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From Cubicles to Condos

Navigating the challenges of office to residential conversions

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Introduction

For over a decade, major cities in the United States have been grappling with a severe shortage of housing, leading to a surge in new construction projects as developers search for innovative ways to address the issue and provide additional housing options for those living in urban areas.

The conversion of office buildings into multifamily residential buildings has become a popular solution for developers due to remote work reducing the need for traditional office space and the intensifying housing shortage in urban areas. This type of conversion has gained significant traction in recent years, particularly in areas where there are limited green fields for ground-up construction.

Converting office buildings into residential properties is not without substantial challenges, however. The foremost issue with conversion of an office to multifamily residential is the building's existing design and infrastructure, which may not be suitable for residential living. Office buildings are typically designed with open floor plans and large windows, whereas residential buildings require different amenities such as kitchens, bathrooms, and private outdoor spaces. Therefore, extensive and costly structural modifications are often necessary to accommodate these features and meet the needs of residential occupants.

Despite the challenges, converting office buildings into multifamily residential buildings can bring several benefits, including cost savings and environmental sustainability. By repurposing existing buildings instead of constructing new ones, developers can reduce the carbon footprint of their projects and help preserve historic architecture. In addition, converting office buildings into residential properties can provide much-needed affordable housing options for people in urban areas.

In this white paper, we will explore the benefits and challenges of converting office buildings into multifamily residential buildings. We will examine the design and construction challenges associated with the conversion process and explore the potential environmental and social benefits of repurposing office buildings.



What makes for a good conversion candidate?

Surprisingly, office buildings considered to be of lower quality, such as Class C buildings, can make excellent candidates for residential conversion. These buildings are typically the oldest among commercial properties and offer smaller floor plates that are no longer preferred for office space by current standards. However, these same features can be advantageous when renovating a property for residential purposes.

When evaluating office buildings for conversion into residential units, multiple factors should be considered. Location is paramount, with buildings in high-demand housing areas like urban centers or near public transportation being ideal for conversion. Access to public amenities, including parks, restaurants, and shopping centers, is also attractive to potential residents. Other important factors to consider include the building's structural integrity, the availability of natural light, and the feasibility of redesigning the building's floor plan to suit residential needs.

The size and layout of the building are also significant factors to consider. Large floor plans and open layouts in office buildings offer greater flexibility for creating residential units; however, the abundance of space may come at the expense of natural light, which is highly sought after by potential residents. Older buildings with smaller floor plates typically provide designers and developers with greater flexibility and creative freedom in transforming the building into a residential space.

Additionally, it is crucial to thoroughly assess the building's condition and structural integrity before converting it to ensure the safety and comfort of future residents. A successful strategy for converting a property from office to residential must consider several elements of the property in order to be successful:



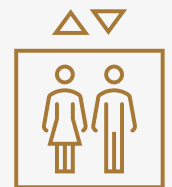
1. Site Context

- Walkability
- Transit
- Natural Light
- Views and Obstructions
- Environmental Quality



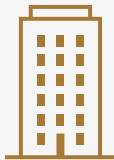
2. Building Form

- Shape of Building
- Planning Feasibility
- Historical or Architectural Appeal
- Seismic / Code Compliance



3. Floor Plate

- Window to core distance
- Existing number of elevators
- Height between floors
- Existing diaphragm penetrations



4. Envelope

- Existing window to wall ratio
- Ability to recess windows to create balcony
- Distance to adjacent high-rise structure
- Ease of window replacement



5. Servicing

- Loading and unloading for residents
- Parking for residents and visitors
- Ability to provide maintenance
- Location of MEP major systems

