ICSC+LAW SYMPOSIUM OH/KY/IN/MI/PA

Hilton Columbus/Polaris
Columbus, OH
Friday, March 1, 2024
1:40 – 2:40 pm

Session 3A: Urban Redevelopment/Conversion: Does Location, Size or Money Matter?

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OUTLINE

Urban Redevelopment/ Conversion: Does Location, Size or Money Matter?
As Cities begin to redevelop and convert downtown buildings to different uses, the Panel will discuss the importance of innovating the design of the property, financial sources and uses and how to succeed in a new financial environment.

Zoning and Government Incentives Essential for Success of Conversion and Adaptive Reuse

- As a result of the pandemic and hybrid work, major cities across the US are challenged with how to adapt vacant and underutilized office space to residential or retail alternative uses.
- These challenges also include expiring leases; banks calling loans; and decreased property values, all of which are contributing to the creation of a hole in our urban core.
- The US Government created a multi- agency program to address the housing crisis and to convert under-utilized office building to housing units, including affordable housing units. The program sets aside billions of dollars in federal aid through 20 different federal programs to support conversions, including grants and tax incentive programs for developers, low interest loans and loan guarantees.
- Local changes to zoning regulations, creating zoning overlays, permitting conversions to housing, and permitting more flexibility in uses such as childcare, pet care facilities, veterinary and pet hospitals, schools, mixed use flex and industrial space are essential to facilitate conversions.
- Zoning regulations in office zones are designed to limit the number of uses or housing units on a site, inhibiting affordable housing or workforce housing because of the permitted size of units. Mixed uses are also often restricted to restaurant or high-end retail.
- Licensing and Regulatory codes are also designed for the end user: plumbing, electric, sewage, fire and water standards and regulations will need to be adapted to permit different uses.
- New HUD regulations that change the Community Block Development Grants to include low-cost loan guarantees to fund conversion projects. HUD has also created a program called Pathways to Remove Obstacles to Housing programs, the goals are to offer access to adaptive reuse strategies, financing of eligible conversions and low interest loan guarantees to lending institutions.
- Creating construction incentives and adopting Adaptive Reuse Ordinances that reduce permitting time periods, reducing fees for conversion projects, eliminate parking regulations, reducing, or eliminating requirements of hiring employees from certain areas.
- Most effective are financial incentives that include tax abatements, reduced taxes during the conversion process, tax increment financing, historic tax credits, low-income housing tax credits and grants for encouraging retail reuse.

Conversion Candidates

- Each State and each local municipality are evaluating the local market conversion opportunities, needs of the community and the advantages of certain locations.
- Certain building characteristics, economic and market factors make for strong conversion candidates.
  - Physical attributes include building size, floor plate and façade.
  - Economic factors include building vacancy, parking availability and the building class and age.
  - Market factors include office demand, residential rents and nearby amenities.
- Access to public transit is not to be underestimated, eliminating the need for parking infrastructure and aligning affordable housing and sustainability goals with transit-oriented development goals.

Affordable Housing

- In addition to right sizing the office market and reducing office vacancy, an important goal of office to multifamily conversion for some cities can be to provide affordable housing.
- Cities can require affordability in exchange for local government incentives by ordinance and through long-term leases with developers.

Goals

- Fill vacant and fallow buildings with people by making it easier to invest in Downtown Pittsburgh and incent re-purposing and re-imagination of key Downtown real estate assets.

Strategies

- Lower the cost of investing downtown.
- Provide financial incentive and financial tools to fill financing gaps in complex office-to-housing conversion projects.
- Targeted Approach - Proactively engage key Downtown property owners and developers with incentives and tools to invigorate re-positioning of key Downtown assets.

Financing Tools/Initiatives

- Streamline Downtown Zoning (City)
- 3 Taxing Body Downtown LERTA (URA)
- Downtown Conversion Program
- Business recruitment
- *Downtown Investment Fund (URA, State, Federal)*

Streamline Downtown Zoning – Approved

- Proposed residential projects in the Golden Triangle area to move ahead without being reviewed and approved by the Planning Commission, as had previously been required.
- The zoning change also nixed the existing minimum lot size requirement per residential unit.

Case Studies

- Triangle Building
- GNC Tower
- 200 Ross Street
- *More to announce by the time the panel occurs.*

Background/Need

- Downtown Pittsburgh is the economic and symbolic core of the Pittsburgh region. As of 2021, the Greater Downtown area contained 35 million square feet of leasable office space, representing 47% of the Pittsburgh region's office market. With 66% of Downtown Pittsburgh's real estate dedicated to office space, Pittsburgh possesses the fifth-highest concentration of Downtown office space in the United States.
- The economic fall out of the COVID19 pandemic is leading to potential crippling of Downtown Pittsburgh and, in turn, devastating ripple effect across the region's economy.
- Changes in how and where people work, aging-built environment, and a high concentration of buildings built for office use have led to a potential economic catastrophe for Downtown Pittsburgh. This economic catastrophe will be characterized by abandonment, steep decrease in real estate valuation, real estate tax assessment decline, loss in real estate taxes, small business closures, and shift in tax burden from downtown office towers to homeowners and neighborhoods across Pittsburgh and Allegheny County.
- A bright spot in the face of this adversity is the resilient strength of demand for housing in Downtown Pittsburgh and opportunities to reposition portions of Downtown Pittsburgh from heavily concentrated office environments to housing and a thriving residential neighborhood.
- *In response to the COVID19 pandemic and efforts to mitigate against the ongoing impacts on Downtown Pittsburgh, the URA, the City of Pittsburgh, the Pittsburgh Public Schools, Allegheny County, Pittsburgh Downtown Partnership, Pittsburgh Chamber of Commerce, and others are actively engaged in and taking local action to stimulate the economic recovery of Downtown Pittsburgh.*

EXHIBIT 1

ADAPTIVE REUSE OFFERS CREATIVE SOLUTIONS FOR UNDERUTILIZED COMMERCIAL SPACE

States News Service

August 23, 2023 Wednesday

Length: 1878 words

Byline: States News Service

Dateline: WASHINGTON, DC

Body

The following information was released by the National Association of Real Estate Investment Trusts (NAREIT):

by

Article Author(s)

Michele Lerner

Cities across the country, including Los Angeles, San Francisco, Chicago, Washington, D.C., Boston, and New York are taking steps to make adaptive reuserepurposing buildings for something other than their original use easier and more cost-effective for developers. It's part of a broad effort to address ongoing housing shortages as well as provide opportunities for new commercial uses for underutilized real estate.

