



WHAT'S OLD IS NEW AGAIN
Why Adaptive Reuse? Why Now?

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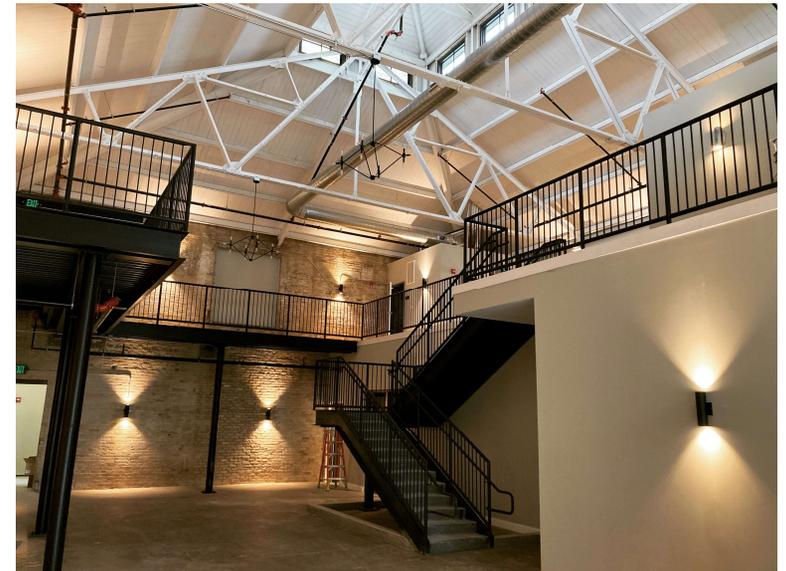


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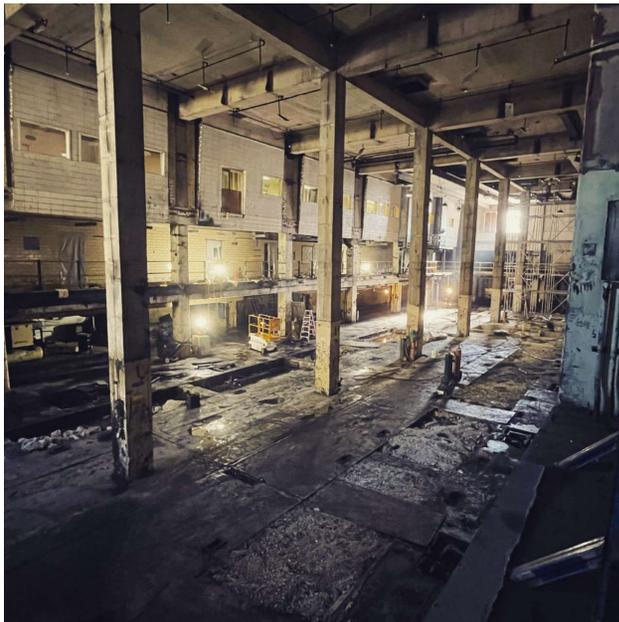
Adaptive Reuse – Why it Happens

- Life Cycle of a Building – Buildings Have an “Expiration Date”



Adaptive Reuse – Why it Happens

- Original Design Use Becomes Obsolete – Good Buildings Need New Uses



Adaptive Reuse – Why Not Just Tear Buildings Down?

- Reuse is better for the environment.
- Reuse fosters placemaking efforts.
- Reuse offers opportunities for “irreplaceable” design features.



Jim Brandenburg, CPA, MST
Tax Partner
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Adaptive Reuse – Tax Considerations

Prepare budget of planned project costs

- Identify total costs and expected revenue from project
- Determine financing needs: bank, outside investors, self-funded, etc.
- Identify what must be provided to lender: budgets, forecasts, financial statements
- Create separate entity for project or include as part of existing structure
- Evaluate any special incentives from state or local programs (e.g., utilities, etc.)
- Analyze any available tax incentives for project



Adaptive Reuse – Tax Considerations

Depreciation – Period over which project costs are expensed (or “written off”) for tax purposes

