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May/June 2012

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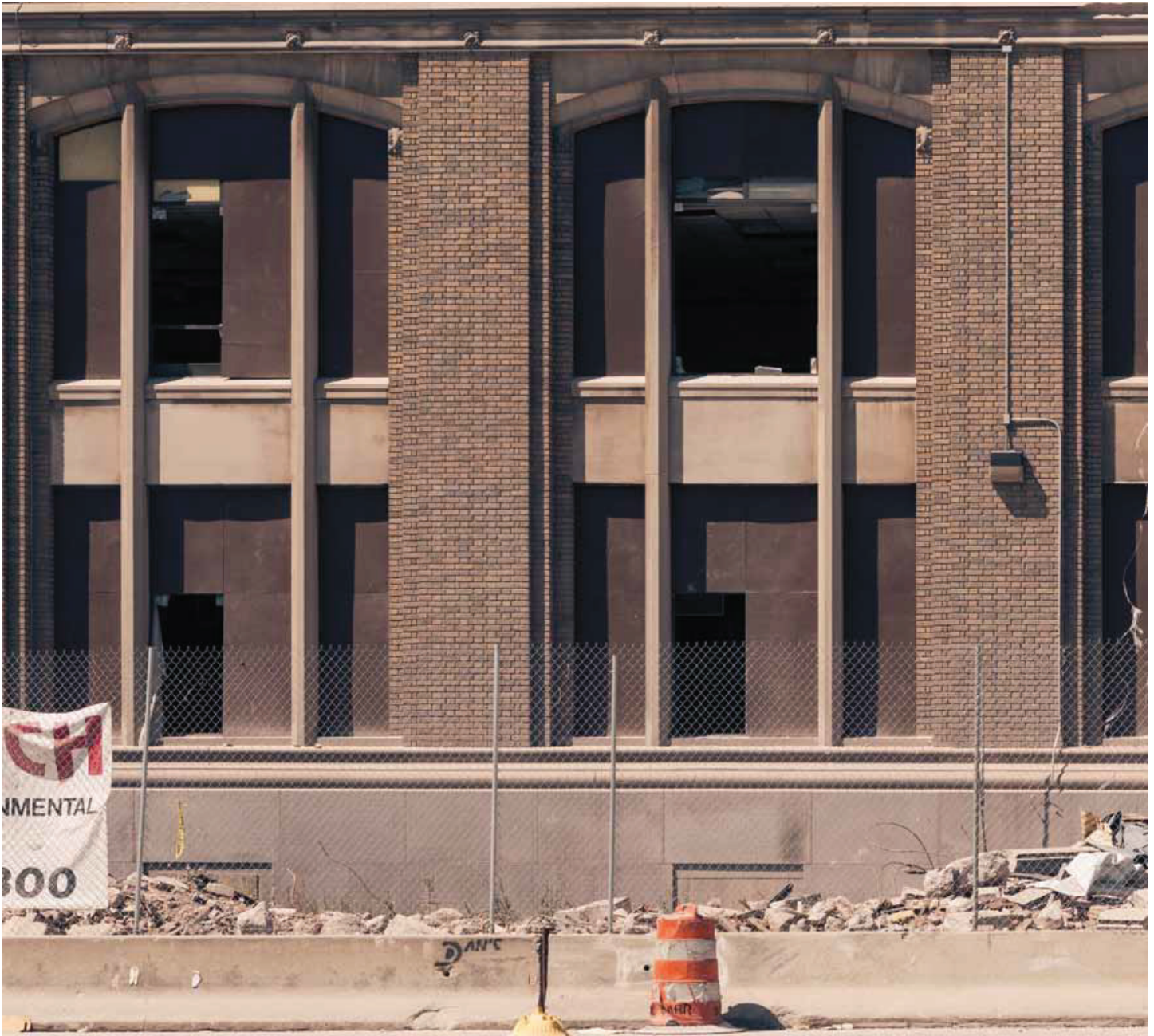
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REHAB OR DEMO?

Deciding the fate of aging buildings.

