

ADAPTIVE REUSE: REIMAGINING THE COMMERCIAL REAL ESTATE ECOSYSTEM

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In the wake of the global pandemic, we have seen an undeniable acceleration of existing work-life, geographic, and demographic trends. While some of these changes may eventually slow or reverse course, it's clear that others are here to stay and will impact the future footprint of the commercial real estate market.

For example, while some companies were already shifting toward hybrid work styles that allowed telecommuting, during the pandemic, virtually all workers previously in an office setting worked remotely. Thanks to rapid developments in technology and proof that remote work increases productivity, the shift to remote work will endure, Anita Kramer, senior vice president for the Urban Land Institute's Center for Real Estate Economics and Capital Markets, said during a [recent ERIS webinar](#).

The Great American Move and Macro-Trends

Fewer geographic ties to work and other economic factors sparked the "[Great American Move](#)" during the pandemic, sending families to new regions and homes. People (and businesses) were attracted to markets offering economic diversity and more affordable housing, like Salt Lake City and Charlotte. Markets not reliant on hospitality and other industries heavily affected by Covid-19 experienced more growth.

“Thanks to rapid developments in technology and proof that remote work increases productivity, **THE SHIFT TO REMOTE WORK WILL ENDURE**”

Suburban growth has been outpacing urban growth for years, Kramer explained. But the pandemic accelerated that trend, with work-from-home policies and the allure of larger homes prompting young professionals to make the move to the suburbs.

“**SUBURBAN GROWTH** has been outpacing urban growth for years... but **THE PANDEMIC ACCELERATED THAT TREND**”

Urban Flight and 'Hipsterburbia'

Pandemic-accelerated urban flight poses serious economic challenges for cities dependent on a dense population. As a result, affected cities “will likely creatively adapt, perhaps adding more green space and outdoor activities, and continue to improve livability to retaining and attracting residents who continue to value an urban lifestyle,” according to the Urban Land Institute's annual *Emerging Trends in Real Estate® United States and Canada* [report](#).

Simultaneously, suburban areas will continue to transform into “Hipsterburbia,” as they strive to provide the same amenities and types of things that can be found in cities. “You can take the hipster out of the city, but you can't take the brewery away from the hipster,” said Kramer during a recent interview.

The pandemic also has influenced lifestyle changes, with people putting more emphasis on [wellness and sustainability](#). “While healthy and sustainable living has been among the fastest-growing trends in homebuilding and community design in recent years, the current pandemic has moved that trend into high speed, with particular emphasis on the home.”

“HEALTHY AND SUSTAINABLE LIVING has been among the fastest-growing trends in homebuilding and community design”

Commercial Real Estate in Transition

In tandem with these macro-trends, the [CRE market is also in transition](#), adapting to meet these demographic shifts and new demands for housing, office, and retail space. With employees and customers staying at home, companies have been forced to change the way they do business. E-commerce has thrived, [accelerating brick-and-mortar retail store closures](#) and driving demand for additional warehouse space.

“E-commerce has thrived, accelerating (physical) retail store closures and DRIVING DEMAND FOR (more) WAREHOUSE SPACE”

While e-commerce is expected to remain strong, Kramer also predicts that “although the pendulum will not fully swing back,” brick-and-mortar will recover somewhat, as stronger retail centers readjust to spaces with better rents or superior locations. Additionally, work-from-home policies have potentially decreased the need for traditional office space, and hybrid work models will likely drive workspace reconfigurations.

These trends give CRE professionals an opportunity to redevelop and reuse real estate and transform it into more functional, unique spaces that meet customer and residential needs. This is often referred to as “adaptive reuse.”

What Is Adaptive Reuse?

Adaptive reuse involves the reimagining and repurposing of existing older structures and spaces to meet today's needs. This could mean refurbishing an historic textile mill or shopping mall into a mixed-use community with housing and retail space or transforming an industrial site into a public park.

People love spaces with stories and character. According to a recent Central City Association of Los Angeles white paper, “[The reuse of obsolete or underutilized structures has produced some of the most unique and cherished urban spaces around the world](#),” like Ghirardelli Square in San Francisco, the Argonaut Building in Detroit, and the High Line in New York City.



THE BENEFITS OF ADAPTIVE REUSE

Adaptive reuse gives older structures and spaces new life and purpose. Some of the key benefits of adaptive reuse include:

- revitalizing dilapidated communities and making use of idle properties,
- bolstering economic and environmental sustainability,
- providing jobs and/or housing in underserved areas, and
- promoting historic preservation.

Together, corporate work trends, industry shifts, and an increased focus on wellness and sustainable living during the pandemic have amplified the benefits of adaptive reuse.

The potential of adaptive reuse also presents significant investment opportunities, according to Tim Kay, managing director for JLL's Project & Development Services Practice for the Great Lakes Region. Because adaptive reuse envisions a more sustainable future for older buildings, real estate investors are increasingly interested in the ESG data tied to development projects, Kay said during a recent ERIS webinar.

“The potential of adaptive reuse also presents SIGNIFICANT INVESTMENT OPPORTUNITIES”

Environmental Due Diligence Considerations

As is the case for all CRE transactions, parties must be prudent about environmental due diligence when considering adaptive reuse opportunities. Redeveloping old buildings can be costly and pose significant environmental concerns.

Comprehensive environmental testing and monitoring is key to adaptive reuse projects, said Mark Johnson, a principal at Geosyntec Consultants, during a recent ERIS webinar on adaptive reuse trends in the CRE market. Redevelopment must focus on eliminating environmental exposures to future occupants, like asbestos, lead paint, metal dust, defective drywall, and mold and water damage. Vapor intrusion, which is often the primary exposure risk from contaminated groundwater, is one of the biggest concerns and a potential roadblock for redevelopment — especially in urban areas. However, retrofitting ventilation systems and repurposing salvageable materials like brick exteriors make it possible to bring new life to old spaces while decreasing waste and reducing energy costs.

People want to live and work in historic buildings, but they also want solid structures and modern necessities like functioning HVAC systems and Wi-Fi.

“Adaptive reuse is at the crossroads of development and sustainability,” Johnson said.

Practical Tips for Adaptive Reuse Projects

[Not all buildings can be refurbished, however.](#) It's important to understand the costs involved as well as community needs before proceeding. How much will it cost to get the building up to code? How much of the original building materials can be repurposed? What do local historic preservation standards require? Have you accounted for hidden costs like asbestos and lead paint removal? What type of space is the community looking for?

After assessing the financial implications of a reuse project, [developers may also need](#) to apply for a special-use zoning permit or petition for changes to local zoning regulations. If the property has activity and use limitations, these may need to be modified or complied with, which can also add additional time and costs to the project.

Conclusion

CRE professionals and environmental consultants are key players in meeting the changing demands and demographics of the new real estate ecosystem. Their services, expertise, and creativity are critical to the safe and sustainable adaptation of spaces to shifting demand. Consultants will be relied upon to ensure that proper environmental due diligence is conducted and that all real estate considerations are factored into redevelopment/reuse planning and decision-making.

Reimagining urban and suburban communities presents an exciting, unprecedented opportunity for the industry that can benefit the quality of life for many generations to come. Carpe diem! There may never be another time like this! 📄

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