- Real estate generally subject to longer depreciation life of 39 years for commercial property and 27 years for residential property
- Bonus depreciation allows personal property to be depreciated all in one year (100%)
- Special provision recently added by tax reform in 2017 (Tax Cuts and Jobs Act), known as **“Qualified Improvement Property”** or **“QIP”**



Adaptive Reuse – Tax Considerations

QIP could have application to adaptive reuse projects

- QIP eligible for 100% bonus depreciation, not 39-year depreciation
- QIP applies to additions in **2018 and after**. Could apply to **many adaptive reuse projects**
- **Key requirements of QIP:**
 - ✓ Any improvement to an **interior portion of a building** which is **non-residential real property** if such improvement is **placed in service after date the building was first placed in service**
 - ✓ **Does not apply** to expenditures attributable to certain improvements:
 - A. the **enlargement** of the building;
 - B. **any elevator or escalator**; and
 - C. the **internal structural framework** of the building
- QIP can also apply to interior common areas
- Building in which QIP carried out can be occupied by owner. No longer rule to wait three years before QIP begins



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- Another item to consider is the Rehabilitation Credit (or Historic Preservation Credit). This is a **significant tax credit** available for certain renovations or restoration projects
- Many specific requirements and details to follow in order to secure these credits, but might be worth the effort
- Taxpayers owning an interest in a building directly (or through a pass-through entity), or that are lessees of the building in certain cases, are entitled to the rehabilitation credit
- Rehabilitation credit is first allowed in year **“qualified rehabilitated building”** is placed in service if all requirements are met. Amount of rehabilitation credit is determined in the year building is placed in service
- **Credit is 20 percent** of the **“qualified rehabilitation expenditures”** for a **“qualified rehabilitated building”**
- This 20 percent rehabilitation credit is **spread over five-year period** in year building placed in service



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- A **“qualified rehabilitated building”** includes any building (and its structural components) if:
 - ✓ The building has been **“substantially rehabilitated;”**
 - ✓ The building was placed in service as a "building" **before rehabilitation begins;**
 - ✓ The building is a **certified historic structure; and**
 - ✓ Depreciation (or amortization in lieu of depreciation) is allowable with respect to the building



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- A building considered “**substantially rehabilitated**” if, during the **24-month measuring period** that is selected by the taxpayer and that ends within the taxable year, the qualified rehabilitation expenditures **exceed the greater of:**
 - ✓ Adjusted basis (cost less depreciation claimed) of the building and its structural components; or
 - ✓ \$5,000
 - ✓ 60-month measuring period can be substituted for 24-month measuring period if requirements met
- A **certified historic structure** is a building that is:
 1. **listed in the National Register of Historic Places;** or
 2. a building that is **located within a Registered Historic District** and certified by the National Park Service as **contributing to the historic significance of the district**



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- To be treated as a qualified rehabilitation expenditure, the rehabilitation must be a “certified rehabilitation”
- A “**certified rehabilitation**” means any rehabilitation of a **certified historic structure** which the National Park Service has certified to the IRS as **being consistent with the historic character of such property or the district in which such property is located**
- **Certification Process:** Owner/developer submits final certification request to the National Park Service on **Form 10-168, Part 3**. National Park Service reviews Form 10-168, Part 3
- Final approval occurs when the National Park Services certifies that the completed rehabilitation meets the **Secretary of the Interior’s Standards for Rehabilitation and is consistent with the historic character of the property and the district in which it is located**
- **Important to follow all steps in certification process.** Work with Department of Interior and National Park Service
- The actual rehabilitation credit is claimed on **IRS Form 3468**



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- **Qualified Rehabilitation Expenditure** is defined as:
 - Any amount properly chargeable to a capital account;
 - Incurred by the taxpayer (owner or developer);
 - For property for which depreciation is allowable as:
 - ✓ non-residential real property;
 - ✓ residential real property;
 - ✓ real property which has a class life of more than 12.5 years; or
 - ✓ an addition or improvement to the property describe above, and
 - Made in connection with the rehabilitation of a **qualified rehabilitated building**