Doug Ressler, manager of business intelligence for Yardi Matrix, a commercial real estate data and research firm, says the market is "looking for creative solutions and is reacting to changing conditions such as the general lack of housing. We're also at an inflection point for commercial real estate, especially offices, with people recognizing that we won't go back to what it was like 10 years ago." He adds, though, that "adaptive reuse isn't a panacea."

As businesses from Alphabet to Zoom and the federal government announce new return to office mandates and hybrid options, there continues to be uncertainty about how much space companies will eventually need and how that space should be configured.

Incentivizing adaptive reuse

Amidst the continued uncertainty, most cities are doing something to try to address vacant buildings downtown, says Tracy Loh, a fellow with the Anne T. and Robert M. Bass Center for Transformative Placemaking at the Brookings Institute.

"The key for downtown neighborhoods to recover is flexibility," Loh says. "Probably 10% or less of office buildings are conducive to conversion to apartments, so it makes sense to allow repositioning for other uses such as retail business, light industrial, or storage." Zoning reform can be crucial to encourage adaptive reuse, she adds.

"Cities can amend their zoning overlays to make it easier to use office space for other types of businesses such as day care centers, schools, pet care facilities, and wet labs that are often not allowed," Loh says. "In Arlington, Virginia they recently added more options to their use tables for commercial buildings."

Office-to-logistics conversions are likely to be minimal and concentrated in areas with high land costs and limited competition from other nearby properties, according to a report by leading logistics REIT Prologis, Inc. (NYSE: PLD). Some of the obstacles identified by the report include rezoning, entitlement, permitting, and approval delays compared to greenfield development.

Zoning reform, tax abatements, tax incentives, and regulatory reform are all paths that cities can take to encourage adaptive reuse of commercial buildings, especially for affordable housing, says Dennis Shea, executive director of the J. Ronald Terwilliger Center for Housing Policy at the Bipartisan Policy Center.

"For example, in Washington, D.C. the city relaxed the requirement that a certain percentage of construction workers on projects that receive government funding be D.C. residents," Shea says. "They're also offering a 20-year property tax break to developers who convert commercial buildings to residences."

Actions taken by various other cities include:

San Francisco: Two city agencies issued a request for information in June to identify potential sites for adaptive reuse, estimate their feasibility for a conversion, and evaluate regulatory barriers to the projects. Property owners can propose various forms of city and federal support for their projects including tax abatements, zoning changes, and financing options.

Boston: The Downtown Office to Residential Conversion Pilot Program announced in July provides reduced property taxes of up to 75% of the standard tax rate for residential properties to commercial property owners who convert their buildings to residences. The tax rebates will last for up to 29 years, but applications are only open through June 2024 and projects must start construction by October 2025.

Los Angeles: The city is updating its 1999 Adaptive Reuse Ordinance, which streamlines the review process and eliminates some zoning obstacles to converting commercial buildings for residential use. The update will expand the program throughout the city and increase the number of eligible buildings.

California: Statewide, $400 million has been allocated for the next two years to encourage adaptive reuse. A proposal in the state legislature will limit fees, prevent parking requirements, and streamline the approval process for conversions that include an affordable housing component.

New York City: The city's Office Adaptive Reuse Task Force has recommended a new tax incentive that it says could create as many as 20,000 new housing units over the next decade. The proposal includes rezoning areas in Manhattan to allow residential buildings, streamlining conversion policies to make more buildings eligible, and eliminating parking regulations. Mayor Eric Adam's office and the Department of City Planning have also laid out a plan to convert vacant offices into housing as part of Mayor Adams' "City of Yes" plan. The Adams administration is also launching an Office Conversion Accelerator to expedite complex office-to-housing conversion projectsspeeding up the process of creating new housing while putting millions of square feet of empty offices to better use for New Yorkers.

Chicago: Five projects were recently selected by the city for conversion from office to residential use with the help of tax increment financing, grants for retail businesses on the ground floor, low-income housing tax credits, and historic tax credits.

The federal government is also stepping in to encourage adaptive reuse, with two tax credit bills introduced in Congress called the Neighborhood Homes Investment Act to loosen restrictions on density.

Meanwhile, "the Biden administration announced a working group to leverage federal funding to support commercial to residential adaptive reuse projects," Shea says. "The General Services Administration (GSA) is reviewing underutilized federal buildings to see which ones might work well for conversion to housing, and the Department of Housing and Urban Development (HUD) is funding research on how to make conversions less costly."

Market conditions that drive adaptive reuse

Numerous factors such as the age of a property and its configuration determine whether an office or other commercial building makes an attractive adaptive reuse project, Ressler says.

Developers need to look at inbound migration and employment figures to evaluate whether the demand will be there, Ressler says, especially because it takes an average of three to six years to complete a conversion.

"For a successful adaptive reuse project, you need real estate in a prominent location that's supported by income growth to sustain the rent, plus you need to be able to convert the property in a way that makes it attractive," says Shawn Tibbetts, COO of diversified REIT Armada Hoffler Properties, Inc. (NYSE: AHH). "It's not just the right building, it has to be the right market."

Armada Hoffler converted the former Dominion Energy headquarters in downtown Richmond, Virginia to a 174-unit multifamily property with the help of tax credits. The REIT also converted Chronicle Mill, a former textile mill outside Charlotte, North Carolina into a mixed-use development, also with tax credits and support from the local government.

"At Chronicle Mill we were able to combine adaptive reuse with a new adjacent building, which also helped make that project financially viable," Tibbetts says. "Along with the rehabilitation, adding a new building helped lower the overall cost per unit, plus it is an incentive to the city since they gain more taxable property."

Both experiences with adaptive reuse also involved zoning changes. Tibbetts says it's essential to have the local jurisdiction on board to make adaptive reuse work.

"We've looked at two other potential conversions this year in North Carolina, but neither could be justified from a cost standpoint," Tibbetts says. "Even if the buildings themselves were free, it would take so much time, money, and energy to convert them. We couldn't get enough units to make them work either."

While converting an existing building to a new use is the first thing that most people think of when they hear about adaptive reuse, in some cases the repurposing works better as a full or partial tear down. In Rockville, Maryland, for example, BXP (NYSE: BXP) acquired 31 acres with seven offices that will be demolished and replaced with purpose-built lab space and multifamily housing.