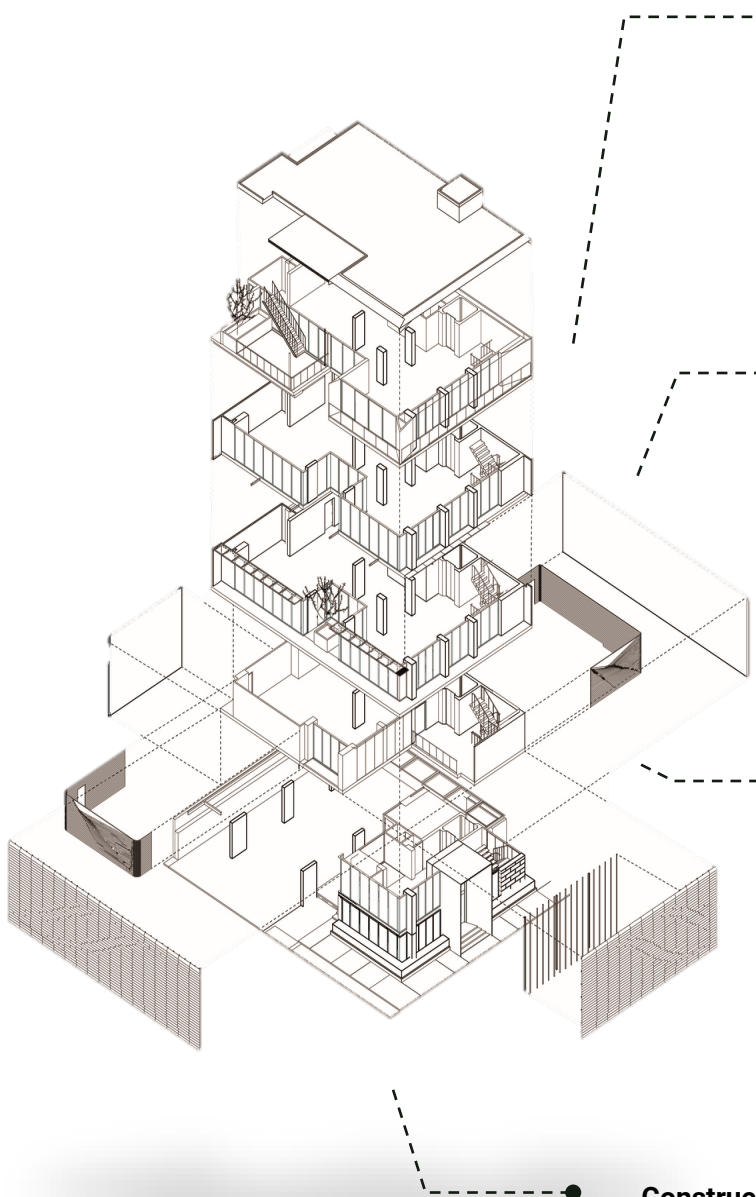


Not all projects make dollars or sense.

The feasibility of converting an office building into a residential development is not solely determined by the building itself, as the local government's willingness and priorities also play a crucial role. Developers and lenders must understand the local government's dynamics, including the goals of the planning and building department and the promises made by City Hall officials. This knowledge is essential as it will determine the ability for government to expedite and facilitate these types of projects.

It is important to note that residential conversions of office buildings are typically only viable in areas experiencing a housing shortage and where incentives and credits can be provided to help offset development costs. In areas with ample housing stock, developers may execute successful conversion projects; however, profitability may be impacted if there are sufficient alternate multifamily residences available, leading to extended lease-up periods or underperformance relative to initial projections. Hence, careful evaluation of the local market demand and competition is critical before pursuing such projects.

Benefits of office-to-residential adaptive reuse



● **Addressing the housing shortage:** As mentioned earlier, cities experiencing a housing shortage can benefit from the conversion of office buildings into residential units. To encourage this type of development, cities may offer credits to offset some of the costs involved, such as the cost of retrofitting the building or changing its use.

● **Revitalizing neighborhoods:** The conversion of office buildings into residential units can also help revitalize neighborhoods. This type of development can bring new residents to areas that were previously underutilized or less desirable, potentially leading to increased economic activity in the surrounding community. To encourage this type of development, cities may offer tax breaks or other incentives to developers.

● **Supporting sustainability goals:** Converting underutilized office buildings into residential units can also support a city's sustainability goals by reducing the need for new construction on undeveloped land. By repurposing existing buildings, developers can reduce their carbon footprint and conserve resources. To encourage this type of development, cities may offer credits or incentives to developers who prioritize sustainable building practices.

● **Construction jobs and stimulating the local economy:** Converting an office building into residential units requires significant renovation work, which can create new jobs in the architecture and construction industry. By creating new jobs, the local economy can benefit from increased employment opportunities and a boost in economic activity.



Construction challenges: transforming the old into gold

Converting office buildings into residential units presents a unique set of challenges from a construction standpoint, with perhaps the most prominent being the size of the floor plates in office spaces. These large floor plates can limit natural light exposure in individual units, which in turn reduces the number of available or desirable units on a given floor.

Additionally, mechanical and electrical systems in office buildings are typically designed to accommodate the needs of a large number of employees and computer equipment, with little consideration given to the needs of residential tenants. As a result, developers may need to upgrade or replace these systems to meet the needs of the new tenants, such as installing extensive HVAC ducting and new units to accommodate individual temperature controls in each unit.

Similarly, plumbing systems in office buildings are often designed with fewer fixtures than residential buildings, meaning that they may need to be upgraded to meet the demands of a residential population. Developers may need to install new plumbing lines to accommodate kitchens and bathrooms in each unit, which can be a significant expense.

