



Could Your Empty Office Turn Into Apartments?

The pandemic dream of transforming abandoned downtowns into flourishing residential neighborhoods.

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Conversion narrative: a rendering of an office-to-residential project in Worcester, Massachusetts. The Architectural Team

To understand the future of American downtowns after the pandemic, do a little experiment. If you live in an apartment, is there a place in it that is more than 30 feet from a window? Odds are there isn't. That simple rule—that no space in an apartment, whether by code or by custom, be more than 30 feet from a window—is the key to figuring out what happens to America's office buildings if no one wants to come back to work.

That's far from a given. Expectations about the staying power of remote work may change dramatically once pandemic public health restrictions are lifted. But for now, lots of

companies say they will require less office space going forward and be flexible about their employees' presence there. Many business districts face the highest vacancy rates in decades, and a hundred million square feet of new supply from the pre-pandemic cycle is still coming online each quarter. As a result, commercial rents are falling.

Unlike during the early days of the pandemic, however, few people still feel that urban life itself is going out of style. This gap between flagging office demand and the out-of-control housing market suggests an obvious solution: turn offices into homes. We already turned our homes into offices—how hard could it be the other way around?

That is what New York Gov. Andrew Cuomo is advocating for Manhattan. The New York Times is presaging “a wave of building conversions not seen since the crash of the late 1980s.” The nation's other major cities, including Los Angeles, Chicago, Houston, Phoenix, Dallas, and Atlanta, all have even higher vacancy rates than Manhattan's three office districts.

There's ample precedent for adaptive reuse as an engine of urban revitalization. Light industrial buildings in New York City's Cast Iron Historic District (today's SoHo) were converted into live-work lofts starting in the 1960s. The rich stock of 20th century office buildings in Chicago and Los Angeles have been converted into apartments. New England mills have been appropriated as hotels and museums.

“Adaptive-reusing a building is one of the greenest constructions you can do,” said Scott Maenpaa, a project manager at Boston-based the Architectural Team, which has undertaken several office-to-residential projects. (New buildings may be LEED Platinum, but a ton of energy goes into making and transporting their materials, to say nothing of all the site work.) It is also, he said, almost always cheaper than building something from scratch—by 20 to 30 percent, especially if you would have had to demolish a building first. Plus, it's faster, and time is money.

But one year into a pandemic that has reset expectations about the value of office space, architects, developers, and city planners say they're not so sure a wave of converted housing is in the offing. The city of Boston, for example, has not recorded a single permit filed for office-to-residential conversion this year. Dreams of downtowns transformed into lively, 24-hour vertical neighborhoods are not coming true anytime soon.

Why not? For one thing, office owners think long term. They sign decadelong leases with tenants, which is one reason that almost no U.S. business district has a vacancy rate over 25 percent despite a year of no-show employees. Residential conversion is a bet that

office demand will still be low in several years. (In Boston, at least, the more common path right now is converting offices to laboratory space—a far simpler transition.)

“It would have to be a fairly extreme loss of value to make this economically viable,” said Christopher Ptomey of the Urban Land Institute. Moody’s says office rents will fall by less than 10 percent, after a long pre-pandemic run-up, and bottom out in 2022. In hot markets such as D.C., offices could go for twice as much per square foot as rental apartments.

In big markets, the bottom just hasn’t fallen out yet. “The bid-ask spread is so wide you can’t justify the conversion right now,” said Andrea Himmel, the director of acquisitions at Himmel + Meringoff, which owns office buildings in Manhattan. In other words, office owners by and large aren’t yet trying to unload their buildings at conversion-friendly prices. (In fact, New York City office rents haven’t budged yet, though that does not account for non-rent concessions and incentives.) Owners are either hoping things bounce back or focusing on easier changes like bringing Class B space up to Class A. “They are struggling, the suffering is there, but they’re kicking the can down the road,” Himmel said.

Another factor stopping conversions is the architecture. Office buildings need to be a certain size to make a switchover worthwhile. But not too big. Many postwar office buildings were built with vast floor plates that cannot easily be carved up into apartments because of that 30-foot rule—the apartments would form a ring around a lightless core of wasted space. Maenpaa, the Boston architect, told me of one project with floor plates so deep the owners gave up on housing and leased to a marijuana firm instead. That’s going to be a problem for cities like San Francisco, whose recently built office space will not make an easy target for housing developers.