"The I-270 corridor is the epicenter of the life sciences market and the office buildings on this site are obsolete," says Pete Otteni, executive vice president and co-head of the Washington D.C. region for BXP. The location is already amenitized with transportation, shops, and restaurants, so it's the right kind of environment for us to develop a sense of place."

"The ability to reuse the parking deck provided a big cost savings, but the floor plates of the two office buildings, which were connected by one lobby, were not conducive to residential use," says Rich Ellis, senior vice president, residential for BXP. "Instead of re-skinning the office buildings and replacing the mechanical systems, we're seeking to five levels of wood-framed residential buildings, which is much more cost-efficient."

"Adaptive reuse is a value play and we've done the math but so far we haven't gotten to the point that office owners are ready to come down enough in valuation to make it work," Otteni says. "If you can pay less because of tax credits and incentives, that might make the difference, but it all depends on the specifics of the building layout and location."

Another challenge of adaptive reuse for many developers is the added layer of risk.

"You don't know what you don't know about what you'll find when you open the walls," Ellis says. "You need a higher expected return to compensate for that risk."

While Ellis concedes that adaptive reuse can save time compared to ground up development, he says budgeting accurately for a conversion can be extremely difficult because of the unknown risks.

Future of adaptive reuse

Despite the interest in converting commercial real estate for different uses, in 2022 the conversion of offices dropped 15% compared to 2021 to a 10-year low, according to the Adaptive Reuse Report from Yardi Matrix, released in July.

However, the report also found that the number of future adaptive reuse projects in the pipeline includes 122,000 converted apartments to be developed over the next few years. That compares to a projection of 77,000 apartments in the pipeline in 2022's report. Office conversions are expected to represent 37% of the total, followed by hotels (23%) and factories (14%).

Hotel conversions were more popular than office conversions in 2022, and the number of apartments converted from hotels rose by 43% compared to 2021, primarily for affordable housing, Ressler says.

While challenges remain for adaptive reuse, public-private partnerships and concern about revitalizing downtown cores are likely to push developers to find creative solutions for vacant commercial buildings.

Load-Date: August 23, 2023

EXHIBIT 2

D.C. Looking to Incentivize Office to Residential Conversions

Newstex Blogs

JD Supra

January 21, 2022 Friday 5:53 PM EST

Length: 713 words

Byline: Cozen OConnor

Body

Jan 21, 2022(JD Supra: http://www.jdsupra.com Delivered by Newstex)

As office vacancies remain at record levels in D.C., and even leased buildings continue to remain largely empty thanks to COVID, the city is looking to find ways to incentivize conversion of older commercial buildings (office, hotel, or retail) to residential use.The Office of the Deputy Mayor for Planning and Economic Development issued a Request for Information[1] (RFI) last month seeking input on what type of incentive structure might be created to encourage such conversions.

The RFI notes that office vacancies could remain high for some time to come as remote work and hybrid scheduling seems here to stay. Adding more housing in central Washington, particularly in the Central Business District (CBD), would help support retail and generate additional tax revenue for the city while also increasing desperately needed housing near transit and jobs. The goal of the RFI is to identify ways to encourage residential conversions that will also increase the number of affordable and workforce housing units downtown.

The RFI specifically asks respondents to identify properties or areas that might be good candidates for conversion.In addition, input is sought regarding future market condition expectations and what mechanism would best incentivize conversions (e.g., tax abatement, zoning, tax credit, etc.).Input is also sought on what affordability levels should be required while making clear that at least some affordable housing would be a requirement for conversions.Such an affordability requirement would be consistent with the Zoning Commission's recent text amendment[2] to the D.C. Zoning Regulations requiring inclusionary zoning for conversions of non-residential buildings to residential use.

D.C. is not alone in analyzing the office to residential conversion trend.Other area jurisdictions have also grappled with how to either incentivize or respond to requests to convert office buildings to residential use.For example, after receiving numerous zoning requests to permit office to residential conversions over a several year period, Arlington County adopted administrative guidelines[3] in 2020 to establish consistent guidance to be applied in the review of such proposals.Fairfax County moved even earlier to help facilitate conversions with a new policy[4] adopted in 2018 that allows for office building conversion without the need for a comprehensive plan amendment.

The deadline for response to the RFI is Friday, January 28, 2022.

[1]: https://dmped.dc.gov/sites/default/files/dc/sites/dmped/publication/attachments/RFI%20HID%20DCEB-2022-I-0001%2012142021_0.pdf [2]: https://app.dcoz.dc.gov/CaseReport/CaseReportPage.aspx?case_id=21-05 [3]: https://www.arlingtonva.us/files/sharedassets/public/projects/documents/site-plan-projects/office-conversions-administrative-guidance-december-2020.pdf [4]: https://www.fairfaxcounty.gov/publicaffairs/new-fairfax-county-policy-helps-empty-offices-suburban-neighborhoods-convert-new-uses

Load-Date: January 21, 2022

EXHIBIT 3

Downtown Office Conversion

Newstex Blogs

JD Supra

November 21, 2023 Tuesday 12:48 PM EST

Length: 1141 words

Byline: Partridge Snow & Hahn LLP

Body

November 21st, 2023 (JD Supra — Delivered by Newstex)

'Your success in life isn't based on your ability to simply change. It is based on your ability to change faster than your competition, customers and business.' — Mark Sanborn.

This past July, Boston Mayor Michelle Wu, following the lead of several other major cities around the country and world, announced the Downtown Office to Residential Conversion Pilot Program (the 'Program'). The Program is focused on attacking the dual issues of (i) increased commercial office vacancy rates post-pandemic in the downtown Boston market (with a focus area on the district bounded by Tremont/Cambridge Street, Essex Street, and the Greenway along with select portions of the West End) and (ii) ever-increasing housing costs. The Program will not only provide financial incentives for converting existing office space to residential housing, but also streamline and reform the outdated zoning codes and procedures to enable such conversions.

The Program, among other things, allows the Boston Planning & Development Agency ('BPDA'), the City of Boston, and developers to enter into payment in lieu of tax agreements providing for much needed tax incentives and tax breaks for downtown conversation projects. Additionally, the permitting process, including Article 80 review, will be fast tracked for projects participating in the Program in order to make it easier for downtown conversion projects to be approved.

