

TRANSFORMING A HISTORIC BUILDING INTO A FULLY-FUNCTIONING MODERN FACILITY REQUIRES MUCH MORE EFFORT AND CAPITAL THAN CONSTRUCTION FROM SCRATCH – AND YET THERE IS NO SHORTAGE OF INTERESTED PARTIES WHEN IT COMES TO REVITALISED BUILDINGS. DEVELOPERS, TENANTS AND THE MANAGERS OF INVESTMENT FUNDS ARE QUEUING UP FOR EXCLUSIVE OFFICE PROJECTS CREATED OUT OF OLD OR DERELICT BUILDINGS

■ Tomasz Cudowski

They're in every city. Their bricked-up entrances, collapsed roofs and broken windows make them eyesores – a bane to the users of neighbouring buildings and the local authorities. But they can be given a second life by developers – if they come up with a plan to restore them to their former glory and if they can also make some money as part of the bargain. It tends, however, to be the case that they don't actually know until the end of the project if both goals can be achieved.

Old means problematic

A developer setting out to revitalise a tenement has to reconcile two seemingly mutually exclusive approaches: the preservation of the historic character of the property, while fulfilling the extensive requirements of tenants who generally expect a high degree of comfort in class 'A' offices as much as they do having an original façade and all the authentic details. "The renovation of a monumental building requires more capital than developing one of the same size from scratch," points out Michał Styś, the managing director of OPG Property Professionals. "Such projects also entails greater challenges and limitations, due to their legal status as historic buildings. The most important issues can be divided into legal and banking risks and architectural and construction risks. First of all, the monuments preservation department could add the building to the list of registered monuments at virtually any stage of the project, which would significantly complicate the project. The second issue is that there is always the risk that the consent for the project in the form desired will be withheld. And thirdly, during the work there is always the danger of unforeseen costs resulting from the condition of the building turning out to be much worse than the investor and developer had expected," he cautions.

According to architects, regardless of how long ago they were built, tenements were originally designed as living places for a relatively small group of people. But when the function of the building is changed, the number of users significantly increases, which means the different staircases, escape routes and fire protection facilities will need

to be added to the building. "If the building does not meet fire prevention standards and it is not possible to do so in a way that is economically feasible, the investor does have the option of obtaining an exemption decision based on an expert's fire safety report, which also has to be approved by the Chief of Provincial Fire Brigade," explains architect Damian Kaldonek, the owner of the Projarch studio. "It has to be remembered that in no way does this mean 'turning a blind eye' to the existing defects of the building. These still have to be compensated for with additional safety measures: such as a sprinkler system, a smoke removal system, internal hydrants and other measures for increasing the fire safety," he adds.

The ventilation system, which necessarily requires the use of wires with large cross-sections, making concealing them in the walls or under the floor very difficult, is a common problem in adapted tenement buildings. The architect has to create special technical areas for them. "Ventilation also needs other components with large dimensions, such as fans and devices for cooling and air recuperation. As well as the space needed, these are often less than ideal in terms of the acoustics or aesthetics," adds Damian Kaldonek. "It is difficult to install them in an aesthetic, functional and adequate way in a historic building. They usually require, to some extent, installation outside the building, which entails additional problems for the designer," emphasises the architect.

The lift shaft design is another significant challenge that has to be faced. Only a few tenements were originally equipped with lifts; but these days it is difficult to imagine even a small office building without a lift – it is not only a convenient form of internal transportation but also a matter of prestige to have them, as they reflect the status of the building.