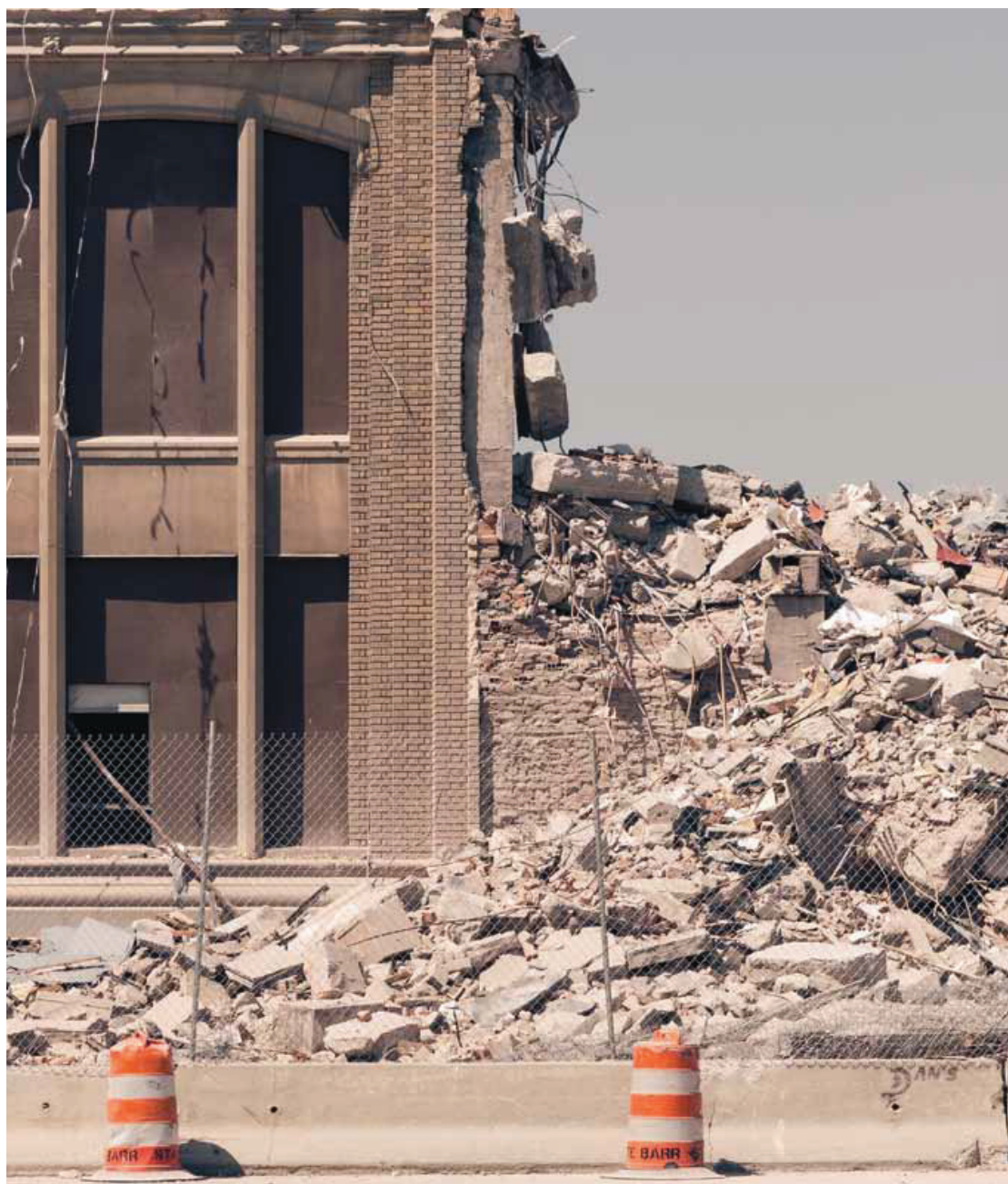
By Susan Anson

How do owners decide whether to continue investing in aging facilities? It takes a strategic approach based on accurate and current data. If a building is less critical, if it's no longer serving the purpose or program for which it was built, or if its condition is so poor that the cost of improvements is too high, it is time to plan for disposition. On the other hand, a key asset could be targeted for investments to improve the condition and proactively renew systems.

When deciding whether a building merits further investment, it's important to take a strategic, three-pronged approach, looking at the facility portfolio holistically and examining facility condition, demographics and functional adequacy to do comprehensive portfolio rationalization analysis. Any analysis, in order for it to be valid, must be based on accurate, objective data, including an understanding of current facility condition and remediation costs, functionality, and demographics. Without

access to detailed information regarding these issues, facilities managers and capital planners find it virtually impossible to decide whether buildings warrant further investment or are ready for disposition.

