

LET'S TALK BUSINESS

Ideas for Expanding Retail and Services in Your Community

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Downtown Upper Floor Utilization

by

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In many downtowns, a large amount of upper floor space is vacant or used for storage. This space offers a hidden opportunity to owners interested in generating additional revenue and increasing the value of their property. From a community perspective, increased utilization of these buildings can make downtown a more attractive and active place. Upper floor utilization can improve downtown as a place to live, work and shop.

However, the feasibility of reusing upper floors must be carefully analyzed. Renovations rarely result in sudden and significant profit. The rehabilitation costs are often large and the market acceptance of the space is usually uncertain. This article summarizes the common rehabilitated uses of upper floors and provides guidelines on assessing project feasibility.

Housing

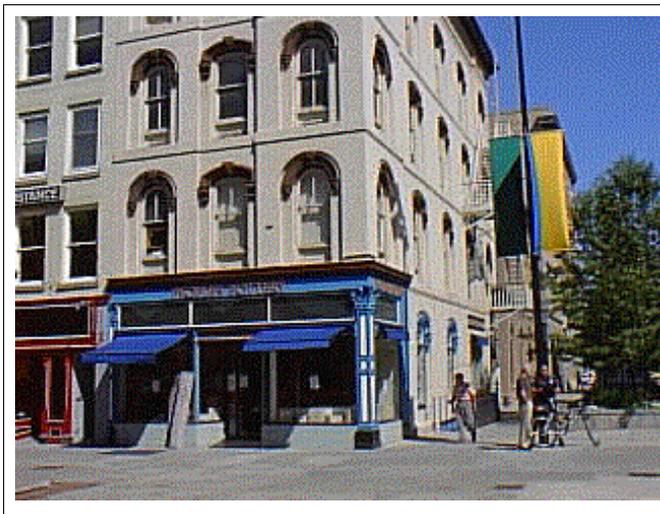
Housing has always been a common use for upper floors, either as rentals or owner occupied units. Years ago, many shop owners lived in units above their stores. Today, the most frequently cited use for downtown upper floors is housing. Rental housing is often hard to find in small communities and can offer a modest but solid return on investment. From a downtown business perspective, housing is desirable because residents can be a built-in market.

One of the strategies for marketing upper-floor housing is the convenience of downtown living. Downtown senior housing is a growing market as accessibility to services and activities downtown is valued by older residents. Young professionals are another potential market, especially in communities that offer activities and vitality downtown. Affordable housing, including housing for college students, is another market.

The biggest concern with housing appears to be the lack of available parking for residents. Merchants object to residents taking up valuable parking spaces in front of their stores. Other drawbacks include long flights of stairs, no windows in the middle of the space (if mid-block), a lack of privacy and noisy traffic patterns. Because people reside in these spaces, fire inspectors are especially sensitive to fire separation codes and egress. Many zoning laws prohibit or discourage downtown residential use. These deficiencies need to be addressed through creative planning.

Office Space

Historically, upper floors have been used for office and service oriented businesses. Unfortunately, with the decline of downtown retail, many of these offices have moved to the street level or out to the edge of town. Today, many downtowns are strengthening their niche in business and personal services. Downtown upper floors have been renovated to provide space for diverse service providers such as insurance agents, massage therapists, acupuncturists, and hair salons.



Retail

Retail is often a difficult use for upper floors of buildings. Downtowns have enough difficulty retaining retail stores on the street level. With the exception of stores in large cities, most retail will simply not survive upstairs. There are certain small town exceptions including antique stores/malls and furniture stores. Simply Country in Viroqua has utilized the upper floor space above their furniture store as a showroom for beds and other larger pieces of furniture. Pictures of the upstairs items are available to shoppers on the main floor precluding their having to access the upper floors in order to shop for these bigger items. A furniture store in Spooner uses a lower level in the same manner, storing mattresses and boxsprings.

Function Space

Many communities still have the facilities for their Masonic, Odd Fellows or other organizations located upstairs. Opera houses and live theater are other former uses of space that now, for the most part, are left underutilized. In Sheboygan Falls, a restaurant is using their upper floor as a banquet hall. In Dodgeville, an old opera house provides an upper level meeting space for the community. Reusing upper floors for public assembly is often very complex and expensive given the added safety and structural costs.

Other Uses

Downtown upper floors have become classrooms for artists in Spooner and Viroqua where instruction is provided in sculpting, weaving, felting, and use of natural dyes. Upper floors can be used as exhibition galleries and rental studio space. Some downtown space can be used as business incubator centers. Wisconsin Department of Development grants are available for both the planning of and conversion to incubators. Some health clubs have expanded their facilities like weight rooms to the upstairs. Storage is still a common but marginal use.

Feasibility Considerations

When reusing an upper floor, it is important to determine how conducive the space is to a new use. It is expensive to move drain and waste stacks, replace stairways, and change load-bearing walls. Light and air ventilation, sprinkler systems (or capacity for it) and fire detection systems need to be evaluated. Floor capacity, egress (and stairways), asbestos, lead paint and prior industrial uses need to be examined. Zoning (including parking), building safety, accessibility (ADA) and other codes and guidelines need to be fully understood.

Upper Floor Renovation Programs

The Janesville (Wisconsin) Downtown Council developed an upper floor renovation program to assist property owners in their central business district. They developed a guidebook addressing various renovation requirements and guidelines including codes, building permits, change of occupancy, inspections and ADA. The guidebook describes tax credit and financial assistance programs to help make renovations feasible. Standards for historic preservation are also spelled out. Finally, sample projects and their pro formas are included to demonstrate how these projects look on paper.

The Holland (Michigan) Main Street program offers various incentive and assistance programs including design assistance, low-interest loans and a Community Development Block Grant cash rebate program to help meet current buildings codes.

Generally, an upper floor renovation should be more cost effective than new construction. Research in Illinois communities (1995) indicate that residential and commercial conversions range from \$20 to \$50 per square foot. However, in many cases, there are serious problems with a building such as a deteriorating roof or extensive exterior deficiencies. Many of modifications to buildings during the 1950's and 60's resulted in boarded up windows, removal of stairways, and other changes that are costly to fix. Accordingly, the expected return from the rehabilitation cannot be expected to cover the entire project. The building must be evaluated as an entire unit, and not one floor.

Market supply and demand for space will determine how much income can be generated by the renovated space. Consumer's perceptions and attitudes about downtowns will determine if and for how much the space can be rented. Many property owners would benefit from market analysis assistance and guidance in developing a realistic cash flow analysis (pro forma). Critical in this analysis are market rental rates and vacancy statistics. Tax credits and financing assistance programs can help improve the financial feasibility of the project and often provide the needed dollars to give a project a green light.

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