The BPDA has recently begun accepting applications and will continue to accept applications through June 2024, with any approved projects required to start construction no later than October 2025. Given these tight timelines, developers must act quickly to take advantage of this Program. Those who delay may find themselves holding vacant assets and unable to meet their financial obligations.

The Data

The Covid-19 pandemic resulted in a drastic shift in office demand. As of 2023 Q2, the commercial office availability rate in Boston has increased to 13.7%, up from 8.4% in 2019. There is 44.8 million square feet of commercial office space available in Boston, which is the highest on record. Of that, 34.7 million square feet is directly available and 10.3 million square feet is listed for sublease (also the highest on record).

In 2022, it appeared for a short time that commercial office demand might be rebounding. That year saw the first positive net absorption rate for office occupancy since the start of the pandemic (though the rate was still well below pre-pandemic levels) and office occupancy reached a post-pandemic high of 31% signaling that businesses were beginning to gradually end remote work and bring workers back to the office. However, that trend did not take hold. Net absorption has cratered so far in 2023 and is on pace to rival the record low in 2020. Office occupancy is back on a downward trend.

Workers have demonstrated over the past three years that remote work is not only possible, but successful. Productivity has largely rebounded from the pandemic. Numbers published in May 2023 show that in 2021 Boston's Gross City Product reached record levels after a pandemic-induced dip in 2020. The 2022 and 2023 numbers are expected to be roughly in line with pre-pandemic levels. Further, workers have made their preference clear. A poll conducted by the Boston Globe earlier this year showed that 46% of respondents prefer a hybrid work model, 39% prefer to work fully remote, and only 15% prefer a full return to the office.

It appears unlikely that commercial office demand will rebound to pre-pandemic levels anytime soon. As a result, the data shows, and we expect, that many companies either are (or will be) looking to downsize their office footprint. With 11.7% of Boston office leases expiring in 2023, and over 40% of Boston office leases expiring over the next 5 years, occupancy rates are expected to continue a downward trend.

Residential Housing Demand

At the same time as commercial office demand has dropped, the demand for residential housing in Boston has been on a meteoric rise. In July, the median price of a single-family home in the Greater Boston Area reached a record $910,000, the median price of a condominium reached $735,000, and median rent rose to $3,124, rivaling Bay Area cities and New York nationally.

The supply of housing in Boston is not nearly sufficient to meet the increased demand, which phenomenon is even more pronounced in downtown Boston. Downtown Boston contains only 2.3% of the total residential units available in the city. Downtown residential vacancy rates are 3.5%, the lowest of any neighborhood besides Back Bay and Fenway, which is down from 5.4% in 2019. That -1.9% change in residential vacancy rates is the greatest decrease in vacancy rate of any Boston neighborhood, which suggests that residents are increasingly desirous to live downtown.

Despite the lack of supply of residential units in downtown Boston, and the increased demand for them, only 28% of upcoming downtown development projects are for residential builds, as compared to approximately 50% throughout the city generally.

The Program

Cities such as New York, Chicago, Los Angeles, Washington, D.C., London, Paris, and San Francisco, among others, have recently announced or adopted programs to provide incentives and relax zoning regulations to encourage conversion of downtown office space to residential units. In July, Mayor Wu announced the Program to encourage that same type of conversion in Boston.

In addition to tax incentives, zoning and Article 80 review will be expedited for projects participating in the Program to help ease the process for converting office space and developing residential units in the downtown area.

The Program will be administered by the BPDA, the Mayor's Office of Housing, and the City of Boston Finance Cabinet. Any project will be required to comply with the recently updated Inclusionary Development Policy (i.e. 17% of units at 60% of Area Median Income and 3% at Fair Market Value for those with housing vouchers). The viability of a building for conversion will be case specific and depend on the size, build, and location of the building. The BPDA has identified mid-size Type 2 and Type 3 buildings in the financial district, with floorplates of 50 to 70 or 70 to 100 feet, as the most economically viable candidates for conversion, though smaller Type 1 buildings may be economically viable if they have a significantly high vacancy rate.

The post-pandemic era of worker flexibility is a leading contributor to the current trend of decreasing demand for commercial office space nationally and in Boston in particular. While the demand for commercial office space is on the decline, the demand for residential space has skyrocketed and has shown little signs of slowing.

Link to the original story.

Notes

Load-Date: November 21, 2023

EXHIBIT 4

Empty office spaces can be converted to residential buildings - but it won't be affordable

The Conversation - United States

July 14, 2023 Friday 12:47 PM EST

Length: 1175 words

Byline: Jenny Baker, Teaching Professor in Civil, Construction and Environmental Engineering, Iowa State University

Highlight: With many employers switching to remote work, two engineering experts explain the feasibility of converting office buildings to residential spaces.

Body

Since the COVID-19 pandemic began, more companies have offered remote work options for their employees, or have even switched to working entirely remotely - leaving empty office buildings a new fixture in many cities. In July 2023, Boston's Planning and Development Agency announced a pilot program to offer incentives to building developers who convert office buildings to residential housing.

As engineers who study buildings, we wanted to know if these empty spaces could be converted to residential buildings, and what hurdles developers would face.

While converting office buildings to multi-family residential involves many considerations - including zoning codes, real estate values and structural issues - certain buildings may be good candidates for this type of conversion. Here's what it would take to remodel these spaces.

Redefining space

First off, the building owners wouldn't need to make any major structural changes to convert an office building to a residential building. Most office buildings are designed so that the tenants can easily build out the space to suit their needs. This means they can put up walls, take power where they need, and select finishes like flooring, paint and lighting.

With a conversion to multi-family residential, the shell and structural elements of the building would remain, while the building owners could add or move walls to create individual apartments. The costs for this interior remodeling would depend on the how fancy things like the countertops and light fixtures are.

But remodelers would also need to consider nonstructural building features, like windows. Windows determine the distribution of natural light in each residential unit. Narrower office buildings with more area along the perimeter - and therefore more opportunity for viewing windows - would transition more easily to residential than deep, rectangular-shaped office buildings. No one wants to live in a home with no daylight.

Electricity, fire alarm and telecommunications

Residential and commercial buildings have different electricity needs. Residential buildings have kitchen appliances that require lots of power, but office buildings use more computers, projectors and copy machines - meaning the electrical load would likely be about the same. Office and residential buildings also have similar power needs for lighting.

The electrical load from heating and air conditioning would depend on the type of systems used. While the main electrical service of an office building might be an OK size for a residential building, remodelers would need to add a subpanel to each residential unit. U.S. code requires that all residents have "ready access" to the circuit breakers or fuses supplying their unit.