Adaptive Reuse – Tax Considerations

Rehabilitation Tax Credit

- The term “Qualified Rehabilitation Expenditures” **does not** include:
 - ✓ Any expenditure the taxpayer claims accelerated depreciation (not straight-line depreciation);
 - ✓ The cost of acquiring any building;
 - ✓ Any expenditure attributable to the enlargement of an existing building;
 - ✓ Any expenditure attributable to the rehabilitation of a qualified rehabilitated building unless the rehabilitation is a certified rehabilitation;
 - ✓ In general, any expenditure allocable to the portion of property, which is tax-exempt use property;
 - ✓ Any expenditure of a lessee, if on the date the rehabilitation is completed, the remaining term of the lease is less than the depreciation recovery period
 - ✓ Also, covers expenditures for work performed to the building facilities, such as sidewalks, parking lots, and landscaping



Adaptive Reuse – Tax Considerations

American Families Plan (AFP)

- “Family Infrastructure.” Proposed spending plan for individuals and families. Separate from physical infrastructure proposal in “American Jobs Plan” of ~ \$1.7 trillion paid for with tax hikes on businesses. AFP paid for with additional individual income taxes of ~ \$1.6 trillion
- Individual tax items **included** in AFP:
 - ✓ Higher individual tax rates. Undo some TCJA tax reductions
 - ✓ Higher tax on capital gains and dividends
 - ✓ No step-up in basis at death for appreciated property
 - ✓ Like-kind exchanges limited
 - ✓ Large loss limitation made permanent
 - ✓ Apply 3.8% NIIT tax on all income over \$400,000. Remove exception available now for those involved in the business
 - ✓ Additional resources for IRS enforcement (audits) and compliance



Adaptive Reuse – Tax Considerations

American Families Plan (AFP)

- **Like-kind exchanges limited**
- Under current law, real property can be exchanged without recognizing gain if certain rules met. No longer available for personal property after 2018
- Replacement property must be:
 1. **Identified** ≤ 45 days after disposal of relinquished property; **and**
 2. **Acquired** generally within ≤ 180 days after disposal of relinquished property
- Gain is “deferred,” not permanently excluded, by substituting basis of disposed property to replacement property
- AFP would limit like-kind exchanges to aggregate of **\$500,000 (\$1,000,000** for married couples filing joint tax return) per year. Gains above these threshold would be taxable. Unsure of details
- Proposed effective date >>> like-kind exchanges completed **after December 31, 2021**
- Possible impact of this change on real estate industry and adaptive reuse projects



Adaptive Reuse – Tax Considerations

Other Possible Financing Options for Adaptive Reuse Projects:

- Opportunity Zones
- New Markets Tax Credits
- State Programs



Adaptive Reuse: Legal Considerations

Joshua B. Levy
Partner
Husch Blackwell



Owner's Primary Concerns

- **Pro's:** Location – **Con's:** Adjacent properties – **Action:** Survey existing conditions and monitor during project
 - Owner shall furnish surveys describing physical characteristics, legal limitations and utility locations for the site of the Project. The surveys and legal information shall include, grades and lines of streets, alleys, pavements and adjoining property and structures.



Owner's Primary Concerns (cont.)

- **Pro's:** Character – **Con's:** Surprises – **Action:** Managing contingency in contracts and beyond
 - In preparing the Construction Manager's Guaranteed Maximum Price proposal, the Construction Manager shall include its contingency for the Construction Manager's use to cover those costs considered reimbursable as the Cost of the Work but not included in a Change Order.



A/E Primary Concerns

- **Pro's:** Opportunity for creativity – **Con's:** Structural uncertainty – **Action:** Budgeting early and often with reliable Construction Manager
 - The Owner and Architect may rely on the Initial Information. Both parties, however, recognize that the Initial Information may materially change and, in that event, the Owner and the Architect shall appropriately adjust the Architect's services, schedule for the Architect's services, and the Architect's compensation. The Owner shall adjust the Owner's budget for the Cost of the Work and the Owner's anticipated design and construction milestones, as necessary, to accommodate material changes in the Initial Information.



Contractor's Concerns

- **Pro's: Work! – Con's:** Pricing and scheduling – **Action:** Managing contingency, scheduling by team, frequent and accurate communication
 - The Construction Manager shall regularly review the Drawings and Specifications in progress and make recommendations whenever design details adversely affect constructability, cost, or schedules. Construction Manager shall advise Owner and Architect of any conflicts, inconsistencies or discrepancies of which Construction Manager has knowledge of within or among the such documents.