One important first step is gathering accurate facility condition and cost data, which results in a benchmark to analyze the effect of investing in facility improvements. Developed by industry associations, this benchmark is known as the Facility Condition Index (FCI). The FCI is the ratio of



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deferred maintenance dollars to replacement dollars, and provides a straightforward comparison of an organization's key estate assets. To calculate the FCI for a building, divide the total estimated cost of deferred maintenance projects for the building by its estimated replacement value. The lower the FCI, the lower the need for remedial or renewal funding relative to the facility's value. For example, an FCI of 0.1 signifies a 10 percent deficiency, which is generally considered low, and an FCI of 0.7 means

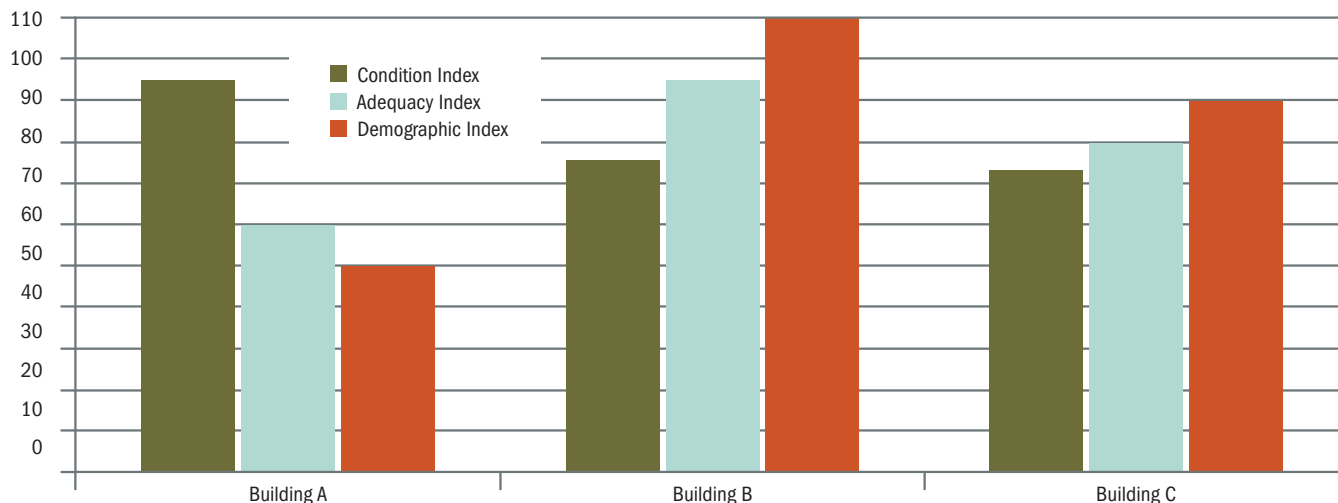
that a building needs extensive repairs or replacement.

The FCI provides the ability to compare similar buildings to each other and to establish target condition ratings. Comparing buildings analytically rapidly highlights the buildings that are in the greatest need for updates, replacements, or disposal.

With insight into current building condition and costs, the building owner must also have access to data on demographics and function in order to prioritize its

facilities and identify areas for cost savings. The most successful prioritization is based on organizational objectives as well as an understanding of the relative importance of assets, the functional adequacy of the buildings, and demographics that may impact use. For example, most organizations have certain buildings in the portfolio that are strategically critical with a high level of permanence. They serve a specific and highly necessary function, and the population that uses these buildings is growing. These

Sample Building Analysis: Factors to Consider When Investing in Building Stock



buildings are essentially irreplaceable and a low FCI is important. The strategy for such critical buildings may be to invest to improve: renewing systems proactively, providing redundancy, ensuring regulatory compliance, and addressing deferred maintenance.

On the other hand, many buildings in the

portfolio may be operationally redundant, subject to frequent mission change and easy to replace. They may no longer be serving the purpose for which they were built, and may or not be able to be re-purposed. Demographic analysis for the population that uses these buildings may show a decline in future use or a change in who is using them.

Depending on what the analysis shows, the strategy for these less vital assets may be to reduce operation and maintenance costs, maintaining only critical systems for business continuity, making no long-term investments and positioning for short-term disposition or alternate use.

The chart above shows a sample analysis of the condition, demographics and functional adequacy of three buildings.

Although Building A has the highest facility condition metric, it is the most likely candidate for disposal. It happens to be a newer office building that cannot easily be converted to the current need for a medical centre.

Building B appears to be the best candidate for investment. Even though its facility condition is Fair, there is a strong demographic demand. Conversion of this apartment building into student housing, a similar function, makes sense.

Building C is a warehouse that needs investment. It could use modernization to meet the existing demand. A close look at the investment needs and payback will determine the best decision.

The benefits of a strategic approach, focused on condition, demographics and functional adequacy, to determining the fate of buildings are numerous. Analysis based on accurate data results in objective prioritization, a clear path to decision-making and, ultimately, intelligent investment choices resulting in cost savings over time. ♣



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169 Fenmar Dr.,
Toronto, ON M9L 1M6
Tel. 416-742-3713
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Susan Anson is the general manager of VFA Canada Corporation.