

Recycling of buildings is one of the fastest-growing concepts in the United States. From Boston to New York to Chicago to San Francisco and points north and south, the conversion of older buildings to new uses (often with the assistance of municipal, state, and federal governments) has become an important center city phenomenon in the last quarter of the 20th century.

A recent study by the Urban Land Institute discloses substantial recycling or rehabilitation efforts underway in almost half of the nation's 260 cities with populations over 50,000. As a page one headline in the June 21 *Wall Street Journal* notes, "Movement to Restore Older Urban Housing Grows with U. S. Help."

Variety of Projects

The kinds of recycling that have been taking place have varied widely. In Seattle, a can factory was turned into a \$15 million trade center. In Akron, silos became a commercial center for businesses doing close to \$10 million a year. In Norfolk, warehouses were converted to a \$100 million complex of retail shops, townhouses and offices. In San Francisco, a city block that had consisted of a man-

ufacturing plant, a flour mill and a warehouse now houses two company headquarters, a showroom and offices. And in Boston, where a number of buildings are being converted to new uses, recycling is now "the only game in town," according to a July 11 article in *Business Week*.

Increasingly significant as recycling has become, however, the message has failed to reach the boardrooms of most of the nation's lending institutions. Stung by well-intentioned real estate loans earlier in the decade that later turned sour, lenders have shied away from extending mortgages on property. As a result, the slack has been largely taken up by either the United States Department of Housing and Urban Development (which is now actively taking steps to implement increased Congressional interest in community development), by Congress itself (which provided for accelerated depreciation for certain kinds of recycling under the Tax Reform Act of 1976), or by private investors seeking substantial profits.

