



Office to Residential Conversions: A Win-Win for Both Sides



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Vacant office buildings and a housing shortage suggest an easy fix: Retrofit commercial space with apartment units and amenities. But is it easy?

The concept of adaptive reuse and apartment conversions is hardly new, but the number of conversions happening has increased, particularly among newer buildings constructed after World War II. The trend has also spread beyond

Lower Manhattan, among the first places where factories and warehouses in cast-iron buildings became artists' lofts in the 1960s and '70s, especially after New York City legalized loft living in 1971.

Architect Charles F. Bloszies, FAIA, says the vacancy rate in San Francisco where he lives and works is now 40%, a historic high. As leases expire, he expects more offices to empty. "Conversion is the way to go to help owners avoid having to give their properties back to banks," he says.

The period between 2019 and 2020 became a peak time for the process, followed by a slowdown in 2022. It's now expected to pick up momentum again, according to RentCafe.

But making the change is far more involved, and a long list of factors influences the possibility that transformations may occur: The office building's structure and condition; its size and depth, window placement and whether they're operable, developer's budget, willingness of area planning boards to permit a change in zoning regulations if needed, restrictions related to historic designation waived or changed and numbers penciling out to make the conversion a worthwhile investment. "You don't know about all the existing conditions until work begins," says Andy Gerring, Managing Director, New Business Development, at New York-based The Marketing Directors, which advises residential developers.

When the stars align, such projects offer huge rewards to preserve buildings—often landmarks—and deliver one-of-a-kind rather than cookie-cutter residences and amenity spaces. "They also preserve their area's skyline, integral to its placemaking and heritage," says Mike Krych, Senior Design Leader and Managing Partner of BKV Group's Minneapolis practice.

Older, Smaller and Maybe More Manageable

While exceptions always exist, older properties generally are easier to convert to residential use because they have shorter, narrower floor plates, higher ceilings and operable windows, all essential for livability, says Eugene Flotteron, architect at New York City-based CetraRuddy. Some pre-World War II buildings are placed in the "old" category. Flotteron prefers to peg old to a bit later but before the 1960s. The reason, he says, is that most building configurations from those years make it easier to get light and air into their core.

Almost all such buildings require updated electrical, HVAC and plumbing systems to meet current building codes. Floors also may need to be repositioned or added because older office buildings have varied ceiling heights, says architect Peter Bafitis, Managing Principal with RKTB. In seismic zones, a change in occupancy from office to residential

use triggers earthquake upgrades that can increase the scope of construction and add costs, Bloszies says.

Jim McLane, Technical Director at California-based Page & Turnbull, an architecture and historic preservation firm, recommends a structural feasibility study first and then a full design study to develop conceptual floor plans and define necessary upgrades to the site and building systems.

The architects at WDG also advise bringing on board a structural engineer early in the due diligence discovery phase of the project. This professional can help determine the structural integrity of a building to support new residential functions, for example, the support needed for new amenity spaces added on top such as a rooftop pool or possible balconies, says architect Siti Abdul-Rahman, Managing Principal.

But even with careful due diligence, surprises are discovered behind walls, beneath floors and above ceilings, no matter the building's age, which often dictates a full-scale investigation. If old floor plans can be found, they're a huge help, Flotteron says.

A skilled contractor is also essential from the start who relays what can be done and in a timely fashion, says Tallal Bhutta of New York City-based BDB Construction Enterprises, which recently adapted a hotel into student housing in New York City. "The conversion took only seven months from the closing of the sale to its opening in fall 2023 because we all collaborated from the beginning," he says.

