CREATING REAL ESTATE VALUE WITH COMMERCIAL OFFICE RECONSTRUCTION

CHUCK CHOI, COURTESY DYER BROWN

The redesign of the 116 Huntington Avenue building in Boston, led by Dyer Brown, included the addition of two outdoor roof terraces, for use by the penthouse tenants.

The commercial office sector shows few signs of slowing down. According to a 2017 end-of-year survey from real estate firm Transwestern, fourth-quarter vacancy rates in the U.S. landed at 11.5%, the lowest in 10 years, even as average asking rents continue to rise. As leading market drivers like the so-called TAMI sector—technology, advertising, media, and information—push demand for differentiated, amenity-centric, and tenant-focused office product, one might think that older buildings are at a disadvantage. Savvy Building Teams say that's not always the case.

In fact, from San Francisco to Boston, from New York to Chicago, leading owners, developers, and project teams are employing thoughtful upgrades to older buildings to create meaningful spaces that help attract and retain top tenants—and their best people. Six common strategies used by these Building Teams help address competitive pressures and deliver more attractive offerings with renovated and reconstructed commercial developments.

1. EXPLOIT A SITE'S POSSIBILITIES—AND ITS LIMITS

Data from the U.S. Energy Information Administration's most recent Commercial Buildings Energy Consumption Survey reveals that about half of all the country's commercial buildings were constructed before 1980. "Many of these buildings are in urban areas and in the established markets valued by today's leading companies, where the employee base is plentiful and there are adequate multimodal transportation choices and amenities that complement work-life balance," says Jason Boyer, AIA, LEED AP, a Principal at architecture

firm Studio Ma, in Phoenix.

At the core of any potential renovation conversation is a question: What's the best use for the commercial property? Owners and project teams must first consider the difference between what is currently built and what could have been offered instead.

Major considerations begin with local zoning and planning rules, which vary from city to city and may have significant differences from neighborhood to neighborhood. These codes and ordinances often make a case for preserving an existing structure rather than clearing the way for a new one. In Austin, Texas, for example, "The development and permitting process is unusually restrictive," says Karen Judson, Vice President in the Austin office of Transwestern. "As long as an existing building is not functionally obsolete, it is more cost-effective to renovate and upgrade than scrap it and start anew."

For project teams in this kind of regulatory environment, adds Judson, "Even significant capital improvements like adding floors to a parking garage, reskinning a skyscraper, or replacing major mechanical systems like elevators and HVAC are more cost-effective compared to new construction."

Similarly, height and bulk limits that have evolved over time mean older structures in certain areas offer advantages for Building Teams that new construction projects often can't match. "Many buildings in Manhattan are overbuilt according to their current floor-area-ratio restrictions, but they happen to be grandfathered in," says Jonathan Tootell, a Partner in Transwestern's New York office. That extra capacity offers project teams the chance to bring in a combination of offerings sought by many tenants, including large floorplates, roof and terrace access, and locations in trendy, dense neighborhoods with access to nightlife, mass transit, and other desirable features.

Regarding a potential tenant's choice of where to take space, says Eric Myers, an Executive Vice President in Transwestern's Chicago office, "While the older buildings might have many more large columns and less efficient window lines, the adjacencies to fit more people on one floor is often a deciding factor."

In some cases, zoning rules may permit changes to the commercial property's mass, including height and bulk. In these cases, experienced project teams assess how potential additions improve the building's medium-term value as compared to the cost and disruptions due to construction. In some cases, building owners can earn or purchase FAR bonuses from local authorities, presenting an opportunity to add height, or bump out a lobby and add more ground-floor amenity spaces that are increasingly important in today's market.

While it's tempting to take advantage of any opportunity to expand the footprint, it's not always the most cost-effective strategy, notes Ryan Collins, LEED AP, CCM, Director of the Project Management Group at CBRE, in Chicago. "A lot of the time, you could do just as well updating your existing interior space," says Collins. "In a recent project of ours, we found that taking out an escalator from a lobby could provide as much additional floor area as a bump-out that would have cost many times more." Collins suggests that owners and project teams consider putting money back into the building as a first step before they think about expanding footprint.