Promoting Diversity

- To enhance community involvement: Residency preference programs
- To enhance diversity: Bid list development, procurement goals
 - Diversity. Company acknowledges Owner's commitment to diversity, both for its own workforce, and within its supplier base. Owner's Supplier Diversity Program seeks to increase opportunities for small and diverse businesses (businesses owned by historically underutilized groups, such as women, minorities, veterans, persons with disabilities, persons representing a variety of sexual orientation or identity and others) to participate in Owner's project. Company agrees to seek out and provide commercially reasonable opportunities for small and diverse businesses as described above to participate in the project. In addition, Company agrees to provide information concerning its workforce diversity efforts to Owner upon request.



Adaptive Reuse: Design Considerations

Eric Harrmann
Chief Design Officer
AG Architecture



Adaptive Reuse

- Adaptive reuse is the process of taking an old building or site and reusing it for a purpose other than what it was originally intended to house.
- While adaptive reuse typically involves historic renovations, it is not limited to historically significant buildings.
- Adaptive reuse provides a sustainable method for reducing the impacts of development.
- Reuse will often revitalize a district or neighborhood by drawing interest to adjacent properties.
- The process of reusing an existing structure can provide many benefits:
 - Retaining of an existing structure
 - Potential for interior finishes to be salvaged, reused or repurposed within the design concept
 - Reduction in demolition waste



Steps in the Process

Master Planning

- Examining the Site History
 - Historic elements that remain
 - Historic elements to recreate
- Understanding the Existing Conditions
 - What is the current condition of the existing buildings (Building Assessments)
 - Site elements and neighborhood impact
 - How can the building form create a future function
- Developing the Program and Shaping the Vision
 - Stakeholder engagement
 - Sustainability Opportunities (LEED)
- Presenting the Vision