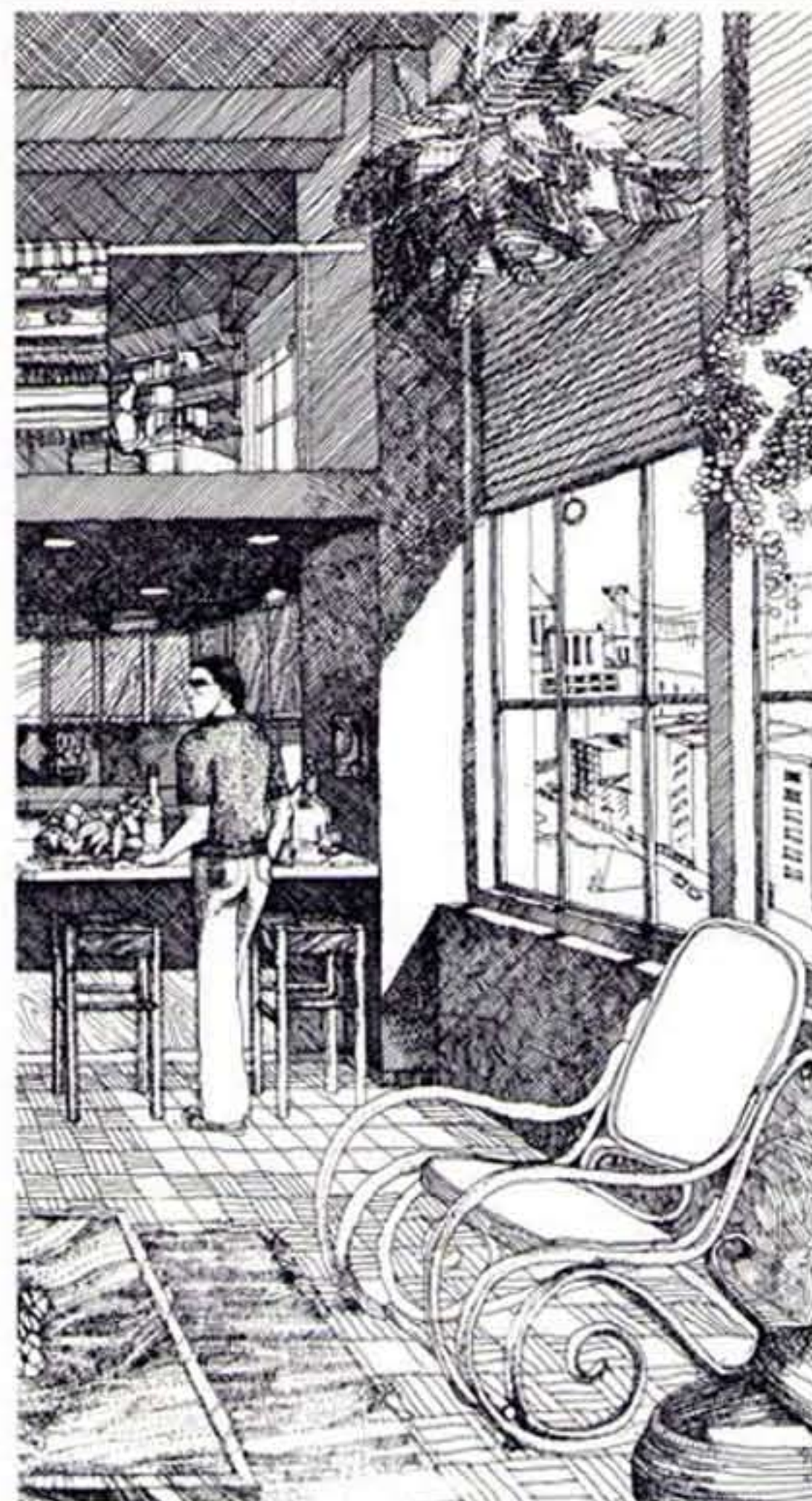
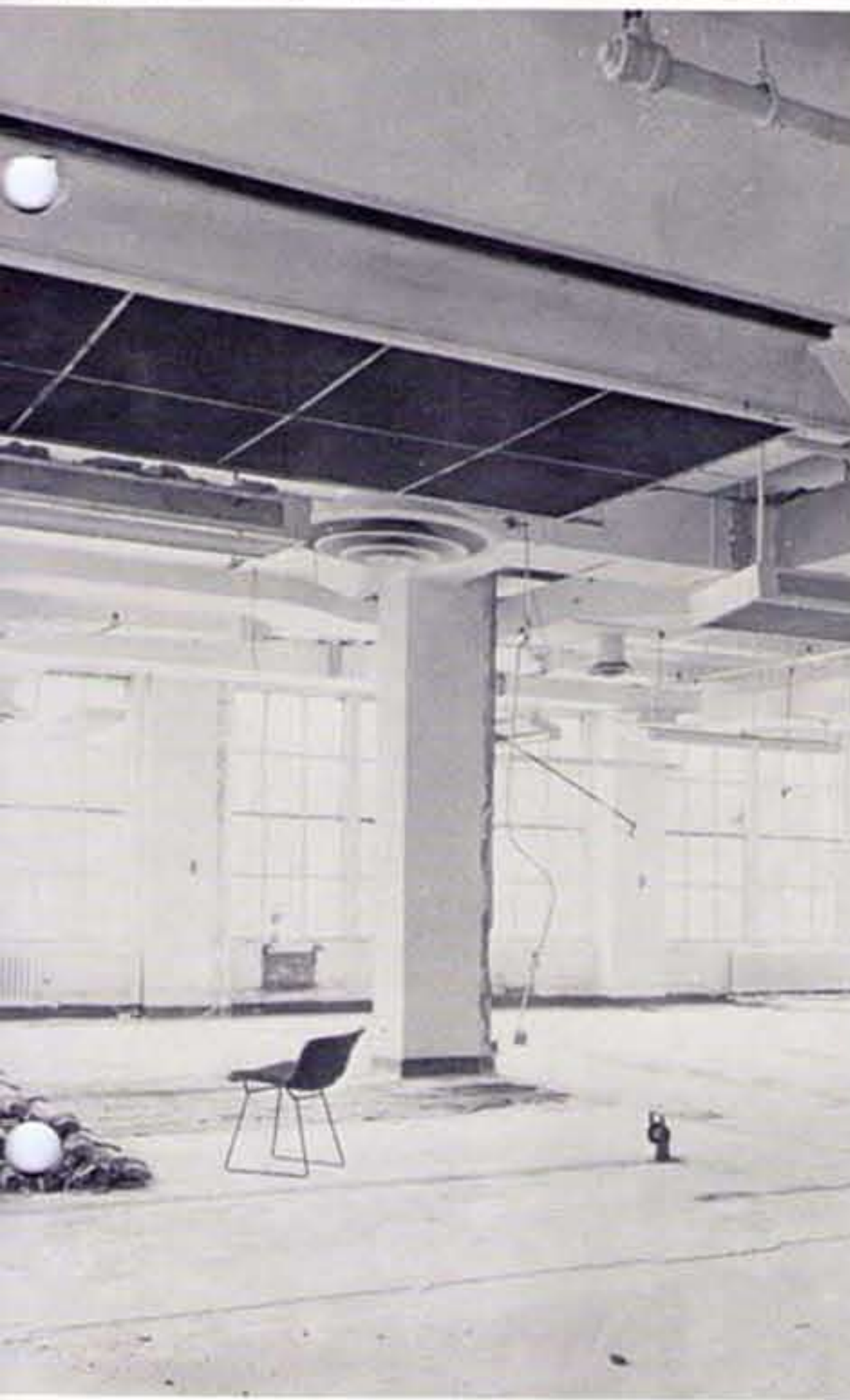
Personal Experiences

Six years ago I relocated to New York, the first city I had ever lived in

that had a visible history older than 50 years. As I walked through Manhattan's streets, I began to realize that, just as Planned Unit Developments (P.U.D.'s) were preserving one natural resource (land), so recycling older buildings would preserve another important resource—history.