LEARNING OBJECTIVES

After reading this article, you should be able to:

+ **DESCRIBE how market dynamics and local codes are changing the needs for adaptive-reuse projects.**
+ **UNDERSTAND office building end-user preferences for amenities.**
+ **LIST the factors in planning upgrades of older buildings and historic landmarks.**
+ **DISCUSS approaches to improving existing office buildings that leverage technology and reduce energy use.**

2. LOOK FOR WAYS TO CREATE OUTDOOR SPACE

In addition to expanding a commercial building's enclosed area, many existing building footprints offer project teams plenty of opportunities to leverage found space outside the enclosure. To start, take a look at roof, terrace, and ground-floor exterior areas, says Ty Spearing, a Managing Director at LaSalle Investment Management, in Chicago. "It's an amenity that today's tenants absolutely value," he explains. "So one of our first steps in developing a commercial building is to try to identify places where we can create outdoor space."

Underutilized spaces include those created by setbacks, for example, which may be ideal for repurposing as usable terraces. "Creating outdoor space on a wedding-cake setback or a lower roof means you can make an amenity area specific to individual tenants, which is a big salable element that commands higher rents," adds CBRE's Collins. In regions where the climate might limit an outdoor area's year-round practicality, creating flexible indoor/outdoor connection can maximize the value of these amenity zones.

As part of its repositioning of 123 North Wacker Drive, a formerly struggling 1980s-era office tower in

Chicago, LaSalle renovated half of the top floor as an indoor/outdoor lounge. Using a 12-foot-tall sliding glass wall system that can be retracted to open or left closed as the season dictates, the design team, led by Wright Heerema Architects, turned a potentially summertime-only amenity into a gathering and event space that's still usable in the dead of winter and yet doesn't feel closed off from the outdoors.

"Activating amenity areas and making them dynamic and flexible is important," says Spearing, noting that this lounge space was a big selling point for the building's newest major tenant, the Chicago Bears, whose organization needs large, attractive areas for events and entertaining.

For office buildings with curtain wall systems and few setbacks or breaks, reworking the ground floor and activating the rooftop offer good ways to add usable and desirable outdoor amenity offerings. But turning a roof into an occupiable space isn't always simple. Until fairly recently, says Eugene Flotteron, AIA, a Principal at CetraRuddy, office buildings "almost never utilized their rooftops," which means that these areas might not be structurally sound enough to handle live loads without significant reinforcement.

COURTESY LASALLE INVESTMENT MANAGEMENT

A formerly struggling 1980s-era office tower in Chicago, 123 North Wacker Drive is being renovated by LaSalle Investment Management into Class A office space, complete with modern amenities like a dedicated bicycle storage room.

At 412 West 15th Street, an office development in New York's trendy Meatpacking District, CetraRuddy and developer Rockpoint Group combined a renovation of an existing three-story historic warehouse structure topped by a new tower, with a design focused on maximizing usable outdoor space for the 255,000-sf project. To make a usable roof on the older structure, the Building Team installed a steel roof deck and reinforced the existing heavy timber construction with steel, all the way down to the footings. In addition to reinforcement, says Flotteron, it's important for project teams to keep in mind that roof deck structures often need to be depressed by 12-18 inches in order to create an acceptable indoor/outdoor transition while maintaining required insulation and roofing. "It's expensive when structural elements come into play," says CBRE's Collins, who has worked on similar projects. "But everyone's pushing for outdoor space, and the value of creating a competitive amenity justifies the cost."

3. CREATE SERVICE-DRIVEN AMENITIES

When it comes to amenity areas and offerings, everyone in the commercial office market agrees: Programming and designing those amenities must complement the expected tenant profile, respond to market desires and trends, and ultimately allow for flexibility and a wide range of related service offerings.

