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Rehab vs. teardown: No perfect answer to the age old question - by Daniel Calano

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Back in the day, our company had a specialization in rehabilitation and reuse of older structures. We liked this, as many have before us, because we were starting out and the barriers to entry were lower for rehab than large full scale development. We also appreciated some of the classic iconic elements of older buildings, particularly historic ones.

In retrospect, looking back over our projects, it was often difficult to determine whether buildings deserved rehabilitation, or should have been simply torn down. To this day, despite our years of experience, the question still comes up, with lots of uncertainty about the answer. For those of you thinking about entering this business or those or who are well into it, I share a few insights.

Why do we like rehab? The main reason is that we feel that the bricks and mortar have positive value. To use the cliché, the building has good bones. Sometimes it's clear at the outset that the building is a candidate for rehab.

Permitting for rehab is also typically much easier. Not only is the existing shell normally "grandfathered" from zoning changes, neighbors are more comfortable with what is there, rather than what you might newly construct. Friendly neighbors are key to permits. In one of our largest rehabs, about a half a million square feet, I witnessed one of the fastest permitting processes I have seen. At a key meeting, a neighbor stood up and said, "The building has been abandoned for years, and my cousins used to work there, and I'd like to see it brought back to life". Neighbors were nodding positively, and we had the approval within the hour.

Another great reason for rehab is that it often results in a more affordable product, more adequate for "B" use rather than "A". If there was a need in the marketplace, we were always able to provide lower cost office space, for example, than our competitors. One of our more successful projects was meant to draw users out of nearby Harvard Square into a product that was significantly less expensive. While it took some time, the building was eventually full, and once established, became highly desirable. But what are the problems of rehab, and why did we occasionally say to ourselves, "We should have torn it down, it would have been cheaper". The primary reason is there is a lot of uncertainty in rehab, and you often uncover problems, usually structural, that cost a lot more money

than you had budgeted for in the pro forma. Adding to this, rehab materials are often unavailable to match sizes, colors or functionality on these old buildings. Windows, wood members, even brick sizes are from a different era and often impossible to duplicate. In other words, much of the materials are often custom made, often at double the cost of stock material.

One of the most difficult problems to overcome is functional obsolescence. Typically, footprints are large with little interior light. Often, in order to make today's more open work areas, interior walls are removed, exacerbating the light problem. Sometimes, ceilings are too low, particularly in residential properties. Structure is in the wrong place; corridors are too long; the list goes on. Often there is no way around except to live with the inadequacy.

How do we resolve the big question of rehab versus new? First, a thorough "highest and best use analysis" will determine whether a rehabilitated building, with all of its foibles, will satisfy the market. If B Class use is appropriate, at a lower price, rehab may be a good choice. Next most important is an early and thorough structural and architectural analysis of what needs to be done. Work towards a "no surprise" solution. Understand whether space can be reconfigured to meet modern demands. Research the availability and cost of materials needed to reconstruct and refinish for the repositioned use. Analyze the site and its zoning to determine whether a new project could significantly add square footage. Do some political reconnaissance as to whether a new building would be welcomed or whether the neighbors like the old.

There is no absolute resolution of the question. Understandably, each situation is unique. Do the homework, commit, and it will probably work out.

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