


# OFFICE-TO- HOUSING CONVERSIONS:

**KEY CONSIDERATIONS  
FOR REPOSITIONING  
YOUR ASSET**

HED





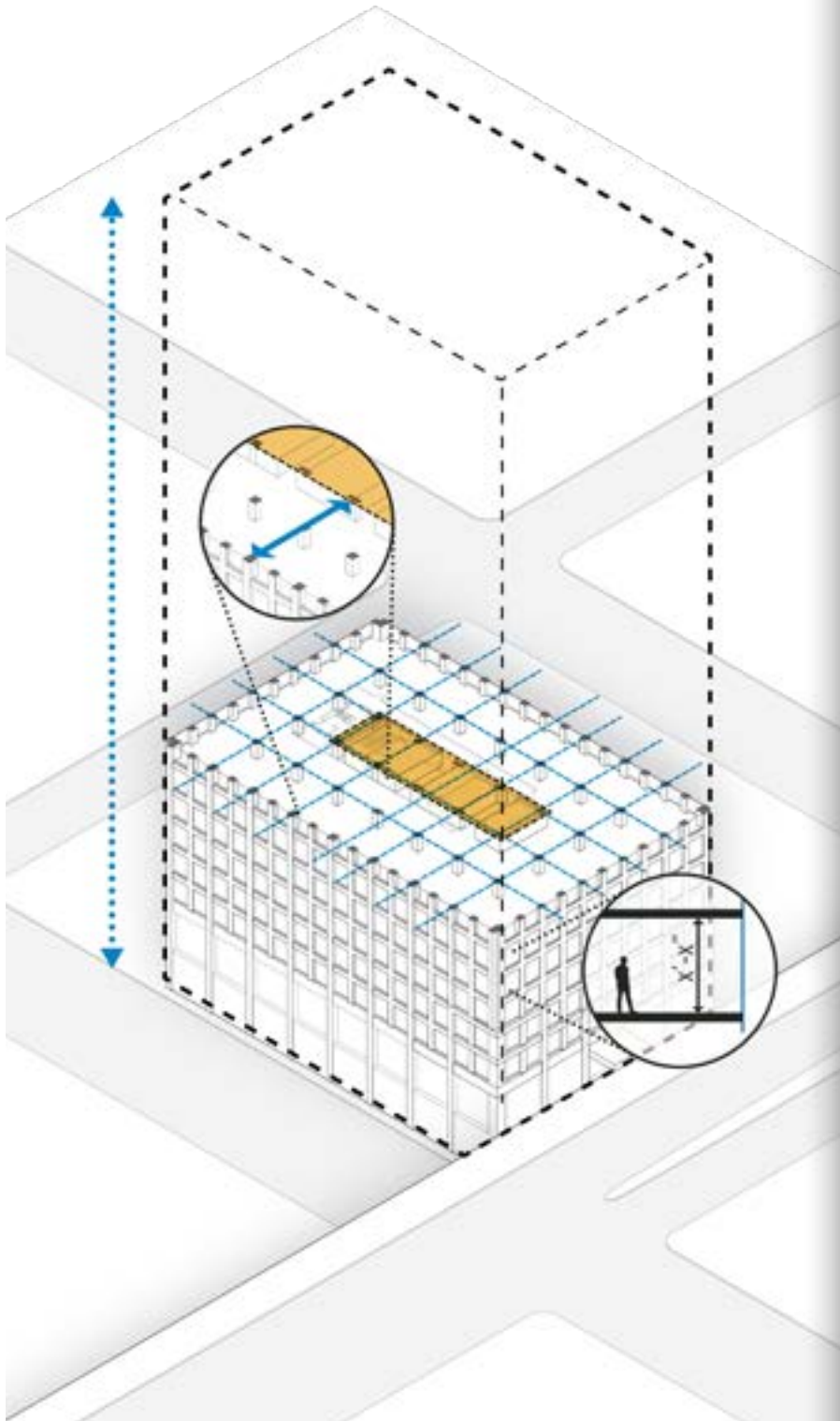
Market analytics indicate that there is over 232 million square feet of surplus commercial real estate up for subleasing. Predictions from future of work experts, and the growing number of hybrid and remote work arrangements, suggest most of that will go unfilled - so what can be done with the remaining office building assets?

