

Corporate Expansion & Relocation

Adaptive Reuse – Thinking Inside the Box

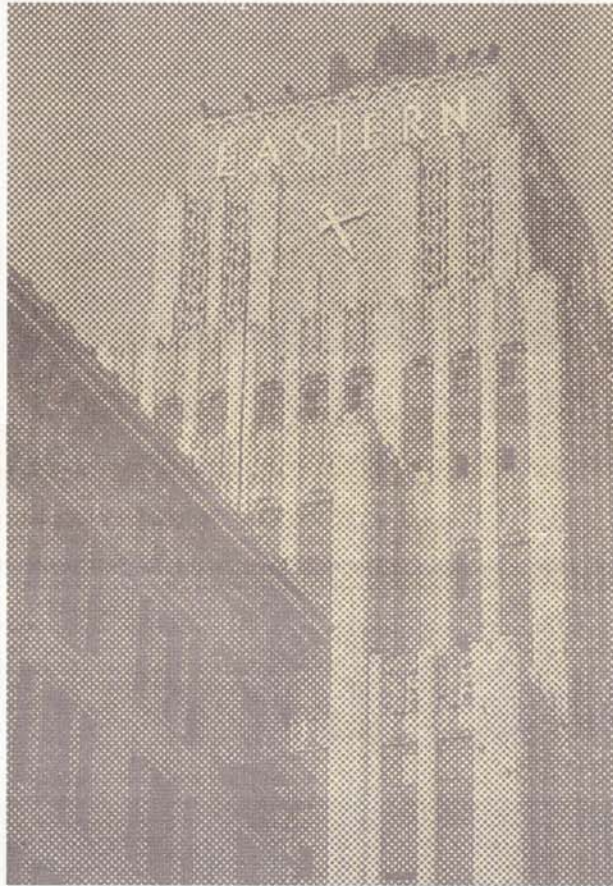
By WILLIAM S. GOODGLICK, SIOR, AIR

THE concept of revitalizing and reinventing unused or obsolete commercial real estate assets, has a long and colorful history. I recall attending a national meeting of the Society of Industrial and Office Realtors (SIOR) back east some years ago and viewing a presentation on the dramatic adaptation of an abandoned flour mill into a highly profitable and exciting retail center. Around the same time, I witnessed the transformation of the old Ghirardelli Chocolate factory in San Francisco into Ghirardelli Square, a vibrant retail facility featuring a wide variety of specialty stores and eateries. (Ghirardelli Square has subsequently gone through another metamorphosis incorporating trendy boutiques and restaurants, with the top floors converted into Fairmont Heritage Place, a private residence club with fractional ownership units.)

Both of the above are excellent examples of the application of so-called adaptive reuse utilizing exciting and inventive real estate techniques and design innovations to create new uses for obsolete industrial, retail and office properties. These techniques, which were initiated and refined on the East Coast, have been utilized effectively in older urban core areas of West Coast cities, including San Francisco and Seattle. However, they are not always successful. A good example of this was the failure of The Cannery, a retail center across the street from Ghirardelli Square in the Fisherman's Wharf area of San Francisco. Created out of a former Del Monte Foods cannery, the project was never successful and is currently under-going additional renovation.

In my estimation, to be truly considered adaptive reuse a project must not only be transformed, but must be transformative for the area or neighborhood in which it's located. Examples would be the development of residential lofts in what formerly was an industrial area or the opening of an up-scale restaurant by a trend-setting chef in an office park formerly served only by fast food establishments.

Because of our tendency in Southern California to tear down rather than reinvent older buildings, adaptive reuse came later to our communities. Some of us, however, were initiating the process without realizing it. Fairly early in my career, I was involved in the conversion of a major supermarket near LAX into a two-story atrium office structure; the redevelopment of a manufacturing building into a bowling alley and white table cloth restaurant, and, even the conversion of a parochial school and rectory into a strip center and office complex. With the real estate economy awash in money during the early part of this century, condominium developers set their sights on acquiring older industrial and commercial buildings to convert into town houses, flats and lofts. They significantly over paid for these assets which priced those considering other adaptive reuses for these properties out of the market. Obviously things have changed significantly since those heady days. If one can acquire financing (and that's a big "if"), other opportunities exist for adaptively reconfiguring these facilities. Examples abound of private schools which are not required by law to meet the stringent earthquake standards demanded of public schools, turning unused industrial facilities into innovative and highly flexible educational facilities. Our firm was also recently involved in negotiating a 30-year lease with Equinox, the nation's most exclusive total fitness company, to open a state-of-the-art sports club in what was previously an ordinary two-story concrete office building in the city of Hawthorne. The fitness center and spa occupies 45,000 square feet in the 72,000 square foot building. Additionally, the strength of the building's concrete shell allowed the construction of a running track on its roof



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and the installation of a swimming pool on a portion of the expansive parking lot. In all the above cited cases, the adaptive reuse of these properties has had a transformative impact on the areas in which they are located.

One thing to remember is that "creative space" isn't a synonym for adaptive reuse! Creative space is broker-speak for a property that's seen better days, but retains one valuable asset; a location on the Westside of Los Angeles in close proximity to the entertainment industry in all of its permutations. In this case, a plain vanilla building has its exterior sandblasted and painted in bright contemporary colors, while its interior concrete floors are polished, its ceiling painted black to emphasize its exposed beams, trusses and air condition ducts, new track lighting is installed and modern glass window walls replace old loading doors. Toss in a coffee bar and create an architecturally inventive entry and lobby and voila you have a space that's likely to cost 50 percent more to rent than if had retained its original form.

The current economic turmoil is making it difficult if not impossible for lenders to finance conventional projects, leaving unique and esoteric adaptive reuse programs for stronger, less fearful times. Nonetheless, the attraction to companies wishing to express their own individuality within a unique space will continue to be the siren song to

many of the so-called "gazelles", emerging entrepreneurial companies inhabiting the Westside and the South Bay areas of the Southland. There are a variety of reasons for this attraction, including convenient and accessible locations, abundant free on-grade parking and expansive open interior spaces with industrial ceiling heights allowing for flexible planning and design. However, it's important to seek the services of a real estate professional who knows the area in which the project is to be located. There are a variety of potential time bombs ticking for the unwary. An example of this could be the reluctance of a local municipality to change zoning to allow for an adaptive reuse project to be constructed or a need to meet expensive ADA access requirements and the ever present environmental considerations which occur when changing a project's use.

In summary, adaptive reuse either makes sense or it doesn't and that needs to be determined up-front in consultation with the property's owner and your own real estate consultant. If it clicks, the process can be a heady experience, as well as profitable for all parties concerned.

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