



# Adaptive Reuse

The Developer's Perspective



# Adaptive Reuse

## The Developer's Perspective

### Identifying Viable Projects

#### **#1 - Make sure *the price is right***

- Stay in the Driver's Seat - The building is the present owner's problem, not yours. Do NOT remove conditions from your offer until you have all of your risks dealt with.
- \$1 is often too high a price - protect yourself (eg Leader Building)
- Get an "as is" appraisal not an "as if" appraisal for acquisition purposes. Vendor's appraisal number is often meaningless because it will usually contain an "as if" clause. ie Appraised value assumes value is "as if proposed renovations were complete". Renovations are usually loosely described. Eg; assumes "modernization of the commercial and residential units". An "as is" appraisal will be as it sits and the appraiser is likely to be much more pessimistic about construction costs than the Vendor.





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# The Leader Building

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# Adaptive Reuse

## The Developer's Perspective

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- **Identifying Viable Projects**
- **#2 Have Your Tenant(s) Lined Up**
- You must have your user in place before you remove conditions - with two exceptions:
  - - Residential Apartment Use - You can gauge from the market whether the tenants will be available. You won't get stuck with a totally vacant building (eg Mayfair)
  - - "Community" Commercial - Have a base of users lined up who will occupy a significant portion of the building and who will help you establish a viable commercial community. (eg Somerset Block)



An aerial photograph of a large, multi-story brick apartment building with a grey roof and several chimneys. The building is surrounded by lush green trees with some yellowing leaves, suggesting autumn. Other residential houses and a street with parked cars are visible in the background and foreground. The text "MAYFAIR APARTMENTS" is overlaid in white, bold, sans-serif font across the center of the image.

# MAYFAIR APARTMENTS



# Somerset Block







# Mayfair Apartments

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The image shows a bright, modern apartment interior. On the left is a kitchen with white upper cabinets, light blue lower cabinets, and a light-colored countertop. A stainless steel sink with a chrome faucet is visible. A black refrigerator stands next to a black oven. The floor is covered in light-colored wood-look laminate. To the right, an arched doorway leads to a living area with grey walls and a white fireplace mantel. A large window with a white frame and a black radiator are also visible in the living area. The text "Mayfair Apartments" is centered over the image with a thin white underline.

# Mayfair Apartments





# Mayfair Apartments



# Adaptive Reuse

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### Identifying Viable Projects

#### **#3 Develop a real construction budget**

- *(You must have this info to negotiate your purchase price. Conventional wisdom says you can't pin down a real budget on a reno project. See construction section for some tips on this)*
- Condition Removal Period - Usually 30 days or so. Get the Vendor to agree to a much longer period for difficult projects;
- Diligence Work - Negotiate for Vendor to pay for some or all of this work if reliable info has not already been prepared. This info will be useful to the Vendor even if you don't close.
- Price Adjustment Clause - Tie purchase price to certain budget categories if Vendor is adamant that certain work can be done for a lot less than what you think it will be.



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### **Identifying Viable Projects**

#### **#4 - Be creative in your deal with the Vendor**

*(Remember the Vendor has the problem not you - and there are lots of projects out there for you.)*

- Condition Removal Period - Usually 30 days or so. Get the Vendor to agree to a much longer period where you are dealing with a very soft market. Say 6 months (eg Donahue Building)
- Equity Participation by Vendor - Take the Vendor in as a partner. Could be a minority partner. Or could be a majority partner with you retaining control.
- Explore Vendor Financing - Use a "Vendor Take Back" (VTB) mortgage with advantageous terms. Very useful where Vendor is not sufficiently flexible with price.





A photograph of the Frontenac Building, a multi-story brick structure with a central gabled section and arched ground-floor entrances. The building features numerous windows, some with green shutters, and balconies with green railings. A central courtyard with a lawn and plants is in the foreground. The sky is blue with a few clouds.

# Frontenac Building



A photograph of The Balfour Building, a large brick structure with a central arched entrance and side arches. A black metal gate with a circular design is in the foreground. Trees with green and yellow leaves are visible on the sides.

# The Balfour Building

THE  
BALFOUR  
DENDOTA CHIEF



# Adaptive Reuse

## The Developer's Perspective

### Financing Options

#### **#1 -Bank Financing**

- Appraisal - In adaptive reuse, your financing appraisal is a different animal than what you have in your "as is" acquisition appraisal. For financing you need an "as if" appraisal, not an "as is". The financing appraisal will assume a value "as if" proposed renovations were complete".
- "As if" Appraisal - It will contain language like valuation assumes "Modernization of the commercial and residential units". (eg Perley Building) Don't get starstruck by the Appraiser's "as if" valuation. It is completely meaningless until you have a real construction budget.
- Effect of Tax Abatement on Appraisal - If you are eligible for a 10 year tax abatement make sure the appraiser adds the present value of that tax abatement to your appraisal number.





