

## Commercial Real Estate Updates-News-Information

—by Bill Milliken, CCIM

# Developers Embrace Adaptive Re-Use

Today's demand for commercial and residential space appears to be in lock step with an unprecedented number of "adaptive reuse" real estate developments—or redevelopments of existing properties. Here and around the U.S.

The Gandy Dancer, Allmendinger Building, Schlenker Hardware and the State of Michigan Armory are examples of Ann Arbor buildings that—years ago—began life with another mission, but have since been converted to commercial or residential uses.

### A New Consciousness

Adaptive reuse is the process in which structurally sound, older buildings are developed for economically viable contemporary uses. They may be returned to service in restored condition. But more often than not, they are subject to renovation and adapted to today's heating, cooling, technology and accessibility requirements.

"The costs are too high to reproduce these historic structures today," says Mary Culver, who is Ann Arbor's Historic Preservation Coordinator. Moreover, she notes, the materials the builders used, like Michigan White Pine, can't even be purchased today.

### Premium on Historic Character

There is also a "recycling" aspect to the reclamation of historic buildings, but the reason they are so sought after is that they also make economic sense. Bill Kinley, president of Phoenix Contractors has restored a string of buildings around Washtenaw County that are now fully occupied commercial properties. He attributes the success of his buildings to "found" space: additional square footage that can be either developed in the property, or added to it that results in positive cash flow. His renovation costs, he says, are less than the costs he would incur to build a similar-sized, contemporary building on a fresh piece of ground. And they have unbeatable character.

Kinley's crews have tackled the old Flour Mill building in downtown Ypsilanti this summer. Originally built in about 1888, they are gutting and renovating the structure so that a portion of it can be delivered later this year to the Bank of Ann Arbor for its new Ypsilanti branch site. The Bank will occupy 3,000 square feet, overlooking the Huron River. The remaining 3,000 square feet of grade level space will be leased to another commercial tenant. Loft apartments with vaulted ceilings will also be created in 4,500 square feet upstairs, giving Ypsilanti an upscale tier of downtown residential stock.

### Apartments at Ypsilanti High

Driving down Cross Street in Ypsilanti, it is hard not to be struck by the stately, restored brick and limestone facade of Ypsilanti High School. Detroit-based American Community Developers, which has done similar projects in other parts of Michigan, purchased the three-story, 160,000 square foot building and is developing it into 100 apart-

Habra, president, is moving his staff into the new quarters this month.

### Michigan, Federal Tax Credits

Favorable tax treatment for commercial historic properties is an extra plum for developers and owners. Though it is a complicated and protracted



Phoenix Contractors are in the process of renovating the Main Street restaurant building (photo above) in downtown Ypsilanti for a Bank of Ann Arbor Ypsilanti branch.

The building was originally the Ypsilanti Flour Mill (Photo at left courtesy of the Bentley Historical Library.)

ments. Leasing activity is reported to be surprisingly brisk. Many of the landmark's classrooms will turn into apartments themselves, complete with the classic high ceilings and full-height windows. The facility last served as a high school in 1973. Architect Elisabeth Knibbe, whose Ypsilanti firm has been involved with the project, regretfully notes that the terrazzo floors were beyond repair, but that three vestibule lobbies remain to add character. The school's gym and auditorium have been razed to create a garden courtyard.

### Condominiums at the Armory

Veteran developer Ed Shaffran corralled another long-vacant building in downtown Ann Arbor—the Armory, which was built in 1911. After waging a protracted battle with City Hall for his approvals, he built out thirteen luxury condominiums, which were first occupied in 1998. Shaffran also sought to develop residential units in Goodrich Theater's Ann Arbor Theater building on Fifth Avenue, which he acquired last year. His architects submitted a seven-story concept, but it proved too expensive to build, despite the demand in the marketplace. In the end, Shaffran set his sights on office use. He has completed construction/renovation of a two-story, 12,500 square foot office building and leased it to a company that designs web pages for Fortune 500 companies: WebElite. Jacques

application process, properties on the National Register of Historic Places are entitled to a 20 percent federal tax credit on their rehabilitation costs. Last year Michigan also enacted an historic tax credit of up to 25 percent on Michigan tax returns—though a total of no more than 25 percent of the rehabilitation costs (state and federal) may be taken by the developer. The Preservation Tax Credits program is administered at the State Historic Preservation Office in Lansing by Bryan Lejewski (517) 373-1631.



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Business-To-Business is always searching for commercial real estate news. What firms are moving in (or out) and where. If you have information or tips on commercial real estate activity please call Jim Taylor, Editor, 769-0939, or Bill Milliken at 480-4000