Converting an urban office building to multifamily housing seems like the perfect solution. Demand for residential space is high, with many major cities requiring tens of thousands of new units' year-over year. There are office properties that need to be repositioned to increase their value.

At HED, experience has taught us that converting these building takes thoughtful analysis and an innovative, surgical approach to manage costs.

**Here are our top considerations to protect ROI in conversions.**

# Building Metrics



The shape of an office building is a big driver of what use the building can be converted into. The geometry matters. The geometry of the building can be quite different in pre-WWII buildings versus post-WWII buildings, and one of the first things to evaluate is the core-to-shell depth and the core configuration – these two factors will give an indication of how efficient the conversion will be in terms of rentable area.

Floor-to-floor heights and the overall building height and number of stories are also important to consider for calculating unit number and type.

Traditionally, office building floor-to-floor heights are taller than in multifamily, often with large windows that provide excellent amounts of daylight.

To achieve the return-on-investment threshold, there is an ideal range in the amount, and the type of residential units and construction cost where it makes financial sense for every renovation.

## Key takeaways:

- Core-to-Shell Distance
- Core Configuration
- Floor-to-Floor Height
- Building Size / Amount of Stories

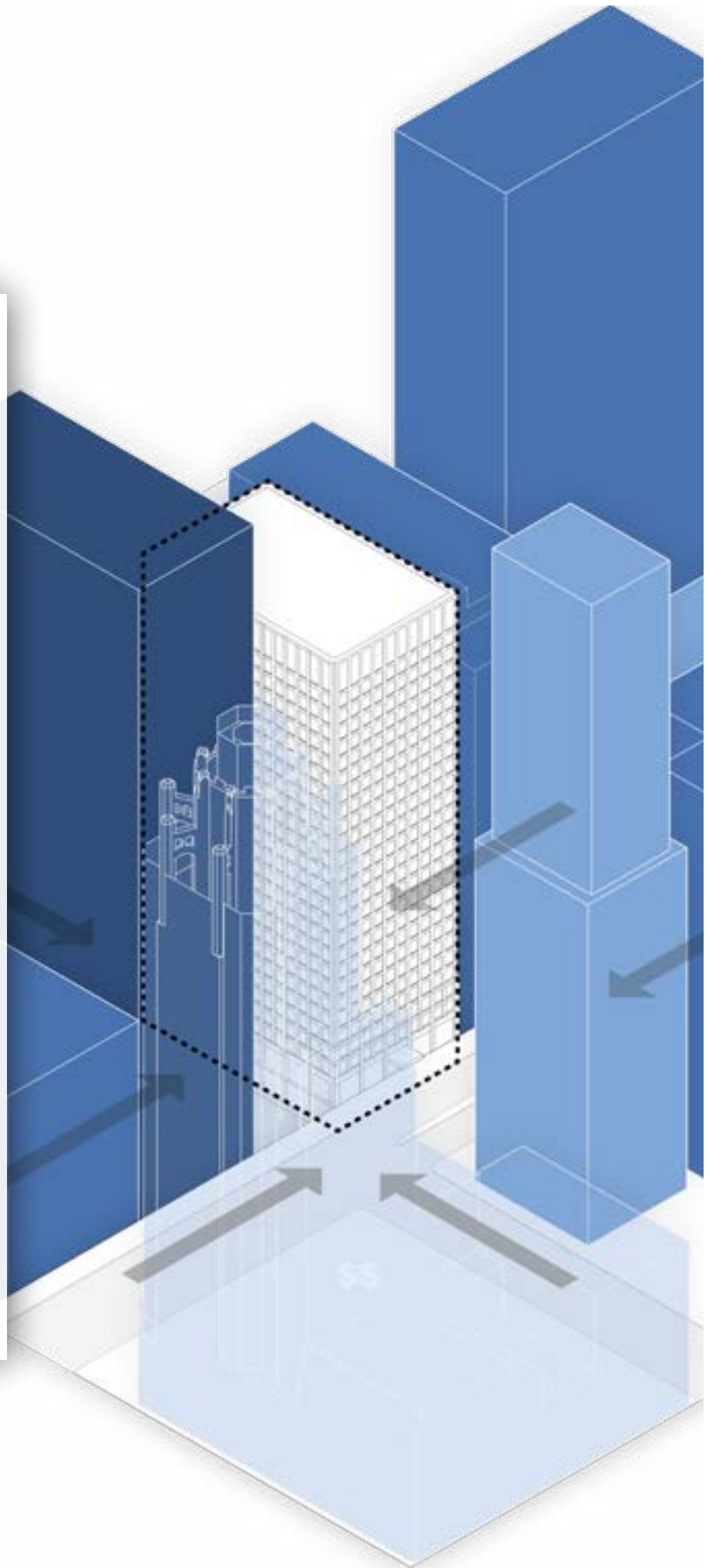
# Market **Analysis**

The challenge with any development is making sure it meets a need in the local market to be able to lease up and be a stable asset. Analyze the competition and understand what place this property would take in the marketplace. The asset class is important to establishing the return-on-investment threshold.

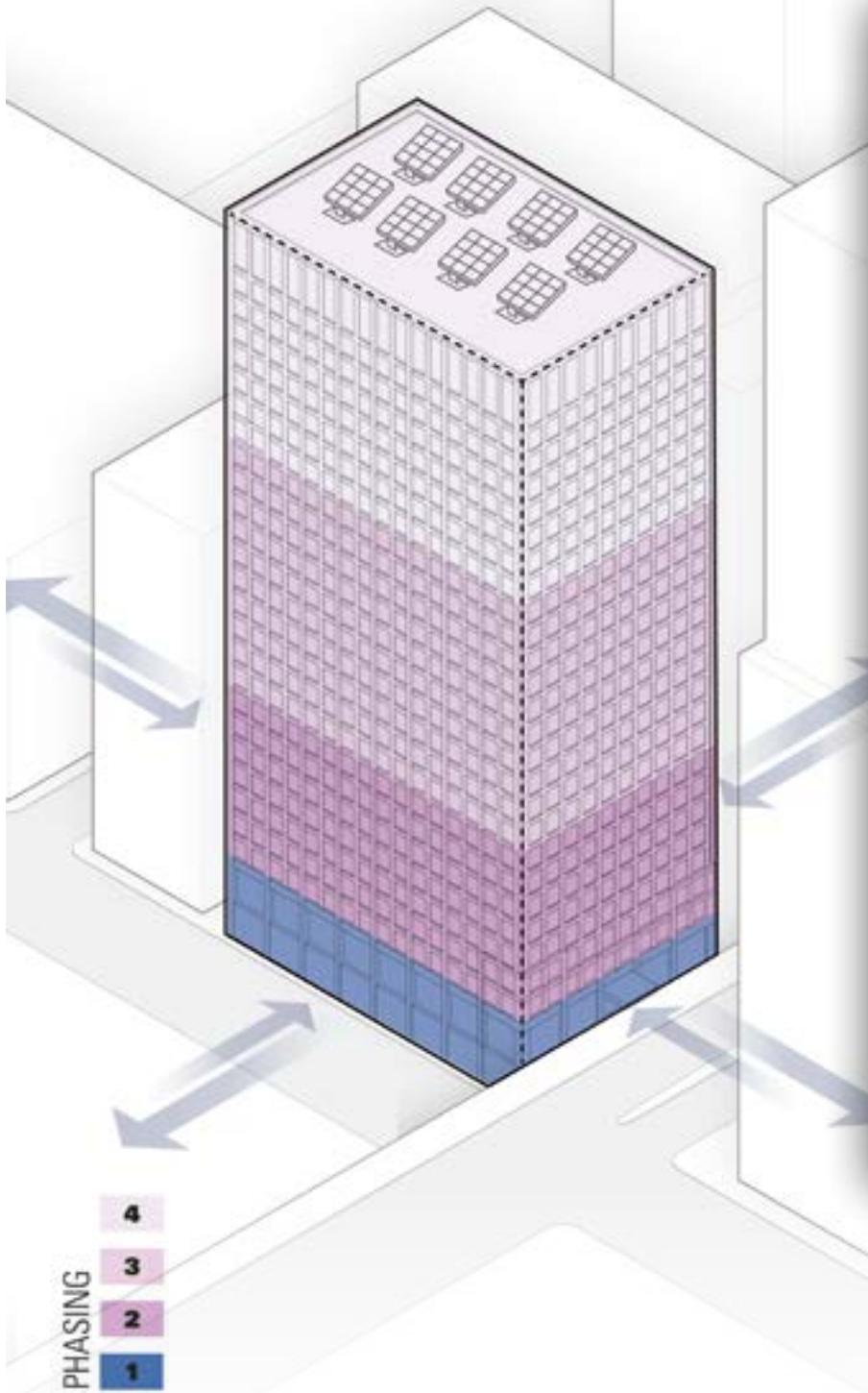
Converting non-residential properties into housing often creates a unique character in the marketplace that makes them attractive. However, understanding the targeted rents and types of renters attracted to these properties and their expectations are key to the basic design criteria and upgrades and ultimately the costs of conversion.