Older – but not for everyone

In a revitalised building there are usually restrictions on how the tenant can arrange its space, since the more that is invested in the restoration of the building's historical fabric, the more restrictions there are going to be. The tenant needs to be informed from the very outset that they

PICTURE:

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Office & mixed-use development

will not have full licence to adapt the interiors any way they want to. And every adaptation activity in a listed building (or one located in an area covered by a conservation order) additionally has to receive the assent of the monuments protection office. This applies to both indoor and outdoor work (such as mounting an information board on the façade). "I think that we manage to combine modernity with history quite well, as exemplified by some of the rooms in the Le Palais building in Warsaw, which we have labelled the 'historic rooms,'" claims Jacek Brzozowski, the director of Triuva in Poland, with some pride. "For example, only standing lighting can be used in those rooms where antique stucco ceilings have been carefully restored. The installation cables have been hidden under the raised floors, which are covered with inlaid parquet perfectly matching the historic interiors. Smoke detectors have been installed in the rooms, as required by the fire regulations – but this is the only visible 21st century element," he adds.

In a renovated office building the relations between the tenants and between the tenants and the landlord are usually warmer and more collaborative. This is partly due to the fact that these buildings tend to be smaller than modern office buildings, so it is easier for the users to get to know each other. There also has to be a certain 'chemistry' between the owner and the user. "In small boutique office buildings, the relationships between owners and tenants tend to be built upon mutual understanding. Our cooperation with our contractors has been built on such a basis," agrees Jacek Brzozowski, who does not like the word 'tenant', preferring 'partner'. "We believe that the character of the premises requires a relationship of partners. One small but good example of such a common understanding over the value of historic buildings is given by our Warsaw building on ul. Miodowa in Warsaw: the Młodziejowski Palace. Two years ago, together with the tenant we unveiled a plaque stating that in December 1829 the young Fryderyk Chopin played a public concert in the hall on the first floor of the building," relates Jacek Brzozowski.

Due to their specificity, renovated tenements also attract specific types of tenants. These include

law firms and financial and insurance companies, as well as architectural studios, marketing agencies and the 'creative sector'. "A common feature of this kind of tenant profile is the need to accentuate the prestige or originality of the company in the eyes of its clients, contractors and potential employees," believes Michał Styś.

"These are companies that on the one hand expect there to be small, discreet rooms, while on the other they expect elegant, historic décor as the appropriate context for their operations," adds Jacek Brzozowski. "There will also be companies that are not looking for large areas – including those that prefer open space – and the specificity of their operations means that they don't need many parking spaces," explains the head of Triuva in Poland.

A boutique office building's most valuable quality is its prestige, so it's difficult to imagine that a shop with a large, garish neon sign could be opened on the ground floor of one. "A few months ago we were in advanced talks with a company that was determined to open a restaurant. However, the main reason the talks broke down was that they insisted on being able to display their logo on the façade – and we were firmly opposed to such loud and aggressive marketing," says Jacek Brzozowski.

Old, but valuable

Office tenements are a unique investment product that is often regarded as a tasty morsel by investment funds. So what exactly is the scale of their popularity on the investment market? "Such a facility usually ages better – both technically and in the perception of people – than a standard office building," argues Michał Styś. "When opting for this form of capital investment, investors usually accept lower rates of return in exchange for stable, longer term rental income. The success of the project depends to a large extent on the ability of the manager and on having a good design ready before the project goes ahead. If it's possible to minimise investment risks and limit their impact on the commercialisation phase, properties that are less vulnerable to adverse economic events – and that certainly stand out in the eyes of prestigious tenants – will always be attractive to investors."

Piotr Piasecki
head of CEE
corporate finance,
JLL



Old is beautiful

The growing popularity of exclusive office buildings as an investment product is a new trend, but one that is becoming more and more evident on the market.

The segment had been the preserve of smaller investors rather than institutional players, so it was difficult to estimate the proportion of such transactions in the total

volume. But from the investor's point of view, it is the profitability of the project – as reflected by the occupancy level of the office building and the value of the lease contracts signed – is the most crucial factor. So even the larger players are paying closer attention to smaller, more prestigious and unique properties – including revitalised tenements and historic former industrial buildings transformed into modern offices – attracted by the potential earnings. Larger tenants are

also finding themselves increasingly drawn to the idea of moving out of their glass towers into smaller buildings, in order to give their operations a more prestigious background. A smaller building might not offer so many amenities – such as large numbers of parking spaces, medical clinics, gyms or facilities for cyclists – but it is easier to lease the whole property or at least become its main tenant. And that can give the tenant a decisive influence on how the building is organised.