# Adaptive Reuse

## The Developer's Perspective

### Financing Options

#### **#1 -Bank Financing (cont.)**

- Amortization Period - The bank will want to give you a shorter amortization period for an "old" building. (likely 15 years instead of 20 or 25) This makes your mortgage payment significantly higher. If you are doing your project right it will outlast a new building and you should negotiate hard for the longer am period.
- Personal Guarantee - The bank will usually want a personal guarantee if your loan to value ratio is more than 50%. .





# Adaptive Reuse

## The Developer's Perspective

### Financing Options

#### **#2 -Vendor Financing/Equity Partner**

- Equity Participation by Vendor - Take the Vendor in as a partner. Could be a minority partner. Or could be a majority partner with you retaining control.
- Explore Vendor Financing - Use a "Vendor Take Back" (VTB) mortgage with advantageous terms. Very useful where Vendor is not sufficiently flexible with price.
- If Vendor has Clear Title - Partner with Vendor. Use "as is" appraisal as purchase price. Vendor gets no cash but gets a second mortgage for the purchase price (on favorable terms). First mortgage money from a bank is used for construction budget. You, as developer, get paid market rates for your development and construction services and also get an equity position. (usually 1/3 of the equity)





A photograph of the Donahue Building, a multi-story brick structure with a classical architectural style. The building features a prominent cornice with decorative brackets. The facade is composed of light-colored brick on the upper floors and darker brick on the lower floors. The ground floor has large display windows with white awnings. The building is situated on a street corner under a clear blue sky.

# Donahue Building



# Strathdee Building





# Adaptive Reuse

## The Developer's Perspective

### Regulatory Considerations

#### **#1 - Pick the right Consultant**

- Problem Solver - You need a team player who works regularly in the adaptive reuse area. Needs to understand that the developer is driving the bus not the consultant.
- Open Minded - All work must meet code. Your architect/engineer will not sign off on anything which doesn't meet code, but you must have someone who is inventive and resourceful in looking at all possible ways of meeting code. (eg Sierra Village/3160 Albert).

#### **#2 - Permits**

- When do you need a permit? - All work must meet code whether that work requires a permit or not. Alterations, additions, and major repairs require a building permit followed by an occupancy permit. Don't unnecessarily make elements of your project into "developments" that need a permit which otherwise would fall into "ordinary repairs" which do not require a permit. (eg Mayfair)





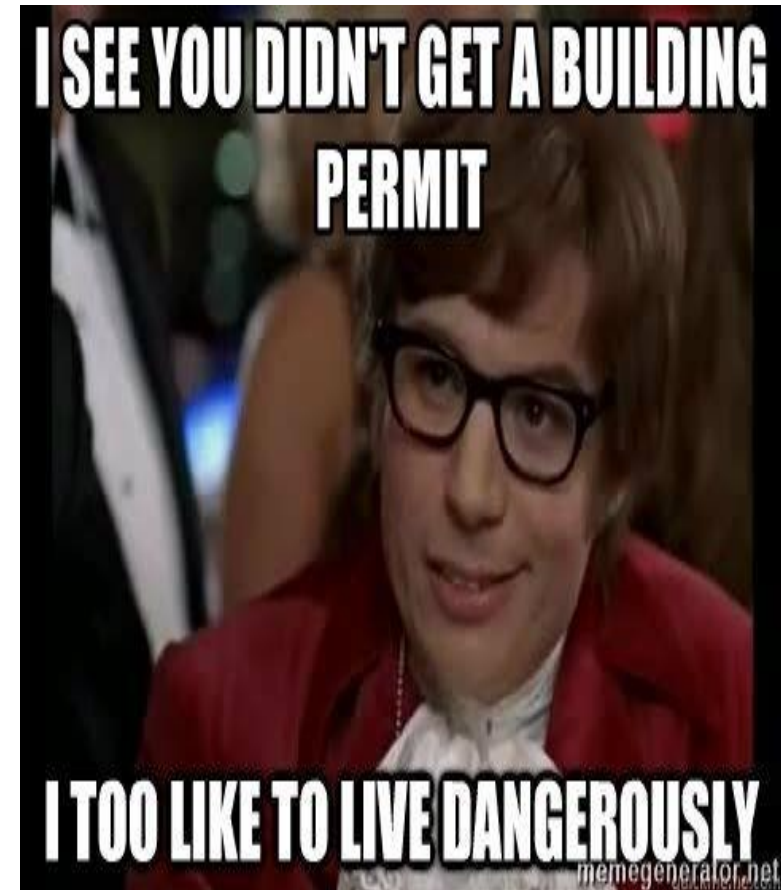
# Adaptive Reuse

## The Developer's Perspective

### Regulatory Considerations

#### #2 - Permits (con't)

- Don't cut corners on the "non permit" work. When the City Inspectors come to inspect the elements of your work which did require permits, they can also inspect any other work you have done in the building. It must meet code even if it did not require a permit.
- Working with the City - Pay attention to your relationship with the City Inspectors. Earn the reputation as being a developer that doesn't have to be "policed" on every detail. (eg Donahue, Mayfair)
- Fire Code - Fire Inspector has the right to make owner bring building right up to current code. If they used that full authority only 3 or 4 buildings in town would meet the code. Their practical rule is that you have to ensure that the existing system is working exactly as it was designed to work. You need to get an alarm company like Allmar to provide a certification to that effect. The more extensive your renovations the more likely they are to move you up to a higher standard.