## **Key takeaways:**

- New Asset Class
- Market Drivers & Expectations
- Legal Competition
- Target Rents



# Business Plan



The initial building evaluation must be performed early to identify as many unforeseen conditions as possible to inform the business plan.

It is important to design the project to match your business plan financially and operationally. Understand if the project will be phased, will the building be empty or full, will there be a strategy for resiliency, or if there is a financial advantage in the decarbonization of the asset? Addressing these variables properly in the design process will directly impact the potential return-on-investment.

#### Key takeaways:

- Phasing
- Resiliency
- Decarbonization
- Speed-to-Market
- Future Flexibility

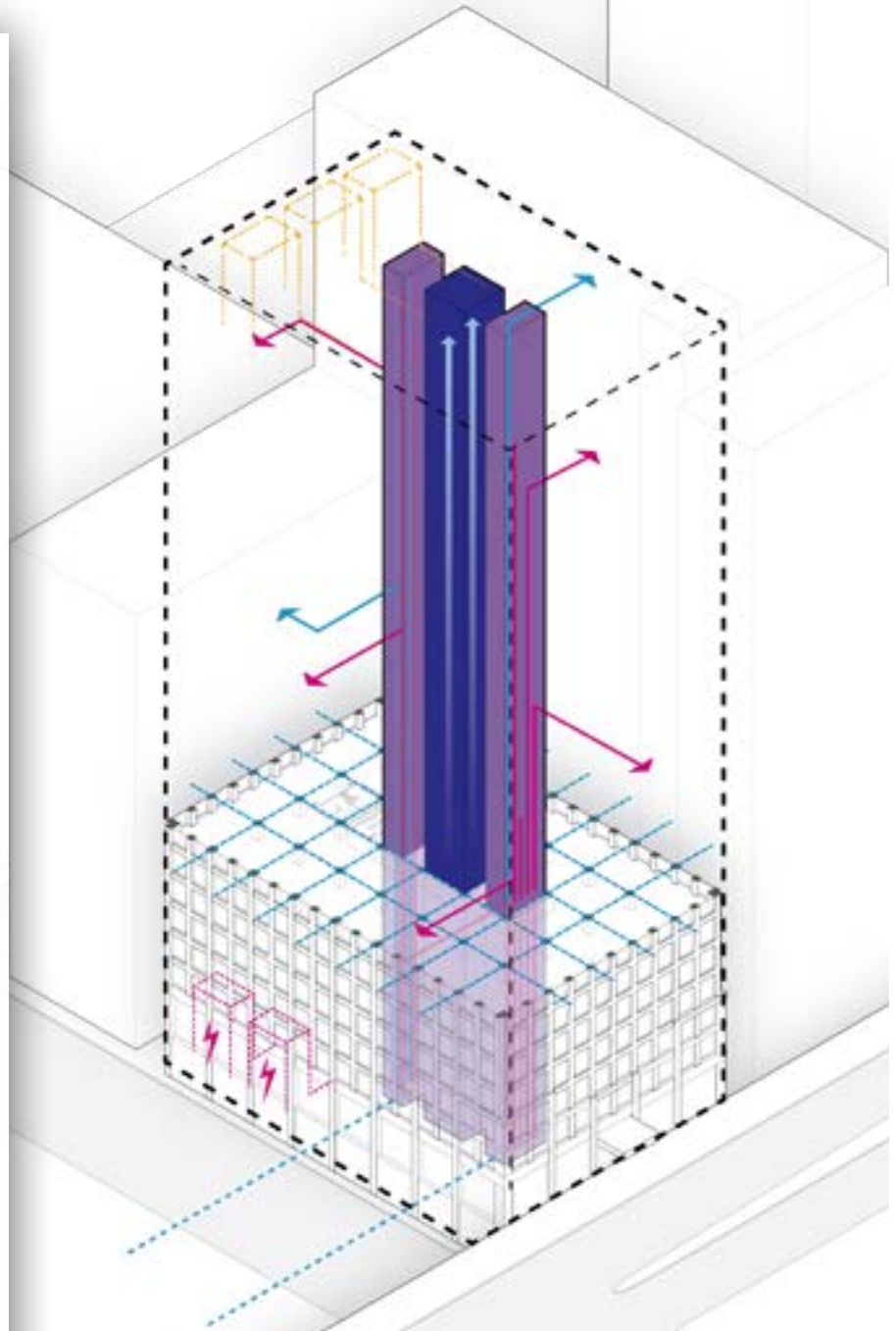
# Building Infrastructure

The systems and structures of office and multifamily vary from one another greatly, so it is critical that the initial building evaluation identifies necessary modifications. MEP systems will require evaluation: offices tend to need far more electricity, multifamily tends to need much more water and waste. Just as important to consider are vertical transportation, refuse and recycling, and structural systems.