There are countless properties throughout the United States that seem doomed to the wrecker's ball, and no doubt physical shortcomings or market conditions prevent most of them from being converted to better use. In many cases, however, a little thought and imagination can help turn those buildings into logical sites for expanding residential communities and for keeping alive part of our American past.

My first chance to apply these principles came with 31 Union Square West, a fine old office building that was suffering in New York's glutted office market. The property seemed ripe for conversion into apartments, and after thorough analysis and consultation with a variety of real estate experts I decided to assemble and package it as a recycled building for sale to another investor. The result was the profitable packaging and sale of



Renovation process set in motion.

Artist's concept of remodeled interior.

one of the largest such conversions ever undertaken in New York City, up until that time. Next, with the restoration of the world-famous Barbizon Hotel for Women in Manhattan, the concept of recycling was on its way.

My latest restoration in New York is 111 Fourth Avenue, a 56-year old, 13-story office building in Manhattan's Greenwich Village.

Problem: Finding Financing

Obtaining the financing for the project was another matter, however. Six and one-half million dollars were needed to recycle 111 Fourth Avenue into a 180-unit apartment building. Total resistance was received from American lenders. Their objections were several. Most of the lenders said

Profit Potential

Even so, however, they would not have been willing to invest their money unless a profit could be reasonably predicted. In that connection a number of important points were made:

- The cost and time involved in converting older buildings is considerably less than that of new construction. Converting a loft to an apartment typically costs about \$30 per square foot, compared to \$45 for new construction. In terms of time, it takes half as long. Another factor inhibiting new construction has been the soaring cost of land acquisition and preparation.

- By contrast, recycling is particularly rewarding because of the made-to-order infrastructure; especially in developed areas, there already exist sewers, water, electric, systems of transportation, police, fire protection, schools, parks, etc.

- By making full use of existing energy systems there is a very real cost advantage in older buildings, as compared to the newer structures erected during the less energy-conscious 50s, 60s and early 70s.

- Entire neighborhoods—such as Washington's Georgetown, Boston's Beacon Hill, Chicago's Lincoln Park, and several in New York—have been revitalized because property owners have been willing to invest energy and money in them. The resultant strengthening of the communities' heritage and tax rolls, continuity and preservation of their best traditions, and upgrading of their resident populations, have done wonders for neighborhood property values and economic investments.

- The high ceilings, large windows, attractive architectural detail and other qualities missing in today's new buildings greatly enhance the appeal and marketability of recycled properties. Apartment dwellers with a taste for such refinements are often astounded to find them at all anymore, much less in newly restored buildings.
- In New York, the severe shortage of good housing and glut of office

they preferred new construction to conversions. Some were unsure of the project's marketability, doubting that people would want to live in what a short time ago was an office building. Then, too, questions were encountered about New York City's fiscal condition. And, finally, the lenders were wary of the local law under which the projects would be proceeding.

Forced to look abroad for the money, the results were pleasantly surprising. By approaching individual investors in Europe, \$20 million in all was raised with the understanding that the money would be earmarked specifically for the kind of recycling projects that had captured my imagination for some years now.

The sharp contrast between the

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space (which has been typical of many American cities) makes conversion of offices to apartments classical economic good sense. Too, the new Emergency Financial Control Board has taken tough steps to straighten out New York City's finances, while the local law that encourages conversions (known as Section J-51) is being streamlined.

Europeans Receptive

For all these reasons, European in-

vestors and the American lenders stemmed from several factors. In Europe, buildings are rarely cannibalized; on the contrary, there is a long tradition of preserving and converting buildings that have temporarily outlived their usefulness, as opposed to simply tearing them down. The Old World mentality appreciates the advantages of so-called "adaptive use."

Besides the Europeans' healthy respect for saving and converting fine old buildings, there were other reasons that they were receptive to investing in the conversions. One was the growing desire of foreign investors generally to put their money into the United States, given inflation, political uncertainty and limited investment opportunities at home.

vestors were convinced they may reasonably expect a handsome profit over a relatively short period of time. After being assured of the necessary zoning changes and rights of possession, they extended the \$20 million line of credit. The building opened this month and my family and I were the first tenants. I consider the project a complete success.

The prospects for future projects has been heartened by the availability of financing and by the spreading endorsement of recycling across the country. Recycling will become an even stronger force for progress in the years ahead in the United States. Where the economics encourages it, and municipal authorities are sympathetic, the benefits can be great, both socially and monetarily. ■

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