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The boutique office market is clearly in a process of expansion and democratisation. The revitalisation of tenement buildings is being carried out not only in the largest cities, but also in smaller ones where the tenants are usually local companies – and those that don't require luxurious interiors, but appreciate an intimate character and the 'soul' of a building, and thus do not want (or cannot have) their head office in a glass tower. This segment represents a chance for smaller investors, for whom the purchase and adaptation of tenements is often both a project and a capital investment 'in one'. "We have carried out several projects in which the owner reserved half of the building for their own residential or business needs, while the other half was designated for office tenants," reveals Damian Kałdonek. "Each of these historic residential properties can be adapted for commercial purposes; the only issue that needs some analysis is the profitability of such a venture. Investors tend not to give up when the costs of adapting a building make it impossible to achieve the projected profits. In my experience, in the case of a medium-sized historic office building the standard is a ten-year period of return on the investment. Eight years is a great result, but a twelve-year period is hitting the profitability limit," he adds.

Specialists agree that the management of revitalised properties requires the target group and the tenant-mix strategy to be accurately defined. Particular attention should be paid to the function of the real estate against the background of its location and on the local demand from the business sectors that could ensure the success of the facility. "Place-making, that is, defining the real estate profile, is good practice. One example of this is the law house we have created out of our Jaracza 47 Prestige building," claims Michał Styś.

Something old, something new

Sometimes luxury office buildings have an impact on their immediate neighbourhood; sometimes they can change the image of a street or even a whole neighbourhood. If even a single luxury project in a rundown street is carried out this can sometimes initiate the revitalisation of the entire frontage or quarter. "As an owner of renovated tenements, we distinguish between several types of such buildings," reveals Jacek Brzozowski of Triuva. "Buildings like Royal Trakt Offices have been part of the urban fabric for years and are

in perfect harmony with it. Others, an example of which might be Le Palais, are certainly city-forming projects whose appearance has had a positive impact on their immediate neighbourhood. In this case, the building was the catalyst for the revitalisation of the adjacent pl. Grzybowski. The project received a great deal of positive feedback, after which the entire square was later revived," explains Jacek Brzozowski. It is worth adding that thanks to the commitment to revitalisation of the local authorities and a private investor, all of ul. Prózna and pl. Grzybowski have been transformed from a neglected quarter, where it was better not to walk after dark, into one of Warsaw's showpieces. The square is now eagerly visited by city residents as well as tourists from around the world. The annual Singer's Jewish Culture Festival also takes place on the square. "They say that the term 'New Renaissance' has entered the contemporary architectural lexicon – and is often being used in reference to Polish cities. After years of domination by modernist and postmodern trends, the need for detail and classical forms has re-emerged. We already have this yearning, it just needs to be cultivated," insists Michał Styś of OPG Property Professionals. "Once again architecture has a chance to form part of the common identity of its users and, as a result, of contributing to the revitalisation of cities while also helping to give them a competitive edge," he envisions.

"A single tenement will probably not be able to work any miracles. If it does have any impact on the area, it will be an extremely long-term process and the effect will be very local," admits a slightly more sceptical Damian Kałdonek. "But a well developed project certainly has the potential to encourage others to take place. Our own history is relevant here – Projarch's studio is located in a renovated tenement. We are constantly changing the image of the building in which we work and using it for meeting investors – and we also invite guests and friends here. We are very familiar with the local residents and people doing business around our offices. Shortly after we moved in, we began to renovate neighbouring residential buildings and adapt some of them into offices. Some interesting shop windows also appeared. I have the impression that we all understand revitalisation in the same way in this local community: as an interdisciplinary activity intended to inform and encourage further changes. Revitalisation is a process that should never end," concludes the architect. ■