# Adaptive Reuse

## The Developer's Perspective

### **Regulatory Considerations**

#### **#3 - Municipal Heritage Designation and Heritage Inventory Bylaw**

- How do these controls affect your rights as a property owner? - You do give up the right to demolish the property. But if you are putting significant money into the project you are unlikely to ever want to demolish the building. Municipal Designation applies only to the exterior of the building. Destroying the exterior heritage features is likely to devalue your building anyway, so being oblige to follow the Heritage Standards and Guidelines is not as major an inconvenience as many property owners imagine it to be. The City does not insist on unreasonable conservation measures and the Standards and Guidelines do have provisions built in to deal with unusual situations.
- Property Tax Incentives - In recent years Regina municipal tax incentives have been increased dramatically. The incentive used to be abatement of 5 years of property taxes with a limit of \$250,000. This was increased to 10 years of abatement with no limit. If your property taxes are \$100,000 per year you are entitled to \$1,000,000 of tax exemption. This is significant. You must perform \$2 of eligible work to earn \$1 of tax exemption. Given that virtually all government funding for heritage properties has been eliminated in recent years property owners should look very carefully at Municipal tax incentive programs. If you plan to do major eligible work on your building (ie work amounting to 20 times your annual taxes.)



# Adaptive Reuse

## The Developer's Perspective

### Regulatory Considerations

#### #3 - Municipal Heritage Designation and Heritage Inventory Bylaw (cont)

- Eligible Work - Two kinds of work are "eligible work" for the purpose of tax exemptions. 1) Work related to heritage character elements of the building, (Primarily windows and architectural features). 2) Work which is necessary to extend the life of the building. (Mechanical, electrical, roofing, elevators and structural work)
- ***Things to watch out for in processing of your tax abatement application:***
- "Heritage Character Elements" and "Life Extending Work" both qualify equally as eligible work. You can choose when you choose to do any eligible work
- Permission to do work before heritage application is finalized - no eligible work can be done until City Council has given final approval of your application. These sometimes take many months to process. If you have urgent work there is a provision to give you "retroactive" approval for specific work where there are special circumstances



# Adaptive Reuse

## The Developer's Perspective

### **Regulatory Considerations**

#### **#3 -Municipal Heritage Designation and Heritage Inventory Bylaw (cont)**

##### ***Things to watch out for in processing of your tax abatement application (cont)***

- Separate Heritage Eligible Work - In your construction budget keep your "Heritage Eligible" work in a completely separate section of your construction budget and track your budget in a way that meshes with the City's processing requirements. This will save many hours of work in getting your exemption processed.
- Architect's Role - Your architect will be required in the preparation of the Conservation Plan. With respect to the other processing elements make sure there is a clear understanding between you and your architect as to how you and the Architect divide up other work related to the application.



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## The Developer's Perspective

### **Construction Challenges**

#### **#1 -Don't fight the building**

You need to recognize from the outset that you are unlikely to be able to implement an adaptive reuse which is as efficient for the user as a purpose built new building. You need to minimize this inefficiency by finding a use which fits into the existing building to a reasonable degree. Keeping your construction budget under control will be central to your success. There are certain uses which will simply not be feasible in your building (eg Jean Paul 2 Building)

#### **#2 - Get the right consultants and contractors**

They can help you hugely in controlling the hard costs, but you need be very deliberate about how you control the soft costs. Before you start engaging consultants think through your project as to what you would do if the consultants didn't exist. The time spent in that exercise will be well used in improving your ability to provide instructions to the consultants you will need.

#### **#3 - Don't buy the old "you can't know what you might run into in an old building" refrain. Yes, you can.**

Roof, windows - You can see exactly what is there and get your pricing done.





# Mayfair Apartments



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### **Construction Challenges (cont)**

#### **#3 -Don't buy the old "you can't know what you might run into in an old building" refrain. Yes, you can. (cont)**

- Structural Work – Can be more difficult to check out, but removing the drywall in the basement can show you what you need to know. Structural problems are often overstated. Ask to be shown all possible remedies.
- Mechanical Work
- Plumbing stacks – Have your contractor do one stack completely. He/she can then give you a fixed price on all of the other stacks (eg Mayfair)
- Underslab sewer – Completely excavate out the old horizontal sewer lines with your own forces. Then get your mechanical engineer to spec the new lines from point A to point B and you can get a competitive fixed price.





# Mayfair Apartments



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