the entire interior structure would be removed, replaced and made one story higher. Simultaneous with this development strategy discussion, the Park Service was re-interpreting its guidelines in response to numerous historically insensitive “facadectomies.” The rules changed mid-stream as a new consensus was being formed. It became policy that anything “holding up” historically significant building fabric must also be retained even if it is otherwise insignificant. The two landmark buildings could have become a parking lot had it not been for careful research and helpful landmark officials trying to work within the rules without establishing the wrong precedent. A new and acceptable interpretation evolved from research showing that the history of the Page Building was one of constant change, including frequent replacement of internal structural elements. This tradition of change was continued in the rehabilitation as the architects replaced the wood floors and joists with a new fire-resistant reinforced concrete structure that reduced the total number of columns by more than one third, filled in a small light-court, provided for a new core, added a floor and increased the rentable area by more than 30 percent. The project won an award from the National Trust for Historic Preservation.

Conversion or Adaptive Re-use

Frequently the best way to extend the useful life of a building is to convert it to a different use. A conversion nearly always requires a substantial rehabilitation or renovation; otherwise, the stamp of the prior use is evident and the marketability of the converted space may be compromised, resulting in rents that are too low to achieve the desired rate of return. Older, multi-floor department stores with floor sizes ranging from 40,000 to 100,000 square feet, as well as the large lofts and manufacturing buildings that proliferated from the 1910s through the 1930s, often are adaptable to office use due to their large floor sizes, high ceilings, good column spacing, fire-
proofing and heavy floor load capacity. However, the small number of windows in relation to floor space in such buildings can present problems.

Hotels are sometimes converted to office use. Because their structural steel or reinforced concrete frames have been engineered for subdivision into small rooms, however, the column spacing is often irregular or too short. Even when interiors are completely removed, it may be difficult to design suitable office space layouts. Generally, hotels lend themselves better to conversion to small offices since the close column spacing problem is minimized. Occasionally, obsolete apartment buildings are converted to office use. These too lend themselves best to small offices because of the column space deficiency.

Another consideration in adapting a building from one use to another is the structure’s weight-bearing capacity. Building codes require that offices have a greater floor load capacity than hotels or apartment buildings. In the case of the 1916 Alexander Hotel in St. Petersburg, Fla., which was being rehabilitated as a historic structure and converted to office use, the structure of wood joists resting on wood corridor bearing walls was inadequate for office floor loads. The architects replaced the walls with a new steel frame that allowed the joist span to be shortened and the structural capacity increased. As an additional benefit a minimal number of columns replaced the space-obstructing bearing walls, allowing greater flexibility of office layouts.

The primary reason to undertake such projects, despite the hazards, is their favorable economics. In the belt-tightening mood of the 1990s, tenants will favor quality space at the lowest rents. For the investor, the quality level selected for the renewal process will be determined by the market. However, in general, the higher the quality of the effort, the higher the return on investment. What will make these investments especially attractive will be an improved lending climate in which mortgage lenders will assign higher priorities to financing such efforts. The wise investor will respond strongly to the profit potential.

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About the Author
Daniel P. Coffey, AIA, is a principal of Daniel P. Coffey & Associates, Ltd., Chicago, a full service architecture and interior design firm that has done numerous projects involving older buildings. He is a frequent speaker at professional conferences and has served as a guest instructor or project critic at the University of Illinois, Urbana and Chicago, Notre Dame, Yale and Harvard.