Building owners would also need to add more fire alarm devices, since residential buildings have more rooms. They might need to revise the internet, telephone and cable systems, as well, to make sure each residential tenant has access to these services.

Though expensive, these electrical revisions are possible. The biggest hurdles would be adding the subpanels and metering to figure out how much each unit uses.

Heating, ventilation and air conditioning

While commercial buildings usually have centralized HVAC systems, residential buildings need separate HVAC systems and controls for each residential unit. That being said, mid-rise and high-rise apartment buildings often use a centralized HVAC system with variable air volume units in each zone. Variable air volume units work together with a central air handling unit that supplies a constant airflow. Each variable air volume unit then adjusts the air flow for its specific zone. Each smaller apartment would be a zone, but some larger apartments may need multiple zones.

Residential buildings typically have a smaller HVAC load than office buildings, meaning the existing HVAC system would be larger than needed for residential reuse. Oversized air conditioning systems often have humidity problems - add to that the fact that residential tenants create more humidity from showering, doing laundry and cooking. The way to mitigate humidity here is through additional exhaust fans. Variable air volume units would also help keep the extra humidity under control. Building owners would need to pay for these additions, as well as ductwork remodeling.

Plumbing and fire protection

In office buildings, most plumbing is centralized, often in the building's core. For instance, bathrooms tend to be grouped together and located in the same spot on each floor. However, in residential buildings, plumbing is distributed throughout. Each unit typically has its own bathroom and kitchen, and each requires drinking water and sanitary sewer.

The biggest issues here would be the service sizes - or how large the pipes serving the building are - and the interior plumbing system. The service sizes for water and sewer in an office building may not be big enough for residential uses. This would depend on local codes and the number of plumbing fixtures. It's likely that the pipe for a sewer utility connection would need to be larger for an apartment building than for an office building. Also, the interior plumbing system would need a remodel to serve each residential unit.

Reworking the plumbing for water should be possible. However, reworking the sanitary sewer system would be much more difficult, especially on upper floors. Gravity makes things run downhill, and longer horizontal pipes need more vertical drop to keep things flowing in the right direction. This remodel would require new plumbing chases - vertical cavities that pipes run in - to accommodate the sanitary sewer and vent piping needs. Adding these chases would likely require core drilling of floors. If the owner wanted to invest the money, it would be doable - but expensive.

The fire sprinkler system would likely need revisions once the new walls go up, but the size of the pipe bringing water to the sprinkler system should be pretty close to the right size.

New life for vacant buildings is doable but not easy

No one wants to see office buildings sitting vacant, as vacant buildings can diminish surrounding real estate values. Converting an office building to a multi-family residential occupancy is possible. It would, however, not be cheap.

But office buildings that are due for a remodel or upgrade anyway could be great candidates for this type of reinvention. If the building systems - HVAC, plumbing, electrical - are due for replacement, the project becomes more cost effective. With demand for rental units outpacing growth in new supply, and many cities like San Francisco and Boston offering incentives to convert, there is potential here. For someone with a creative vision and a building in the right location, this could be a successful and innovative project.

The authors do not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and have disclosed no relevant affiliations beyond their academic appointment.

Load-Date: July 14, 2023

EXHIBIT 5

NYC is relaxing zoning to incentivize commercial-residential building conversions; industry experts say it’s a complicated process

American City & County

September 6, 2023

Length: 763 words

Byline: Andrew Castillo

Body

With the commercial vacancy rate cresting 17% nationally this summer, cities and counties across the United States are scrambling to find sustainable strategies to reverse the trend. Converting empty commercial spaces into residential housing is one oft-talked about solution that many communities are considering. Following an“up to 75%" tax break initiative in Boston announced earlier this summer, New York City is the latest metro center to take action.Included in the city’s“City of Yes" initiative, which is designed to increase the amount of affordable housing options available, is a plan to convert commercial real estate into residential units.

To facilitate that endeavor, Mayor Eric Adams announced last month the launch of an Office Conversion Accelerator team, which creates a single point of contact within city hall for all renovation projects of more than 50 housing units.“We are throwing open the door to more housing—with a proposal that will allow us to create as many as 20,000 new homes where the building owner wants to convert offices into housing but needs help cutting through the red tape," Adams said in a statement. “With these three initiatives—converting empty offices to homes, an Office Conversion Accelerator, and the Midtown South Mixed-Use Neighborhood Plan—we continue to use every tool at our disposal to increase the supply of homes for New Yorkers."The Midtown South Mixed-Use Neighborhood Plan is a process that will update zoning rules to allow more residential units. Technically, the proposed actions to facilitate office conversions extends substantial building flexibility to a 136 million square feet of office space—roughly the amount of office space in the entire city of Philadelphia, according to the statement. The zoning changes make buildings built before 1990 eligible to convert into housing, and allows offices and other non-residential buildings to be converted to housing anywhere in the city where housing is permitted under zoning. The policy also allows a wider variety of housing types to be retrofitted in converted offices, such as supportive housing, shared housing, and dorms.“It makes no sense to allow office buildings to sit empty while New Yorkers struggle to find housing. By enabling office conversions, New York will reinvigorate its business districts and deliver new homes near jobs and transit," said Deputy Mayor for Housing, Economic Development, and Workforce Maria Torres-Springer.The office-to-residential conversion plan is touted as having the potential to produce 20,000 new homes.But while many in the public sector are looking to the residential conversion of commercial real estate as a silver bullet that can simaltaneously fill vacant office spaces and solve a national housing shortage—driving down residential real estate prices in the process—it isn’t that simple. “Building residential housing is incredibly (complicated)," said Gary Kerr, who runs the Northeast region for Greystar Real Estate Partners, an international South Carolina-based real estate developer and management company. Converting offices into residential units “Is possibly one of the most complicated conversions you can do. “It is, in most cases, infeasible."In many cases, residential conversion requires a total gut of the commercial building’s interior. Utilities like plumbing systems must be rerouted so that each individual unit can be metered. Loading docks need to be filled in. Glass walls must be remediated, as they aren’t economical. Elevators might need to be reolocated to meet residential code. Interior walls and egress stairways sometimes need to be added. Then there’s the financial drain of bureaucratic red tape.“You’re going to span three, four, five, six months just on feasibility studies," Kerr said, noting that from conception to completion, a typical residential conversion takes about a year. “I think there is some disconnect between how feasible this is—and a lot of times we get stuck on ‘if it’s physically feasible,’ compared to ‘financially feasible.’ There are places where it’s both, and that’s when it happens."The idea that converting a space will take faster than building a new one is “a little bit of a misnomer," he continued. “It’s actually quicker sometimes to knock these buildings down and start from scratch."Even so, Kerr noted that the steps many cities like New York City are taking to incentivize conversion for commercial real estate owners is promising.   “It is definitely a significant cost-benefit. It really comes down to the individual building," he said.