"Now, more and more tenants are insisting that their buildings have bike rooms, gyms, and showers," says Transwestern's Tootell. "These are features that need to be present for them to even consider leasing space in the building." In cities like Nashville, Tenn., Boston, San Francisco, and Austin, for example, fewer people are driving to work, and provision for bike storage, accessory lockers, and showers are now key to attracting pedestrians and commuters.

At 123 North Wacker Drive, tenants can make use of a dedicated bicycle storage room with a variety of locking systems, including fully enclosed lockers for those worried about the security of their high-end equipment, says LaSalle Investment Management's Spearing. When laying out these amenity spaces, Building Teams should think about how to leverage adjacencies. For example, placing bicycle storage near a fitness center is a good way to provide access to locker rooms and showers for both commuters and those having their occasional workouts in the building's gym.

In addition to outdoor access and lifestyle fitness accommodations, the most critical addition to today's office developments are common zones and shared places that allow for tenants and visitors to gather, enjoy a coffee, or just take a quiet break. Once an afterthought, today's most competitive urban and suburban office addresses include in-house coffee shops, cafés, restaurants, and wifi lounges.

As people spend more time at work, every building area from the entrance lobby to the back of house

now offers opportunities to support tenant socialization and a change of scenery. “You want to activate the lobby and encourage people to stay there for 15 to 30 minutes,” notes Collins from CBRE. “It’s no longer just a glorified corridor that people pass through instantaneously.” The result is increased tenant satisfaction and a perceived bump in the value of the office property.

To enhance a lobby’s appeal, project teams tend to focus on adding new materials and finishes, while sometimes incorporating new artwork, lounge furnishings, and retail services. At 123 North Wacker Drive, the Building Team energized the interiors by replacing dated pink granite and marble with a new terrazzo floor and a pixelated aluminum feature wall, says LaSalle’s Spearing.

For older buildings where the original finishes have historic appeal, restoring and preserving lobby materials can have a similar impact. For San Francisco’s Market Square, the 11-story Art Deco structure formerly serving a furniture wholesaler was adapted as office space by a project team that included RMW Architecture & Interiors, Page & Turnbull, and BCV Architects. The 750,000-sf rehabilitation included extensive renovations of the lobby’s original murals and stone flooring, features seen as valuable and differentiating enough to draw tenants while also preserving a slice of the city’s cultural history. “This valuable work maintained the powerful qualities of the historic space, even as it provides access to new amenities,” says Page & Turnbull Principal Jay Turnbull, FAIA, noting that Market Square’s fitness center and various food services are located on the ground level.

Updating storefronts or street-level sections of façade systems has emerged as an increasingly popular strategy for renovating office buildings, activating lobbies, and encouraging more traffic. “A lot of commercial repositioning projects focus on opening up the lobbies and primary entries,” says architect Deniz Ferendeci, AIA, LEED AP, Director of Building Services with Dyer Brown. In a recent project at 116 Huntington Street in Boston, Dyer Brown’s renovation of the 15-story Class A office building included updating a formerly dark lobby with a new frameless glass façade, bringing more natural light into its redesigned interior and allowing for stronger visual connections to the street. Ferendeci says it’s a good example of using the relatively clear, low-iron float glass with high visible light transmission that reduces green tint and blue glare. It’s an effective way to freshen up an office building’s street presence and improve its connection to exterior plazas, the streetscape, and the overall pedestrian experience.

Sometimes, ground-floor updates can improve a building’s presence and highlight a company’s brand at the same time. For the reconstruction of its 1980s-era New Jersey headquarters, live webcam provider EarthCam sought an on-brand design direction. “Our goal was to plan an extensive renovation that was both architecturally important and fit with the work we do with our construction cameras,” says Lisa Kelly, EarthCam’s Executive Director. The project team comprising Davis Brody Bond and Spacesmith created a soaring, three-story transparent entryway with a 25-foot-tall, floor-to-ceiling video wall. A system of backlit façade panels made with translucent molten aluminum create a dramatically modern appeal.