Even when the process takes longer—and the vast majority do—results can prove worthwhile. In Philadelphia, Keystone Development + Investment is working on two buildings near Independence Hall and Washington Square Park, which give residents the perks of a prime location and great views. At one, the rebranded The Curtis, a 12-story mixed-use building dating from 1857, the developer kept office and lab space on the lower 10 floors, says Michael Brookshier, Vice President of Development. But it's adding two top levels of luxury residential units that retain the existing two-story arched windows in the 86 duplexes. The building also has a separate residential lobby and the residential part of the project is known as Lyndon at The Curtis. Because of its historic significance as the former home to the Curtis Publishing Company, the developer was able to secure tax credits to help defray costs.

Boston-based The Architectural Team (TAT) also worked on a mixed-use plan on a prominent corner site in Boston's South End Landmark District, 100 Shawmut, with the original part constructed before World War II. The first building in the project, which also involved developer The Davis Companies and interior designer Embarc Studio, mixes adaptive reuse of a six-story brick warehouse with a contemporary addition.

Where to put the desired amenities requires more rejiggering. BKV Group positioned new features atop the roofs of two pre-World War II buildings—the Soo Line Building City Apartments in Minneapolis, which dates from 1915, and 309 Vine in Cincinnati, dating from 1928. But it placed them beyond the historic site lines to maintain each building's vintage facade, Krych says.

Newer, Bigger and Maybe More Problematic

The newer buildings erected after World War II with higher ceilings, deeper floor plates and often glass facades with fixed windows can be more difficult to work with, Bafitis estimates. "Ten percent of the stock in New York City, for example, may lend itself to easy conversion, another 10 remaining 70 percent or so pose a real obstacle," he says. One of the key challenges, he says, is that room depths can't be more than 30 feet from a window.

Yet, the sheer numbers of such buildings, particularly in the Class B asset category, reflect a soft part of the current rental market, which therefore make it worthwhile to try, especially if conversion involves a gut rehab with most of the interior removed, says Michael Liu, Senior Partner and Design Principal at TAT.

However, in many cases creativity can lead to solutions that eliminate the need for a full-on rehab and still make use of the inner core in new ways. "The 'dark spaces' that exist there can become home offices or storage," says Abdul-Rahman. Bloszies also envisions them as retail spaces in a mixed-use building, amenity areas that don't need natural light and can have mechanical air brought in or a parking garage for driverless cars. But so much depends on local building codes, he says. "New York City allows office use in residential buildings, but San Francisco doesn't," he says.

The bottom line is that each building needs to be evaluated individually. Abdul-Rahman's firm worked on a Washington, D.C., 340,000-square-foot, 14-story Class A office building for developer Foulger-Pratt at 1425 New York Avenue, which dates from 1990. "The building was almost vacant, and the developer saw the market softening," says Geringer. The building offered many positives: Many windows, which could be changed from fixed to operable without difficulty; an interior with double-loaded corridors for apartments on either side with some of the deeper units able to accommodate interior uses such as side-by-side washer/dryers rather than stackable units and bedrooms lined with glass walls and four existing levels of underground parking. "The building's layout gave us more opportunities for unique design, too," Abdul-Rahman says. Her firm located amenities on the basement level and ground floor where it designed a new courtyard that's visible to passersby through new large storefront windows to trigger a lively street scene. Yet, the building's biggest asset is its prime location near the White House. "There's no other residential housing nearby, and its top floors will have luxury units with spectacular views of the nation's capital," Abdul-Rahman says.

Some firms pursue a different strategy and remove the core when possible and insert an atrium or courtyard for light and air. CetraRuddy plans to add two atriums at a large former office building in New York City's Financial District. The building dates from the late 1960s. The 22-story high-rise will include more than 1,300 units when finished. After removing space at the center of each floorplate, an addition will be built atop the building with residential and amenity space, including a pool and expansive terrace.

Jim Driscoll, Senior Vice President of Development and Acquisitions at Clifton, N.J.-based Blue Onyx Companies says, "It becomes difficult to justify programming on upper floors, which may result in closed-off, un-utilized spaces," he says. Also, mechanical/electrical/plumbing systems (MEP) can be a challenge to install with a building's existing columns. For this reason, demolition is often the most straightforward solution, he says.