Big floor plates are not a deal-breaker. But carving out a light well down the center of a skyscraper is expensive, complicated, and highly regulated. And that’s before you deal with issues like HVAC (apartments need access to outdoor air), electrical, and plumbing, which typically comprise more than a third of project costs. “It’s really expensive. We’ve tried to do it,” said Himmel. “Residential conversions aren’t on our agenda within our own portfolio.”

To some extent, the first wave of office-to-resi conversions, which swept through lower Manhattan in the ’80s, downtown Chicago in the ’90s, and cities like Cleveland, Philadelphia, and Los Angeles thereafter, took a lot of the low-hanging fruit: high ceilings, ornate fixtures, huge windows.

“A lot of that stock [in New York] has been used up,” said John Cetra, a Manhattan architect who has worked on conversions of pre- and postwar buildings. The latter, he

said, are considerably more difficult. Donald Trump, who claimed to have performed the first residential conversion of a postwar office building in New York with Trump International Hotel & Tower, was blessed with a floor plate too small for commercial tenants—and an unbeatable location facing Central Park.

Naturally, much of the conversion fervor has focused on New York City. The country's longest commutes make a return to the Manhattan cubicle unappetizing, but residential demand is robust. "The housing problem in our cities has gotten worse, but the crisis of growing vacancies in our commercial property provides an opportunity," Gov. Andrew Cuomo said in January, endorsing a state law to ease the conversion process in Manhattan. "Take the negative and make it a positive."

If only it were so simple. There are at least two competing proposals at the state level to ease the path toward adaptive reuse in New York City, and after conversations with a handful of architects, lawyers, and developers, I still struggled to understand exactly what is legal, where, and why. That's not just a problem for journalists, but for would-be developers trying to make sense of a byzantine regulatory environment. "The current controls in place make it really difficult to be able to convert from office or hotel to residential," said Sheila Pozon, a land use lawyer at Kramer Levin.

The governor, together with the Real Estate Board of New York, is targeting Manhattan's older, lower-rent office stock. Converting just 10 percent of that space, REBNY senior vice president Paimaan Lodhi has said, could yield 14,000 apartments. But city planners haven't always been keen on parting with the older stock, arguing that cheaper, bite-size office space is an invaluable resource to long-standing tenants of the garment district and younger firms that can't afford to splurge. If New York City has office space to lose, this shouldn't be it.

Nothing happens, at any rate, without subsidy. Dallas and Baltimore are just a few of the cities that did not see significant conversion of older offices until they offered sizable tax breaks—also a key to New York City's own boom in adaptive reuse. Eye-catching conversions may happen here and there, but a bigger trend will require a push.

"Zoning and subsidy" are required to get things going, said Will Blodgett, a developer at Fairstead who is converting an Upper West Side hotel into affordable housing. Hotels, he suggests, are where the real opportunity is. "It's substantially easier to convert a hotel into affordable housing than an office building." He ticked off some reasons: "Egress, elevators, risers, plumbing." The city is full of old hotels that haven't been kept in form; Vornado Realty plans to demolish one of them, across from Penn Station, for a skyscraper

called Penn15(which would be unbelievable if one of the world's most prestigious architecture firms did not already have the website Big.Dk).

Hotels are also a more fickle business than offices; their tenants are booked night by night, not decade by decade. Around the country, vacant or shuttered hotels have been transformed into temporary housing for the homeless during the pandemic, which many advocates would like to see made permanent. California is doing just that, and the American Rescue Plan Act that President Joe Biden signed last month includes \$5 billion that could be allocated toward such projects.

Hotel conversions are so hot that adaptive reuse investors have pushed prices higher than they were before the pandemic, according to Jones Lang LaSalle.

From a city perspective, one problem with widespread hotel conversion might be that hotels aren't necessarily that screwed. Rental cars are in short supply, and flights are filling up fast. Office work may be changing, but tourism appears to be bounding back. In New York City, which has put in place a bizarre ban on new hotels, expensive hotel rooms had already sent tens of thousands of visitors into Airbnb rooms that eat up the city's housing stock. On the other hand, if the homes are going to be hotels, why not let the hotels be homes?