4. MAKE SMART ENERGY-EFFICIENCY UPDATES

As energy codes grow more stringent nationwide, “energy efficiency is a huge decision factor for both owners and users of space,” says Transwestern’s Myers. Building Teams in almost every market are making smart choices to help older properties meet new requirements or stake out leadership positions on sustainability, wellness, and social responsibility.

Renovating an existing commercial building is an inherently sustainable practice, says architect and preservation expert Carolyn Kiernat, AIA, of Page & Turnbull. “Existing structures represent a major investment of money and material, and a lot of embodied energy,” she explains. “On top of that, many older and historic buildings also often have built-in features that support energy-efficient uses, since they were built before the advent of air conditioning.” For buildings constructed with heavy, opaque enclosures like brick or stone, the effects of solar heat gain and heat loss—also known as emissivity—aren’t as much of an issue as compared to

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WRIGHT HEEREMA ARCHITECTS

modern glass curtain wall systems. Masonry bearing walls and veneers also offer a high heat-retention capacity and provide good thermal mass that helps keep interiors cool and reduces HVAC load.

Still, updates are often necessary. For older structures with punched windows, glazing upgrades offer an ideal opportunity to improve performance, notes Turnbull, who has served as a peer reviewer for the U.S. General Services Administration's Design Excellence program. Although they're expensive, triple-glazed windows with the appearance of a traditional double-hung system can offer significantly improved thermal performance. A 2013 Department of Energy study, for example, found that switching from double to triple glazing can reduce a building's energy use by 12% or more. Custom, historically matched windows can help meet both performance goals and local preservation requirements, if a project is landmarked.

In some cases, project teams will find that local jurisdictions and some utilities offer incentives for energy and sustainability upgrades as part of a commercial renovation project, says CetraRuddy's Flotteron. These bonuses, on top of historic tax credits and other tax breaks or development grants, can make the difference between an idea and an actual building project (see sidebar). Some of the major systems leading to tax breaks or FAR incentives in various U.S. cities include cogeneration systems, renewable energy installations, solar hot water collectors, stormwater management equipment, and planted roofs.

It's important to consider the impact of other, smaller systems, too. Updating boilers and chillers, improving controls, and swapping out a range of fixtures can be highly tactical and effective ways to aggregate incremental performance gains, says Elisabeth Post-Marner, AIA, LEED AP, a Principal with the architecture and interiors firm Spacesmith. Centralized direct digital control (DDC) systems—with sensor arrays that accurately monitor interior conditions and adjust the HVAC system according to pre-programmed instructions—have become an essential means for improving occupant comfort as well as HVAC efficiency, says Richard McGoniagle, Senior Director in CBRE's Chicago office.

Similarly, lighting control systems with occupancy sensors also contribute to energy savings. The fixtures themselves help, too, because today's efficient lighting sources "reduce heat loads that tax other building systems," according to Dyer Brown's Ferendeci. "Vendors have upped their game, which means that more energy efficiency now comes from plumbing and lighting fixtures."

5. USE TECH TO IMPROVE TENANT EXPERIENCE

Upgrades to other building systems that directly impact the occupant's daily enjoyment, comfort, and wellness in their commercial office environments can be the most valuable aspect of successful renovations. Dyer Brown's Ferendeci recommends utilizing the latest intelligent controls, user interfaces, and wireless systems to help an older office facility

BIG BONUSES FOR ENERGY-WISE OFFICE RECONSTRUCTION

■ **IT PAYS FOR BUILDING TEAMS** to know if their state or local government agencies offer any inducements for sustainable reconstruction approaches. Sometimes, these tax credits or development incentives can even open the door for other improvements.

"New York City has a huge bonus for efficiency when it comes to reskinning façades, offering an extra FAR incentive bonus if you beat the energy code by 20%," says Eugene Flotteron, AIA, Principal with CetraRuddy. Programs like this one, known as Zone Green, allow for the retrofitting of performance-enhancing systems like solar electric and hot water systems, green rooftop features like stormwater management equipment, and boilers or cogeneration systems.

