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There have been a lot of efforts to answer the question that has been hanging over everyone's heads the last three years: what will we do with empty office buildings? The most popular solution has been to turn vacant office space into housing. The idea has become a reality in places like New York City, Washington, D.C. and Calgary, where officials are helping streamline the process through incentives and programs. With a growing housing crisis to grapple with, it makes sense. But office-to-residential is not a new concept. In Manhattan, for example, dozens of buildings in Lower Manhattan were converted into residential units in the years following the 9/11 attacks. The country's largest conversion is currently being developed by GFP Real Estate and Metro Loft in Manhattan's Financial District, where the one time headquarters of the New York Daily News will be transformed into more than 1,300 high-end luxury condos.

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Owners are Getting Creative with Vacant Office Conversions

But while turning office buildings into much needed housing seems like the easy answer, it can be complicated and costly. Office buildings tend to have larger floor plates that don't let a lot of natural light and air in, and building systems like HVAC and plumbing would likely need to be overhauled to accommodate residential units. In an analysis of 300 office buildings around North America, global design firm

Gensler found that only 30 percent of the buildings would be suitable candidates for conversion into residential. The firm's analysis also had a curious finding: features considered undesirable in an office setting were actually desirable features in a multifamily building. For instance, a lot of Class C buildings have floor-to-floor heights of around 12 feet, which is considered extremely low for an office these days. But anything above 9 feet in a residential building is thought of as a luxury feature.

As office-to-residential conversions continue to grow in popularity as a good option for reusing vacant space, different kinds of uses are being considered too. But it may be some time before we truly see office conversions done at scale. Daniel Colombini, a principal at the New York City-based consulting and engineering firm Goldman Copeland which focuses its work on upgrading and improving infrastructure in existing buildings, said converting vacant offices at a large scale is a slow-moving issue. Traditional office leases are typically 10 years long, and with three years of the pandemic behind us, there is still a lot of space that won't come up for lease yet. "Things are changing and carrots and sticks are going to realign themselves in the real estate world," Colombini said. "It's happening but it's going to happen really slowly."

Hotels

Not unlike multifamily conversions, turning an office building into a hotel requires a significant amount of changes that can end up being costly. Plumbing and HVAC systems would require an overhaul, and developers would need to add things like kitchens and bathrooms. Converting to hotel use might also require a zoning change. Nevertheless, there are office-to-hotel conversions taking place. Since 2016, CBRE has tracked 45 conversions of office buildings to hotels, with an additional seven in the works and seven planned. Most of the conversions are in downtown areas that are in walking distance to retail, restaurants, entertainment venues, and major employers. In April, news broke that the owners of New York City's famed Rockefeller Center had struck a deal to open a luxury hotel across 10 floors of empty office space. The hotel operator, Aspen Hospitality, plans to open the 130-room hotel in 2026.

Lab space

The life sciences sector has been booming over the last decade, which has led to huge demand for lab and R&D space. Even before the pandemic, some office owners were turning offices into lab space, and it's been happening even more as of late. In Boston, the largest life sciences market in the country, offices have frequently been converted to lab space over the last few years. In San Francisco, another major life sciences hub, a vacant office building that formerly housed the headquarters of clothing retailer Old Navy was recently purchased by developer DivcoWest, who plans to turn it into lab space. A CBRE report found that office-to-lab conversions were up 49 percent in the country's 12 largest life sciences markets in 2021. "Converting an office building for life sciences use often can be done more quickly than building labs from the ground up," said CBRE's Matt Gardner. The cost to fit out a lab space with the kinds of plumbing, ventilation, and other special considerations these kinds of spaces need can be triple the cost for standard office space, according to CBRE, but the rents that lab space commands seem to be enough to make it worth it for property owners and investors.

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Operators in the self-storage industry have been looking at turning empty offices into new self-storage facilities way before the pandemic began. For instance, the Bethesda, Maryland-based firm Washington Property Co. converted an 82,000-square-foot office building in Rockville, Maryland into a CubeSmart self-storage facility. In suburban areas in particular, vacant office buildings were looked at as prime candidates for conversion to self-storage. The use is looked at as a cheaper and more short-term option than converting to residential. The conversions have been taking place in densely-populated places with a lot of higher-income renters in need of storage. It's not easy to find hard data on just how many office-to-self-storage conversions are happening, but it's certainly being considered by a lot of developers across the country.

See also



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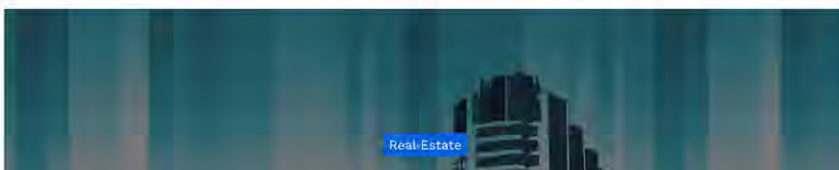
Retail, restaurants, and event space

In some cases, an office owner or developer may just look to change the use of a portion of an office building, like the bottom floors of a property. A partial conversion turns an office building into a mixed-use development, and can incorporate retail, restaurants, and event space on lower floors. For existing office tenants, there is no need to relocate during construction and then gain the added amenities of the new concessions. In Manhattan, the Rudin family and Thomson Reuters added Touro College to 3 Times Square, a trophy office tower in the heart of the Times Square area. The college agreed to a 32-year lease deal for a 243,305-square-foot campus and will have its own entrance and lobby for its students, faculty, and staff. The building's owners refinanced the building for \$415 million in June of last year in order to support the partial conversion.

Property owners have a lot of options in deciding what to do with vacant office space, and given the current trends with remote and hybrid work, they'll need to start exploring those options sooner rather than later. In making those decisions, there's also the ever-growing importance of carbon emissions to consider. Turning empty offices into other kinds of building uses, whatever that may be, will likely have less of a carbon footprint than demolishing a building and starting from scratch with a new development. "What we want is buildings reused, period," Colombini said. "We hate to see perfectly good structures torn down when buildings are abandoned." Finding a better use for office space will not only benefit the building owner but the surrounding neighborhood too, and that will have effects on the local economy and property values.

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