Design Development

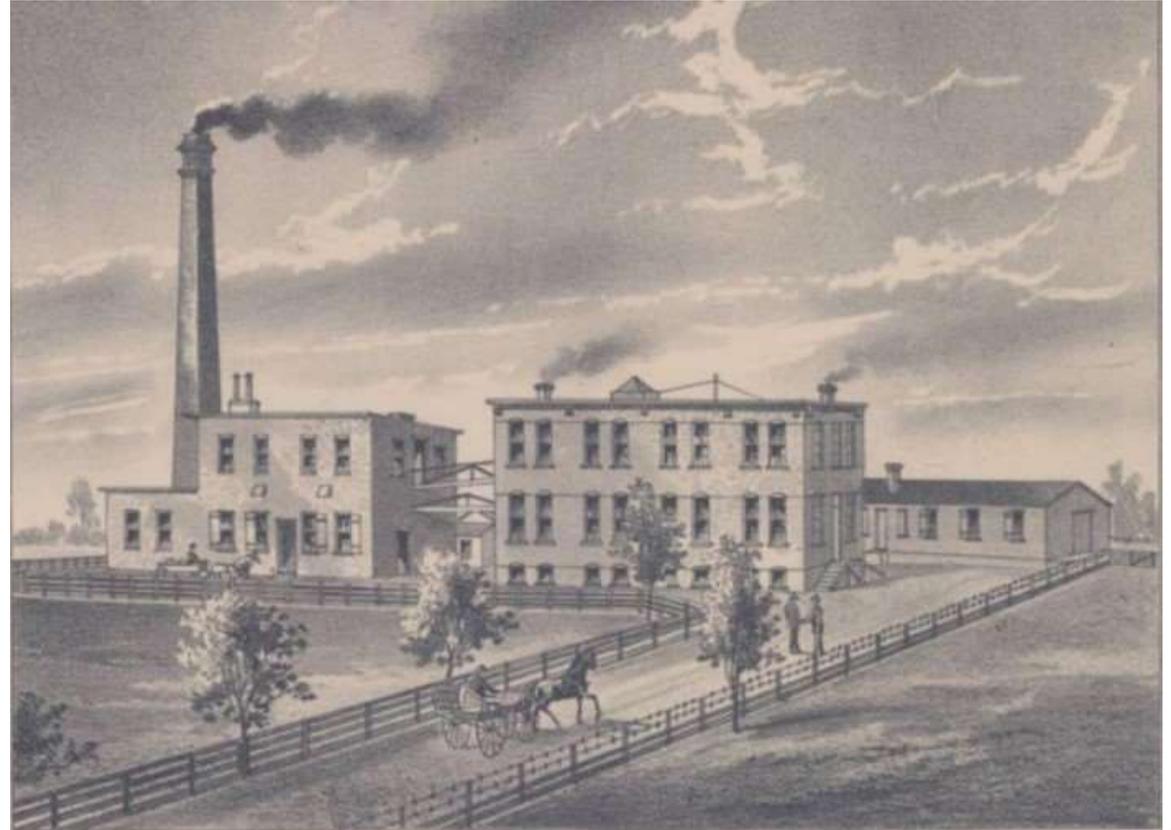
Construction



History of the Site



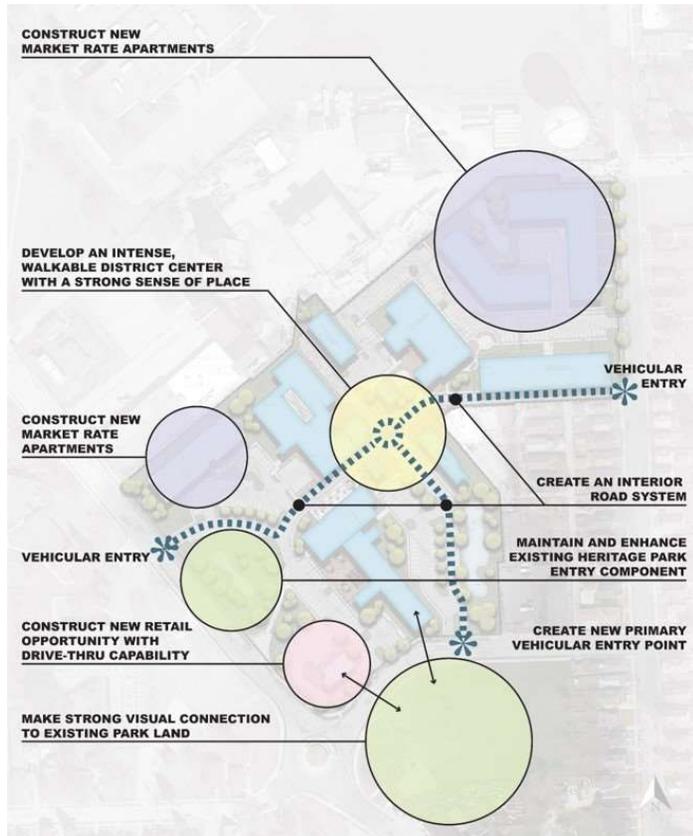
As the above photograph shows, the Horlick plant and laboratories are ideally situated in the country, where fresh air and sunlight abound.