Load-Date: September 15, 2023

EXHIBIT 6

So Much Empty Office Space, So Few Easy Options -- Journal Report

Dow Jones Institutional News

December 13, 2023 Wednesday 4:00 PM GMT

Length: 1229 words

Byline: By Dylan Burzinski

Body

The Covid-19 pandemic may be largely in the rearview mirror, but there is at least one area of the economy that remains ill: the office sector of the U.S. commercial real-estate market.

What began as a two-week work-from-home experiment in March 2020 evolved into an entrenched hybrid/remote work environment. Despite return-to-office mandates, office-utilization rates (how many people are physically in an office on any given day) have failed to pick up meaningfully this year and are still 30% to 40% below 2019 levels for most office markets across the country.

Employers have shed office space as a result, helping send the amount of office space available for lease shooting up to historic highs across most major U.S. cities. The so-called availability rates are hovering at 25% on average compared with slightly above 15% before Covid -- and things could get worse before they get better. At the onset of the pandemic, my firm, Green Street, projected a 15% hit to demand for office space from the impact of hybrid work, and the available evidence suggests it ultimately may go higher.

Amid these challenges, two questions are top of mind: Where is the problem the worst, and what can cities and property owners do to adjust to the new normal?

The biggest losers

Many coastal U.S. markets felt the brunt of the pain early on in the pandemic. It wasn't hard to find someone predicting the death of large cities like New York and San Francisco as the things that make these cities great -- culture, entertainment, density -- ceased to matter in a world under lockdown. Meanwhile, cities across the Southeast saw high levels of in-migration and job growth, which helped offset some of the reduced demand for office space.

While many of these Sunbelt cities, such as Charlotte, Miami and Nashville, are still on better relative footing from a demand perspective, significant vacant office space is a problem for them, too. That's because a large amount of new office developments came online over the past few years, adding to the supply of vacant space.

The crisis continues to be the worst in San Francisco for several reasons. First, most of the city's office tenants are in the tech industry, which has been more open to hybrid work. What's more, many tech companies have recently pared back growth plans and laid off workers, leading many of them to shed office space. This has caused San Francisco's office market to reach an availability rate north of 30%, the highest in the country.

Second, and arguably most important, the city is facing substantive quality-of-life issues associated with crime, homelessness and affordability. While San Francisco's residential neighborhoods are doing relatively well, its business districts are suffering from a lack of foot traffic, which has been exacerbated by the many retailers and hotel owners who have closed up shop. There's hope San Francisco's office stock will benefit from emerging initiatives to clean up the city coupled with a wave of demand from artificial-intelligence companies; however, a turnaround isn't going to happen overnight.

New York, on the other hand, has seemingly started to find its footing after several years of office-demand disruption, though there is still more vacant space today than before Covid. The city's office-utilization rate is much higher than San Francisco's and more in line with leading cities in the Southeast. This is likely the result of its diversified economy and large financial-services presence, an industry that has been more adamant about bringing employees back to the office. New York also isn't facing the same magnitude of quality-of-life issues as San Francisco.

Is there a solution?

If even the cities with the highest office demand still have too much vacant office space, the logical question is what will happen to all of this unused inventory?

Converting office space to an alternative use is the first thing that comes to mind, especially office-to-residential conversion, considering the issues with housing shortages and affordability that are plaguing many big cities. The problem is, converting an existing office building for residential use isn't easy. The hurdles include structural differences between an office and residential building, making it hard to convert existing office space unless fully torn down. There also are zoning challenges in terms of switching to residential from commercial, as well as the cost and ultimate return on investment of such conversions from an investor's perspective.

While some municipalities are in the process of trying to change zoning regulations to allow such conversions, the cost hurdle may be too tough to overcome in the absence of sizable government incentives. As a result, office-to-residential conversions may occur marginally, but they aren't likely to pave the way for a significant reduction in office inventory over the next few years.

Another thing local governments could do is restrict the construction of new office developments to avoid exacerbating the existing supply/demand dilemma. They also could find ways to create or bring new office jobs into the metro area to help offset the drop in demand for space, and provide landlords with incentives to upgrade existing buildings to better meet what today's tenants desire.

Despite the major challenges office owners are facing, there are some bright spots in the office world.

Newer office space with lot of modern amenities is more in demand than lower-quality buildings, as companies seek to provide employees with an attractive alternative to working from home. That isn't to say A-quality properties have been immune to the sector's decline; their values are down 35% relative to pre-Covid, according to Green Street, as aggregate demand is still lower, interest rates are much higher and debt financing for offices is far more expensive and less available. Stock prices for publicly traded office owners, also known as real-estate investment trusts, are still trading at a discount relative to the value of their assets, signaling that private-market office values are still about 15% too high and may come down further.

That said, the success of higher quality buildings suggests that there will be some need for office space. As such, owners who invest in modernizing their properties may be able to attract tenants and keep their buildings more occupied than those who don't. The issue today is that some existing owners may be capital constrained, preventing them from being able to make the necessary improvements.

A lack of capital, or a lack of willingness to commit capital, could be partially solved with government incentives. However, there are questions about how such incentives would be funded, as well as whether taxpayers would object to what could be viewed as a government bailout. These concerns are especially true for cities that already are facing budget pressures.

Whichever route cities choose to take to reduce unused office space will ultimately take time and won't be easy, but the existing status quo clearly isn't working. Those who act first with thoughtful policies will be better off in the long run.

Dylan Burzinski is lead analyst and head of U.S. office research at commercial real-estate analytics firm Green Street. He can be reached at reports@wsj.com

(END) Dow Jones Newswires

December 13, 2023 11:00 ET (16:00 GMT)

Notes

PUBLISHER: Dow Jones & Company, Inc.