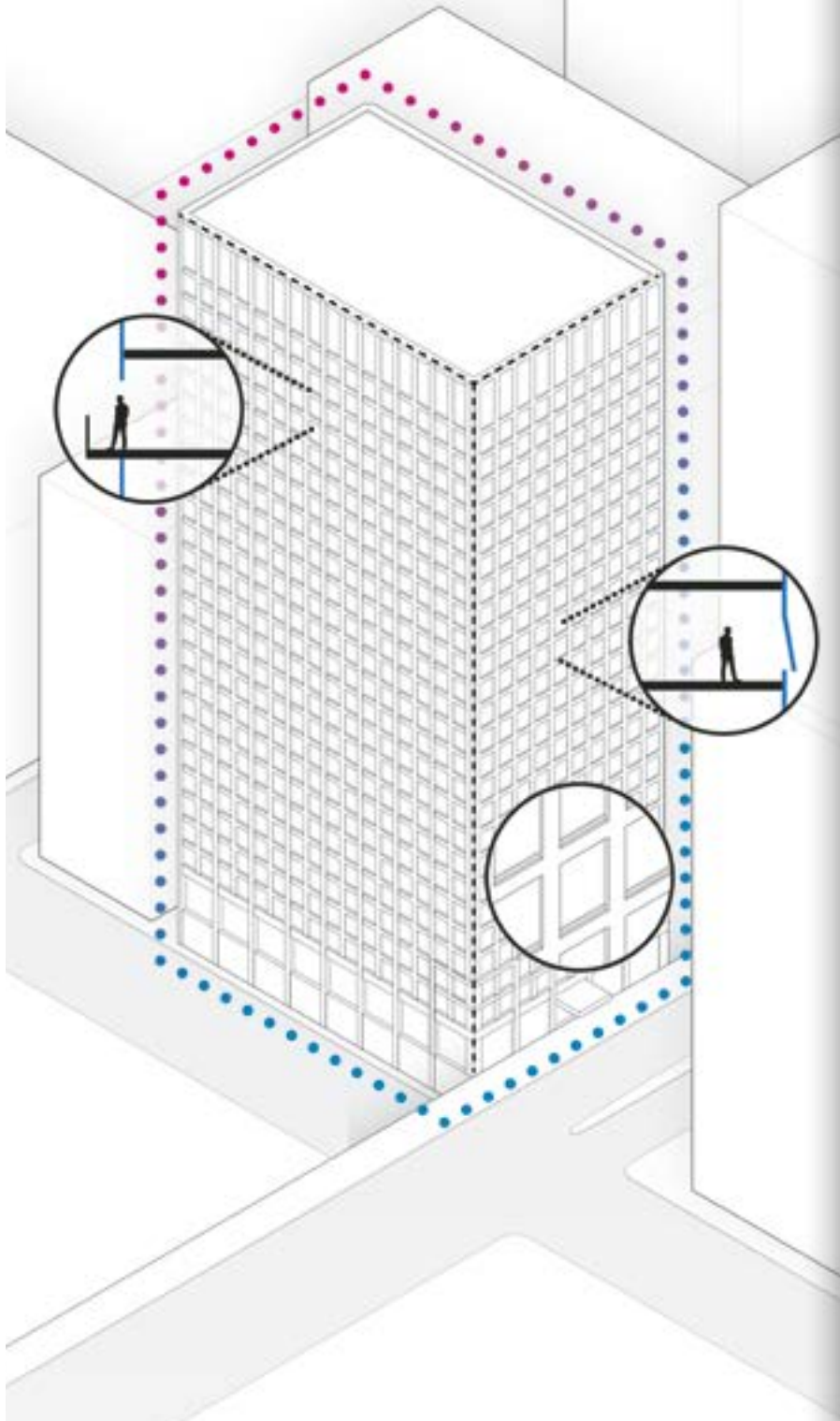
These system selections need to be informed and timely with costs and lead times balanced with market demands and occupant comfort.

## Key takeaways:

- Mechanical System Evaluation
- Electrical Capacity / Energy Code
- Evaluate Water & Waste Systems
- Vertical Circulation & Transportation
- Structural Grid



# Building Envelope



Multifamily buildings require ample natural light and fresh air ventilation, they also tend to need more facade. Office buildings tend to have inoperable windows, so consider that window operability will be essential. In addition to replacing windows, some asset classes require balconies, which is a complex addition. The thermal performance and current condition of the façade is also a key consideration, often requiring investment to meet current energy code standards.

The roof condition is an important consideration, but it is also not uncommon to see significant changes to a roof in office-to-residential conversions. Our clients often choose to convert the roof into valuable amenity space or to accommodate necessary mechanical changes.

As the project team prioritizes design decisions as part of the return-on-investment discussion, the condition of the building envelope should be evaluated.