Still another strategy of mixing old and new is being used by national architecture firm KTGy, which is working on a 1980s building on the edge of Old Town in Alexandria, Va., says architect Ben Kasdan, AIA, Principal. The six-story brick building, currently in its entitlement phase, has an L-shaped footprint with a surface parking lot that will become an addition to house more units since there's already an underground parking garage. "The addition will add a new wing to the existing building and the existing brick façade will be left mostly intact but old inoperable windows will be switched out for new working ones that also have a nicer rhythm," Kasdan says. In a best-case scenario, ground will be broken in a year and work completed within another two years. "It's a long process but faster than building from scratch," he says.

Even though the Landmark Towers building in St. Paul, Minn., had been built as recently as the early 1980s, the building's developer, Sherman Associates, historic consultant Hess-Roise and BKV Group collaborated to get it listed on the National Register of Historic Places for historic tax credit eligibility to make its conversion financially feasible, says Krych. The 26-story building will place 187 residential units within the first 20 floors, replacing existing traditional office space with existing condos remaining on its top five floors.

Newer suburban office properties are also prime contenders for conversion. Keystone is working on transforming a 1982 Class A nine-story building in Plymouth Meeting, Pa., known as Monarq. "We got the Township to approve the zoning change for 150 apartments, and the building rebranded as Monarq will gain windows and amenities. Having the original plans will make conversion easier," Brookshier says.

Driscoll thinks demolition should often be weighed as an option, particularly for large suburban office buildings with large floor plates that aren't conducive to adaptive reuse. "While this often presents greater costs than purchasing raw land, the building's location may enable the land to have enough residual value, even when including demolition expenses," he says.

How government and legal intervention can help

Many players like Bafitis say that the missing piece to make conversions work as costs rise is government intervention with incentives, subsidies and public-private partnerships. But so many are tied to projects with affordable and workforce units, which are hard to get done because of the lower rents that are charged at a time when construction and acquisition costs keep rising, Bloszies says.

But slowly more cities and municipalities are stepping in to spur change. The Los Angeles City Council's adoption last year of the DTLA 2040 Community Plan Update (DTLA 2040) was considered a milestone in a long effort to create a land use plan and guiding policy document to promote the city's downtown's vibrancy and growth. Drafted by city staff with input from many stakeholders, it nearly doubles the area downtown where housing can be built, eliminates parking requirements and implements the city's new zoning code for the first time. In a coordinated initiative, the LA Planning Department has proposed an update of the Adaptive Reuse Ordinance, which would mandate faster review of permit applications, provide incentives for conversion of properties that reach 15 years of age, reduce parking requirements while allowing conversion of parking levels to residential occupancy, allow rooftop additions and give permission to design smaller units—down to 250 square feet.

In New York City, Mayor Eric Adams' administration recently launched an Office Conversion Accelerator to speed the office-to-housing conversion process. It also kicked off the Midtown South Neighborhood Plan to update zoning rules that allow only manufacturing and office space to switch to live-work communities. In Boston, Mayor Michelle Wu announced this summer that the city will launch a Downtown Office to Residential Conversion Pilot Program, a public-private partnership, to incentivize underutilized office buildings to become residential structures.

At the Federal level under legislation by Congress, The Revitalizing Downtowns Act would amend the Internal Revenue Code of 1986 and provide an investment credit for the conversion of office buildings into other uses.

Throughout the process of any conversion, legal questions may arise, says lawyer Hilary Atzrott Hamburg, counsel with Venable LLP's New York real estate practice. What rights do owner-operators and residents have when terminating a lease—what happens if the developer wants to vacate the building to convert it to residential units? "Also, what do the loan documents say? Is lender consent required for construction, or on land use applications if the developer needs to go to a zoning board or city agency for discretionary approvals, such as a variance?" Such questions are part of the due diligence of attorneys advising the developer, who also should be on board from the very beginning.