These upgrades add benefits for the developers and owners in the operations phase, says Eric Myers, an Executive Vice President with Transwestern, in Chicago. "The more successfully leased projects spend money getting LEED certified, and undergo major capital costs to make the buildings HVAC- and energy-efficient," he explains. Myers agrees with CetraRuddy's Flotteron that improving energy efficiency is often worth the upfront cost, because the more extensive the renovations and improvements, the more the owners will gain in tax incentives or other subsidies from local jurisdictions.

Leading Building Teams also consider the impact of other, smaller systems, too, in part because many of them add performance gains and may qualify for utility incentives.

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The renovation of 116 Huntington Street in Boston updated a formerly dark lobby with a new frameless glass façade, bringing more natural light into its redesigned interior and allowing for stronger visual connections to the street.

achieve a level playing field with newer towers and commercial developments. "Introducing smart technology into older buildings streamlines the renovation process and improves a building's efficiency at the same time," says Ferendeci. "If you install a destination dispatch system for your elevators, now you've alleviated the issue of being down an elevator shaft or two over a new building."

Any updates to systems supporting IT services need to create an atmosphere of seamless service and state-of-the-art support for tenant companies and office workers, says CetraRuddy's Flotteron. "When you're on your cellphone, for example, there's no reason the call should drop just because you've stepped inside the elevator," he says. Upgrading antennas that run vertically down a structure's central spine can make sure occupants are able to hold call signals and Internet service at any given point throughout the building.

6. FIND VALUE IN A BUILDING'S BONES

It's not just about high-tech, but also "high touch," to borrow the phrase coined decades ago by futurist John Naisbitt. For example, visible building personnel who offer a friendly welcome is clearly a sign of a Class A workplace. Similarly, a pleasing visual experience is essential: As workplace environments become marketing tools and expressions of an organization's culture, rather than purely functional places.

"The design speaks to the brand in a way that words cannot," according to Glenn Gilmore, Founder of Brick and Timber Collective, a San Francisco-based commercial real estate development company.

Tapping into this desire for spaces that strike a chord is key to success for Building Teams nationwide. "Our first approach to a renovation or adaptive reuse project would be, 'What can we keep here? What can we maintain?'" says Jeffrey Murphy, FAIA, LEED AP, a Partner at Murphy Burnham & Buttrick Architects (MBB), New York. This is true for buildings that have a landmark status or those that are simply aging but have valuable characteristics and effective systems to maintain in the reconstruction process. Page & Turnbull's Turnbull agrees, pointing out that in recent years leading technology firms have been drawn to what he calls "found space." Says Turnbull, "Tech company employees often don't want to be in the kind of office where their parents worked. If a space is unusual or a little odd, or rough around the edges, that atmosphere makes these firms feel at home."

To achieve the winning look, many project teams start by evaluating the building's bones to unlock greater market appeal. "You can't do much about column spacing, but if you take off the fireproofing and use intumescent paint to expose the nuts and bolts underneath, all of a sudden this undesirable structural element becomes a design feature that's saleable," says CetraRuddy's Flotteron. "If there are old bricks under levels of paint, you just sandblast it off and you have a found treasure."

Even better? Utilizing these historic structural elements can lower costs, too. For a recent renovation at 100 Summer Street, the 1970s-era office tower in Boston's Financial District, "Exposing existing terra-cotta arches for the ceiling meant we didn't need to put in new finishes," says Dyer Brown's Ferendeci. If adding some amount of new finish materials is necessary, says Spacesmith's Post-Marner, it can be helpful to use a light touch and "selectively expose history," as the firm has done for offices for public agencies, universities, and corporate headquarters. Pointing to a recent project for publishing house Abrams Books, Post-Marner notes, "Juxtaposing elements like a steel column or a tile ceiling with light, contemporary finishes makes the iconic parts stand out."+

+EDITOR'S NOTE

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