## **Key takeaways:**

- Add Window Operability
- Modern Energy Code Requirements
- Need for Balconies
- Façade & Membrane Condition

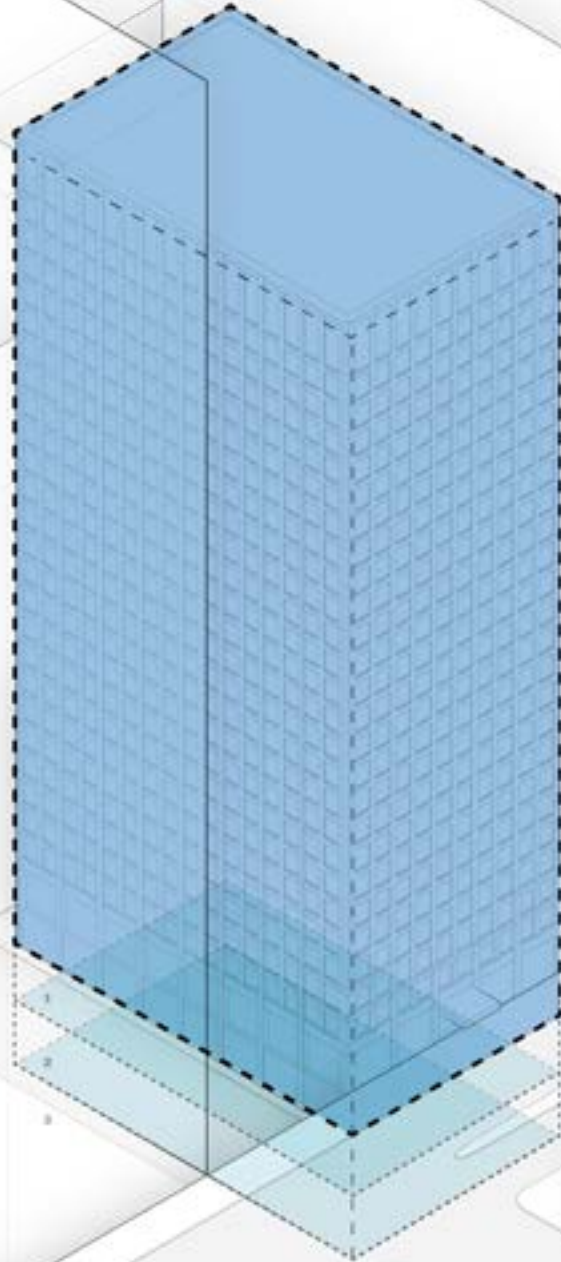
# Local Codes

Converting an office building to multifamily residential is a change in use for most municipalities, which can mean a change in entitlement. Changes to entitlement will have an impact on the overall conversion project schedule.

There needs to be a careful evaluation of the building classification, the local building codes, zoning ordinances, and energy and fire codes to determine the required alterations. These considerations can be significant and will impact the potential return-on-investment.

## Key takeaways:

- Understand New Entitlements
- Required Building Code Changes
- Evaluate Existing Requirements
- Evaluate Parking Requirements
- Evaluate Fire Code Requirements



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# COMPLEX CHALLENGES REQUIRE CAREFUL SOLUTIONS.

Converting an office property to residential requires a case-by-case assessment, but opportunity is present in the market. According to CBRE reports from as recently as December of 2022, the “overall office vacancy rate is above 20 percent in Atlanta, Chicago, Columbus, Dallas, Denver, Houston, Los Angeles, San Francisco, Minneapolis, and in all four New York City business districts (Brooklyn, Downtown, Midtown, Midtown South)”. And those numbers cover just leases. According to data compiled by journalists with Slate “the country’s 10 largest office markets are closer to 53 percent vacant based on employee badge scans.”

Despite the potential complexity, repurposing properties that have become financially or functionally obsolete is an opportunity. There is increasing demand for housing in business centers. To determine the economic viability of a potential conversion, proper consideration needs to be taken.

At HED, our experience has shown that careful evaluation and innovative solutions are essential for examining our clients’ return-on-investment for asset repositioning.

**We can help.**