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# What to do with outdated office buildings: Renovate or charge less

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The offices at 145 E. Rich St. after renovation.

For years, the Yerke Mortgage Building at 145 E. Rich St. showed few signs of meaningful life. The historical building churned with short-term tenants. Its closed floor plan and florescent lights suited the cubicle farm environment of the 1980s and ’90s, but that style has been left behind in favor of open-concept, collaborative spaces with plenty of natural light.

New owner Michael Tomko considered renovating for residential – a not-uncommon solution – but ultimately decided to develop the building as new office spaces. He gutted it and built the kind of place that attracts today’s work force, keeping the historical features intact and prominent.

Now, the 18,000 square feet of office space is full.

“It has much different economics in the building now than what it used to attract,” said Kirk Smith, senior associate with CBRE Group Inc, which leases the building. “This is a case study for us of how to save an old building and convert it back to a relevant office building that appeals to a lot of companies. I think we’re going to see more of that.”

With Columbus’ healthy economy, there’s no shortage of tenants for office space downtown or in the suburbs. But owners and landlords of older class B and C buildings are facing a new reality: Their buildings are surpassed by newer spaces in chic locations with easy access to nice restaurants for lunch and happy hour.

Those owners have to invest in their properties or accept lower rental rates.

“The biggest challenge is just to keep the buildings relevant to the market based on technology, appearance, common areas, lobbies, restrooms, everything you can think of,” Smith said. “Every impression that is made on you when you walk into a building for the first time ultimately drives the demand for that building. Owners have to just continually reinvest in these items annually to stay relevant. It’s very competitive.”

**A client for every building**

Many challenges for older buildings revolve around floor plans, said Aaron Duncan, associate director of agency leasing in Jones Lang LaSalle’s Columbus office. Work spaces lay out more efficiently in newer 25,000- to 30,000-square-foot floor plates than in the smaller floor plates of the late 1980s and ’90s. Older column spacing and the location of elevator cores create some obsolescence, too. Add parking issues, “and you’ve got some really big challenges that are incredibly hard to overcome.”

If owners can’t invest in redeveloping the spaces, they can focus on clients that look for smaller spaces with fewer amenities and efficiencies, Duncan said. There are plenty of takers. Nonprofits, associations and startup companies – particularly those groups that don’t want to appear like they’re paying a lot for rent – find those older, more affordable spaces appealing.

The rate difference can be as much as $4 to $5 per square foot, said Andy Dutcher, vice president of the office brokerage group with NAI Ohio Equities.

“There is a different type of need for each company and different price points that are appealing based on their business model and their brand,” said Kym Lee, an associate with CBRE.

**Other options**

Some owners convert old offices into residences, but plenty, like Tomko, invest in creating hipper new office spaces. They’re installing LED lights, removing drop ceilings to create extra ceiling space and improving lobbies, hallways and common areas. When possible, they’re even changing roads, access and amenities around the office space. Some, like health care organizations, are trying to create communities of similar businesses.

Pleasing common areas attract tenants.

“The strong landlord groups in town are very good at this,” Smith said. “At making the common areas fresh and modern. At getting away from staid and dated looks.”

In some cases, it’s bigger outside owners who buy a foreclosed building at a discount and then sink the savings into renovations. That happened at 500 S. Front St., 250 Civic Center Drive, 2120-2240 City Gate Drive and Northwoods II at 8101 N. High St.

After Molina Healthcare left Northwoods II a few years ago, the tenants-in-common owners couldn’t find replacement occupants. The building went into foreclosure and eventually was bought by PNL Cos. out of Dallas, Texas, for just $35 a square foot. PNL infused cash into the building, redoing the parking lot, upgrading the common area bathrooms and lobby, and installing new LED lighting, a new roof and new HVAC, Dutcher said.

Six months later, nearly 60,000 square feet – out of an available 112,000 square feet – is leased.

“That’s the regeneration process a lot of these buildings have to go through to recruit new tenants,” Dutcher said. “It’s all about having a building in a good location and allowing it to go through that process. A lot of them do need to go into foreclosure, and they need to be bought at a price point where someone can not only pay broker’s commissions and tenant improvements on new deals, but can modernize the property so people want to go there.”

**A versus B**

Whichever strategy owners take, they’re finding tenants. Vacancies in class A properties are under 10 percent, while class B buildings are at about 14 percent, according to CRBE’s Smith.

“We’re seeing rental growth. And what landlords are able to charge the tenant, the tenants are paying,” he said.

“Generally speaking, there’s probably a bigger delta between class B and class A rents downtown,” said Collin Wheeler, a vice president with JLL. “The class A market has the highest rent but also has the highest occupancy. In the suburbs, there’s probably less of a delta between A and B, which supports the theory that a couple of bucks a foot is usually not enough to sway a decision for a lot of these companies that are more focused on amenities and overall experience and brand.”

For the future? Prepare to see more redevelopment of class B buildings from existing or new owners over the next couple of years, Duncan said.

“That’s going to continue to drive the delta between A and B experience in buildings and price,” he said. “The buildings that aren’t reinvesting and putting themselves in a position to be competitive are just going to continue to compete on price alone. I think you’re going to see some of these buildings change hands, and with that change of ownership group it establishes a new basis and breathes a new life into an asset, and you’ll see them become competitive again.”

*Dave Schafer is a freelance writer.*