Understanding the Existing Conditions



Shaping the Vision



Master Planning Concepts

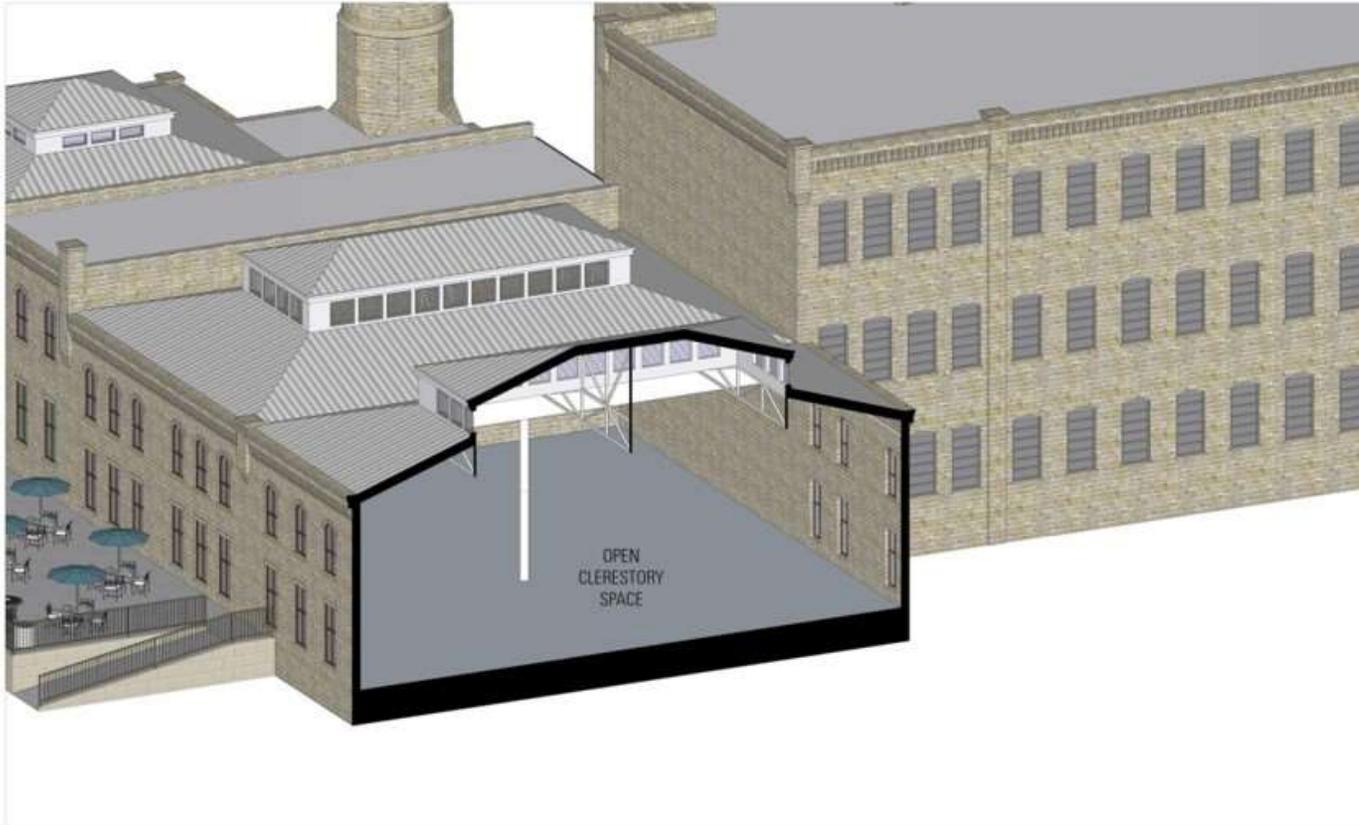
- Design Principles for Adaptive Reuse
- Development of on-site amenities
- Strategic steps for phased development