Load-Date: December 13, 2023

EXHIBIT 7

Office Adaptive Reuse
Task Force

New York City

Office Adaptive Reuse Study

January 2023

NYC PLANNING

Letter from Chair Garodnick

To my fellow New Yorkers,

One thing that makes New York City unique is its ability to reinvent itself in times of adversity.

Our City's success has long been due to the ability of our people and economy to adapt to a constantly changing world. As our important commercial districts evolve in response to the last two years, we want to ensure that outdated office buildings can be converted to more in-demand uses, such as desperately needed homes for New Yorkers. Bottom line: We want to make it easier to repurpose office buildings for alternative uses in a way that will help shore up the office market, ensure our business districts remain vibrant, and make a dent in the City's decades-long housing crisis.

The recommendations outlined in this report are a result of a five-month process that brought together a task force of experts in architecture, development, economics, finance, law, public policy, and tenant advocacy. Thank you to everyone who participated in the Office Adaptive Reuse Task Force.

I would also like to thank Council Member Brannan and the City Council for passing the legislation that created this task force. We will work to advance those changes that are under our control and work with our Albany partners to make these recommendations a reality. Now is the time for action and for us to say yes to adaptive reuse.

Dan Garodnick

Director of the New York City Department of City Planning
and Chair of the City Planning Commission

EXECUTIVE SUMMARY

Executive Summary

The ability to repurpose existing buildings for alternative uses enables New York City's economy to adapt more quickly and sustainably to change. While there is a long history of adaptive reuse of New York City's buildings, layers of outdated and conflicting regulations impede the ability of buildings and business districts to adapt today. Recommendations in this report will help facilitate the adaptive reuse of outdated office buildings to suitable and productive uses, such as housing, while supporting the vibrancy of the city's business districts as centers of commerce. The recommendations include easing regulations that govern adaptive reuse of office buildings and consideration of a tax incentive to support the inclusion of affordable housing in conversions. As outlined in Local Law 43 of 2022, a diverse 12-person task force was convened to develop these recommendations.

Why study this now?

A decline in office space usage and a sharp rise in office vacancy rates prompted by the COVID-19 pandemic have spurred interest in finding alternative uses for struggling office buildings. While flexible conversion regulations apply to portions of New York City's office stock, they were created decades ago and should be updated to serve current needs.

Report Recommendations

Expand the Range of Buildings Eligible for the Most Flexible Conversion Regulations

Provide office buildings constructed before December 31, 1990 access to the most flexible regulations for conversion to residential use. This change to the New York State Multiple Dwelling Law and the New York City Zoning Resolution would provide over 120 million square feet of office space with an easier path to conversion.

Expand conversion regulations to all high-intensity office districts. Currently, the most flexible conversion regulations (outlined in Article 1, Chapter 5 of the Zoning Resolution) apply to only the city's largest business districts. This recommendation would expand the applicability of these regulations to all high-intensity commercial districts (areas designated as C4, C5, or C6 zoning districts). This change would provide approximately 16 million square feet of older office space in areas such as Downtown Flushing and the Bronx Hub with an easier path to conversion.

Reevaluate centrally located, high-density Midtown zoning districts that don't allow new residential use. Currently, several districts between West 23rd Street and West 41st Street are zoned as Manufacturing Districts that do not allow new residential buildings through conversion or ground-up construction. In consultation with local elected officials and other stakeholders, the City should study and evaluate the appropriateness of the current zoning.

Make Existing Conversion Regulations Work Better

Permit conversion of office buildings to a broader array of housing types. Currently, offices can only convert to dwelling units (as defined in the Zoning Resolution). Expanding regulations to allow conversion to a broader range of in-demand forms of housing, such as supportive housing, would provide more opportunities to reuse office buildings and house more New Yorkers.

(Recommendations continued on the following page)

(Recommendations contined from the previous page)

Allow an expanded array of offices to convert all existing square footage to residential. In 1997, coordinated changes to the Zoning Resolution and Multiple Dwelling Law aimed to allow buildings built as recently as 1977 to convert their existing square footage entirely to residential. However, provisions of the Multiple Dwelling Law capping residential floor area ratio (FAR) to 12 in New York City currently remains applicable when converting buildings permitted after 1969. This makes the conversion of many otherwise qualifying Manhattan buildings impractical. All buildings that will be permitted to use the most flexible zoning regulations for conversion should be permitted to convert all their existing floor area.

Several other changes related to parking, recreation space, and courtyards are also outlined in this report and will make a broader range of conversions possible.

Provide Financial Incentives for Affordable Housing and Childcare Facilities

Explore and pursue a tax incentive to support mixed-income housing within conversions. A government incentive to generate affordable (income-restricted) housing units in converted buildings without deterring overall private investment in conversions should be considered and advanced. Analysis indicates that while office conversion entirely to affordable housing is generally infeasible, conversion to mixed-income housing could be achievable through a property tax-based incentive.

Implement a property tax abatement to incentivize retrofitting space for childcare centers. Accessible and high-quality childcare is a priority for New Yorkers and should be incentivized. As part of Mayor Adams's Blueprint for Childcare & Early Childhood Education, a property tax abatement for building owners retrofitting space to accommodate childcare centers will be implemented. $25 million worth of tax abatement is available to help fund retrofits to comply with New York City Health Code requirements for childcare centers.

What's next?

The Office Adaptive Reuse Task Force calls for timely action to ensure our business districts can adapt now to meet the needs of the moment as well as those of future generations. Recommendations outlined by the task force should be implemented expeditiously via statutory changes in the 2023 New York State legislative session, with any other necessary regulatory changes implemented through a New York City zoning text amendment.

A "New" New York

Adaptive reuse of office buildings is only one part of a much larger strategy to ensure that New York City's business districts remain agile and successful. The Office Adaptive Reuse Task Force was closely aligned with a broader examination of the future of New York City's economy conducted by a City and State "New" New York Panel, whose *Making New York Work For Everyone Action Plan* was published in December 2022.

Conclusion

The task force's intention is not to prescribe the balance needed between office space, housing, and other uses in a dynamic and uncertain environment, but rather to provide a regulatory environment that enables market-driven investment to achieve such a balance by responding to changing conditions. The ability to repurpose unviable office buildings will support the evolution of New York City's building stock and business districts into more dynamic places where a greater number of people live as well as work. Now is a critical moment to update State and local regulations and provide the tools needed for our office districts to adapt for the betterment of all New Yorkers.