Elevators are another critical consideration when converting an office building to residential use. Office buildings often have a limited number of elevators that are designed to accommodate a large number of people during peak hours, such as when employees arrive and leave work. In contrast, residential elevators need to be designed to accommodate the needs of fewer people but over an extended period. As a result, developers may need to install additional elevators or upgrade existing ones to meet the needs of the new residential tenants.

To create a desirable residential building, developers may opt to modify the façade to bring the outside in and create new common spaces for residents. Recessing the glazing line on the building can also create private balconies for the units. Additionally, developers must find a way to make windows operable in office buildings that lack this feature. Finally, the building must be shallow enough to allow natural light to penetrate the units. For larger-scale modifications to the façade, coupled with removing parts of the floor plate, developers can carve out outdoor terraces for residents to enjoy the connection to the outdoors, recreation space, and gardens.

Developers must carefully assess their building's emissions and consider using large-capacity heat pumps and electric ranges in tenant spaces instead of gas ranges. Meeting parking requirements may require digging out a basement, which may not be possible or economically viable in low-lying areas with a shallow water table or areas with poor soil conditions.

While these types of conversions are still rare compared to ground up construction or rehabilitating existing properties for similar uses, they can be more feasible with older office buildings that have smaller floor plates. However, these older buildings come with their own set of challenges, such as asbestos and other hazardous materials, and deficiencies with current building codes. Converting an office building to apartments is estimated to cost between \$150 to \$200 per square foot and can be even higher with luxury finishes or if significant MEP updates are required.



Money talks: How can local governments help drive development?

Not only do these projects provide a sustainable approach to development, but they can also revitalize urban areas, promote economic growth, and create new jobs. However, financing adaptive reuse projects can often be a challenge due to the high costs associated with retrofitting older buildings for new uses. This is where local governments and cities can play a crucial role by providing financing support to developers, helping to incentivize investment in older buildings and promote sustainable development.

On the next page, we discuss a few common strategies employed by local governments to assist developers on these projects.

Financing options



Tax Increment Financing (TIF): TIF is a public financing tool that can help fund infrastructure improvements and redevelopment projects. In a TIF district, a portion of the property tax revenue generated by the redevelopment project is set aside to fund public infrastructure improvements, such as roads, sidewalks, and utilities. TIF can help offset the costs of the conversion project, making it more financially feasible for developers.



Historic Tax Credits: Developers can also use historic tax credits to help finance the conversion of office buildings into residential units. If a building is designated as a historic landmark, developers can receive tax credits for the costs associated with renovating the building. Historic tax credits can help offset the costs of renovating historic buildings, which can be more expensive than renovating modern buildings.



Private Financing: Developers can also seek private financing to fund the conversion of office buildings into residential units. Private financing can come from banks, investment firms, or other private investors. Developers can use private financing to cover the costs of the conversion project, and they will typically pay back the loan with interest.



Public-Private Partnerships (PPP): Developers can also partner with local governments to finance the conversion of office buildings into residential units. In a PPP, the developer and the government share the costs and benefits of the project. For example, the government may provide tax incentives or TIF funding, and the developer may provide the expertise and construction resources needed to complete the project.

While attractive financing schemes are undoubtedly an important factor in enabling the conversion of office spaces, they are just one part of the equation. Local governments also play a crucial role in facilitating these conversions, and their willingness to streamline bureaucratic processes and cut through red tape can be instrumental in making this vision a reality.

By removing barriers to the conversion process, local governments can create an environment that encourages and supports these projects.

To facilitate the adaptive reuse of office buildings into residential spaces and encourage sustainable urban development, cities can streamline permitting and development requirements for this type of project by utilizing the following strategies:

- Streamlining CEQA process for repositioning office-to-residential in existing downtown buildings, embracing and encouraging developer use of legislative offerings.
- Defer, waive, or reduce impact fees and open space requirements for office-to-residential development.
- Deferring/waiving/reducing open space requirements for existing office building conversions.
- Finding state-allocated money to offer financial incentives to help offset costly building improvements like seismic upgrades and façade improvements.
- Temporarily waiving inclusionary housing requirements on conversions.
- Reallocating federal, state, and city funds dedicated for permanent supportive housing to developers pursuing conversion projects.
- Linking office development approvals to residential construction targets once office demand/development comes back.

Conclusion

Converting an office building into a residential space not only brings new life to an outdated structure but also offers numerous benefits to the neighboring community. By repurposing the building, it reduces the need for new construction, conserves resources and energy, and minimizes the environmental impact of new development. Additionally, adaptive reuse can revitalize neighborhoods and provide affordable housing options. With the increasing demand for urban housing and limited available land, the practice of adaptive reuse is likely to become more prevalent in the future, providing a sustainable solution to the challenge of repurposing aging buildings.

About the author:



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