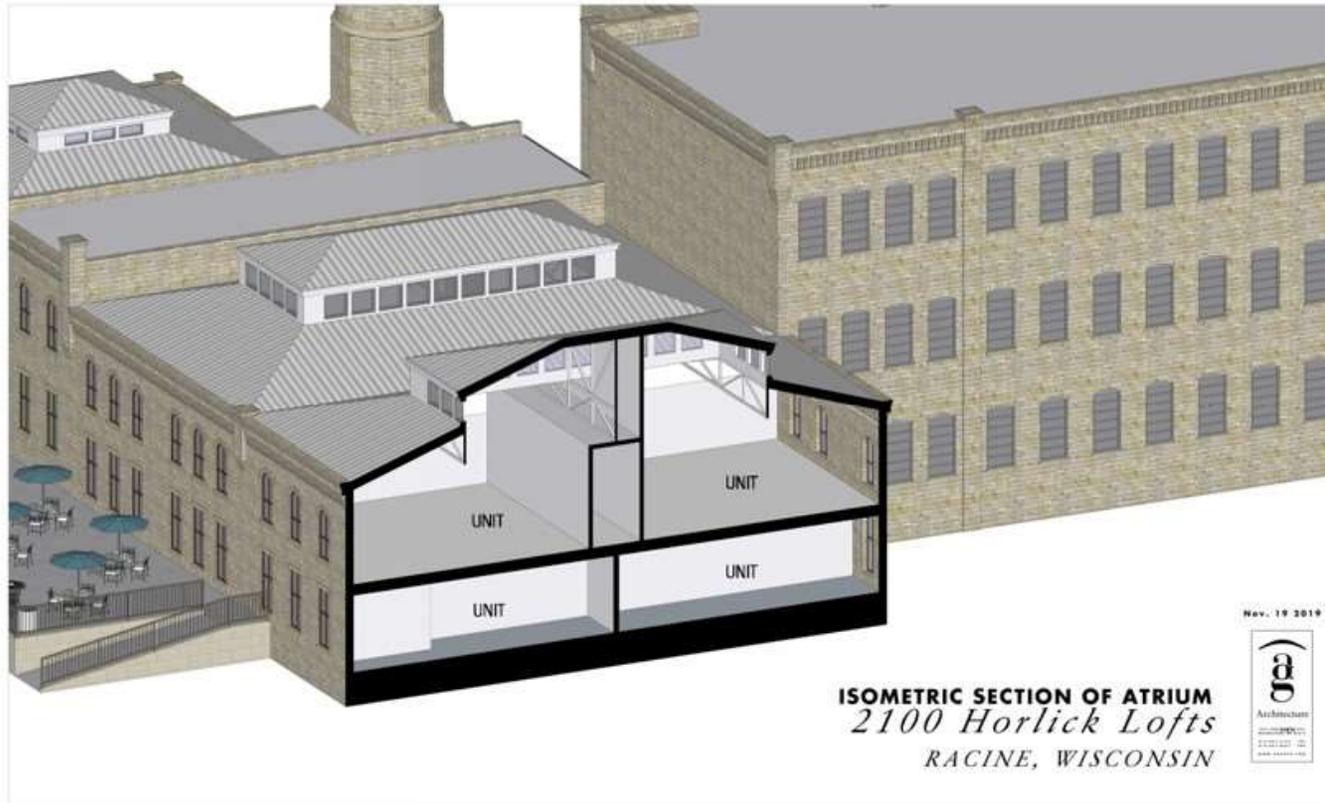
Presenting the Vision



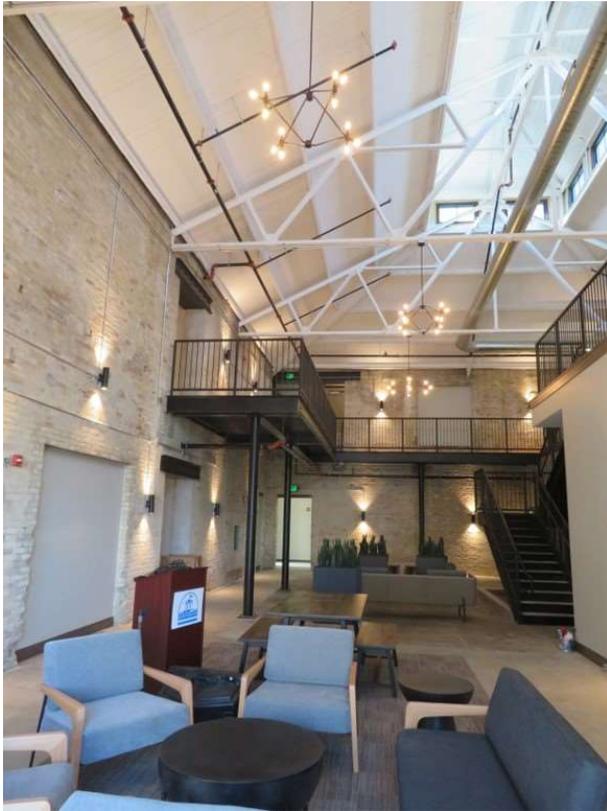
Design Development and Construction



Design Development and Construction



Design Development and Construction



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Adaptive Reuse from a Contractor's Perspective

