

FROM BOWLING ALLEY TO BREWERY

Repurposing Commercial Property... Profitable Project or Risky Business?



Repurposing property is not a new trend, but it certainly is one that has increased in popularity in recent years. With more people working from home and the rapid replacement of brick-and-mortar retail with digital storefronts, repurposing commercial real estate is on the rise.

Repurposing Commercial Property: **THE APPEAL**

- 1 Save money.** The cost of repurposing a building is generally cheaper than building one from the ground up. This is especially true given how expensive raw materials and goods are today.
- 2 Location, location, location.** Older buildings may be in good locations or in cities where land availability is scarce to nonexistent. Keep your desirable location while simultaneously refreshing your property.
- 3 Return on Investment.** Repurposing a commercial building provides an opportunity for real estate owners to continue to obtain value from an asset they have already invested in.

Although there are some great reasons for wanting to repurpose commercial property, doing so also comes with its own set of risks. Before you can even begin thinking about repurposing, you need to know for what use the original building was made and approved. This dictates what you can and cannot do within building standards and codes.

Repurposing Commercial Property: **THE CHALLENGES**

- 1 Time and money.** Bringing a building up to code or changing its occupancy type can take a significant amount of time and can cost more than anticipated. Retrofitting a pre-existing building means that you might need to invest in additional insulation, update HVAC systems, as well as replace windows, piping, electrical wiring, and foundational components. Currently, construction costs are high, and many projects continue to see long delays even after much time and money has already been put into them.

2

Uncertainty. Don't take a building's appearance at face value. Oftentimes repurposing a building requires far more work than meets the eye. You may not know the extent of repairs until you start tearing things down, impacting project timelines and budget. Maintenance records may not be available, leading to uncertainty about the longevity of plumbing, wiring, framing, and overall structural integrity. Not only can these factors cost you additional money and prolong completion, but they can create environmental hazards in the surrounding community.

What do these challenges mean from a risk management perspective?

Commercial real estate owners need to think about the risks associated with construction needed to repurpose the building before it is too late. Common risks include pollution exposures (asbestos, underground storage tanks, and chemical residue), worker injuries, damage/theft to equipment and tools, and commercial auto liability. To avoid potentially detrimental consequences to safety, liability, and financial resiliency, a proactive approach to risk management is vital.

When a property is repurposed, its risk profile and coverage needs also change.

Insurance capacity varies by industry, with overall capacity currently limited because of hardened market conditions. Don't forget to do your due diligence in aligning your insurance portfolio with your repurposing efforts. Neglecting to do so may mean finding yourself in a situation where you are liable for thousands to potentially millions of dollars for an event where you are found to be at fault.

Our skilled advisors have decades of experience throughout multiple market and economic trends. We'll help you navigate the complexities of the risks that accompany repurposing commercial real estate. Partnering with a team of experts with top carrier relationships is a crucial component of solid risk management, particularly in unfavorable market conditions.

Don't wait until it's too late. Contact one of our trusted advisors today to see how we can best help you meet your goals while protecting your assets.

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