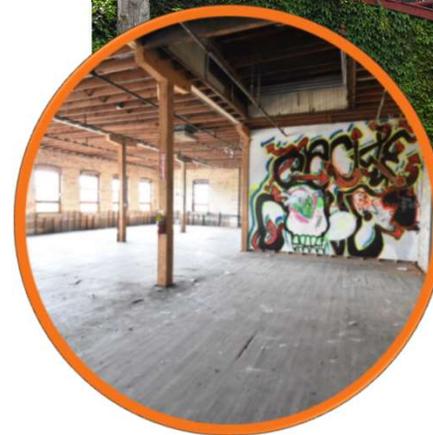
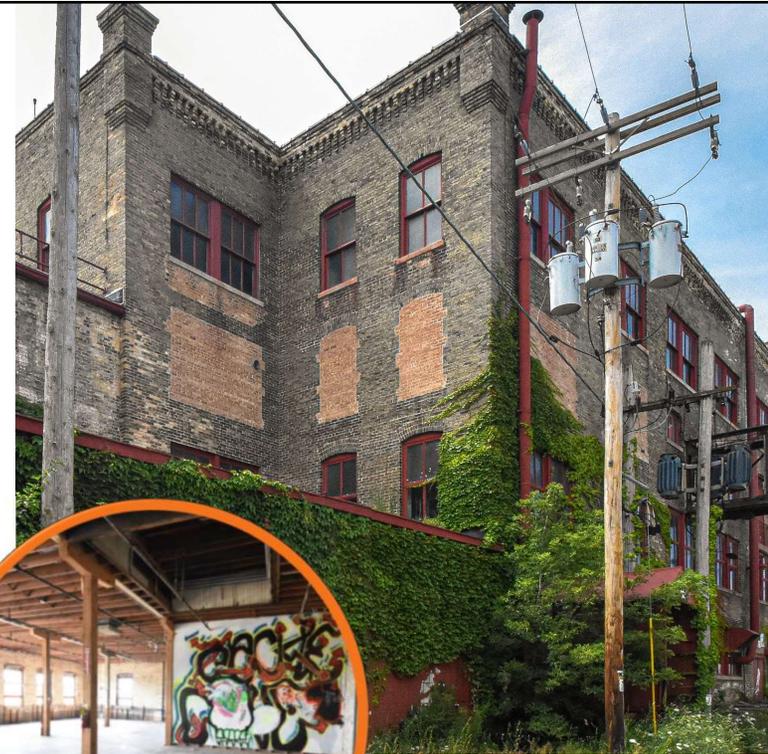


Clock Shadow Building



Horlick District Redevelopment Project

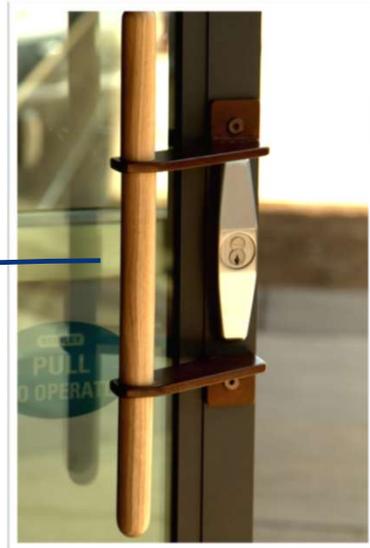
- Architectural and construction partner that embraced Josh Jeffers vision
- Capitalized on economies of scale with future phases
- Identified ways to utilize existing building materials
- Commitment to keeping materials out of landfills
- CGS Workforce Development Plan
 - Putting the local workforce to work, exceeding 20% RPP (residents preference program) goals
 - Diversity and inclusion – participation goal of 25% for under-represented workers on all projects
 - Commitment to union contractors



Reusing Old Materials

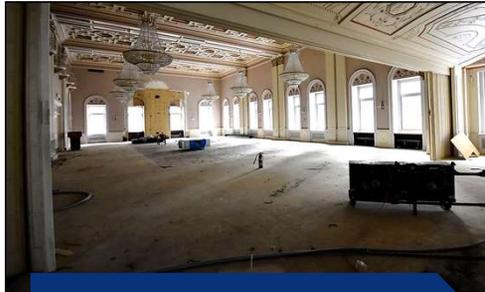
- Reusing materials is great for cost-saving as well as sustainability

Door handles at Clock Shadow were made from repurposed materials.



Brick from the Horlick District project was used as the backdrop for our reception desk.

Commitment to Repurposing Old Buildings



UW-Madison Carson Gulley

Milwaukee Athletic Club

Journal Square

CG Schmidt Madison Office



Q&A



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