Table of Contents

INTRODUCTION

Introduction

Repurposing existing buildings for new uses can help cities adapt to changing land use patterns quicker and more sustainably. This report offers recommendations to provide wider latitude for the conversion of office buildings to other uses throughout New York City. Broadly characterized, the recommendations include easing regulations that govern conversions and consideration of a tax incentive to support the inclusion of affordable housing in conversions. As set forth in Local Law 43 of 2022, a diverse 12-person task force was convened to develop these recommendations.

Why this study now?

A decline in the usage of office space coupled with a sharp rise in office vacancy rates prompted by the COVID-19 pandemic have spurred interest in finding alternative uses for struggling office buildings. While most of New York City's office districts have relatively flexible conversion regulations, they were created decades ago and, if updated, would better serve current needs. The most flexible building reuse regulations should be expanded to a broader range of office buildings within our business districts to support conversions of commercial buildings market forces reveal to be obsolete. Changes recommended in this report will facilitate the adaptive reuse of outdated office buildings to more in-demand uses, such as housing, while supporting the overall health of the city's business districts as a vibrant, global center of commerce that continues to attract investment.

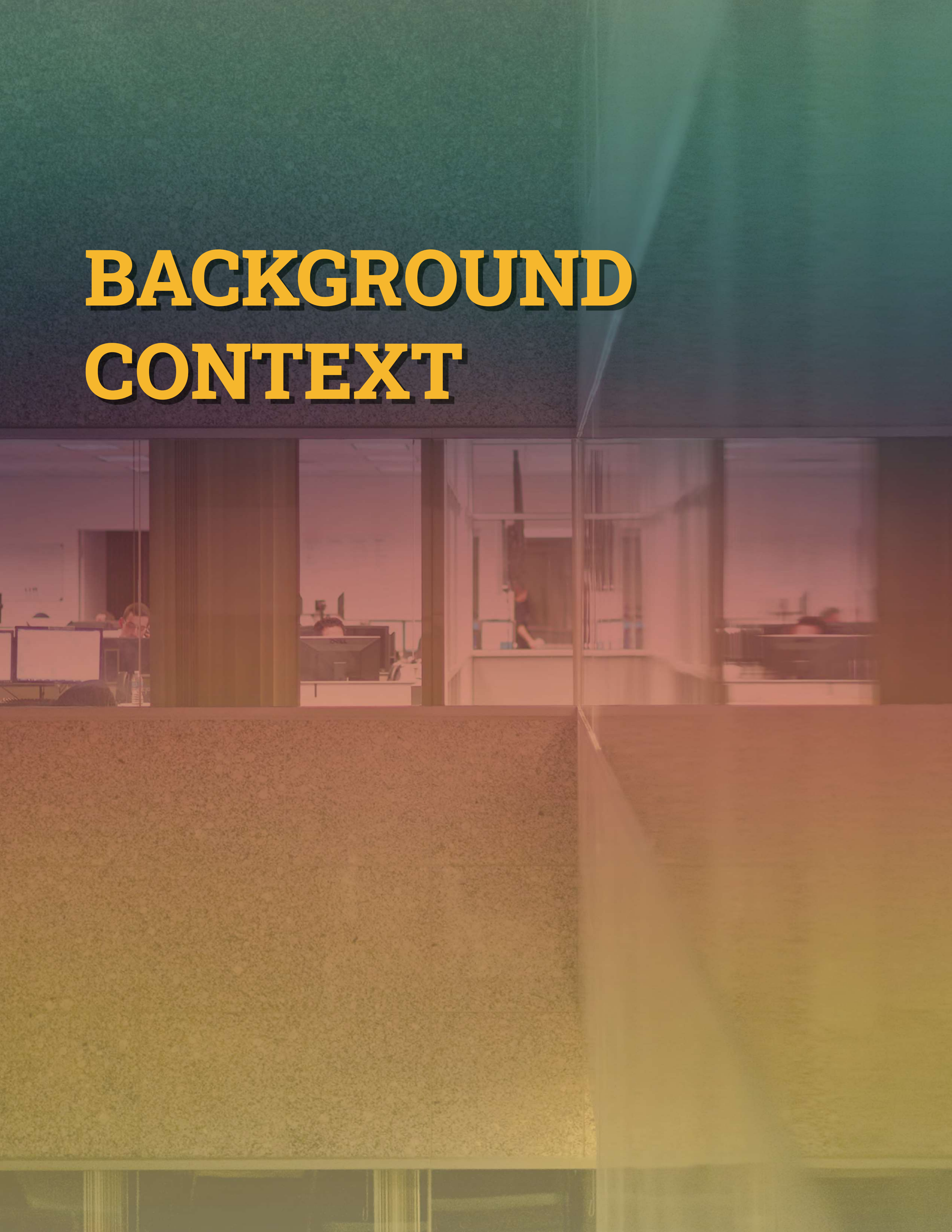
The intention of the task force is not to prescribe the balance between office space and housing, but rather to ensure that outdated conversion regulations do not stifle the market-driven evolution of New York City's building stock and business districts into more dynamic places where a greater number of people live as well as work.

Adaptive reuse of office buildings is only one part of a much larger strategy to ensure that New York City's office districts remain agile and successful. The Office Adaptive Reuse Task Force was closely aligned with a broader examination of the future of New York City's economy conducted by a City and State "New" New York Panel, whose *Making New York Work For Everyone Action Plan* was published in December 2022.

Report Structure

The rest of this document is divided into four sections. The first section outlines the context in which the report was written; the second describes the process by which goals and recommendations were developed; the third outlines key findings from the task force's research; and the fourth section outlines the recommendations of the task force. Additionally, presentations from each task force meeting provide a deeper insight into the research underpinning the recommendations and are available on the New York City Department of City Planning website.

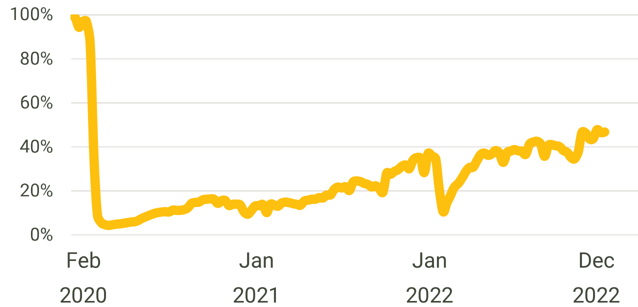
BACKGROUND CONTEXT



COVID-19's Impact on Office Usage and Vacancy

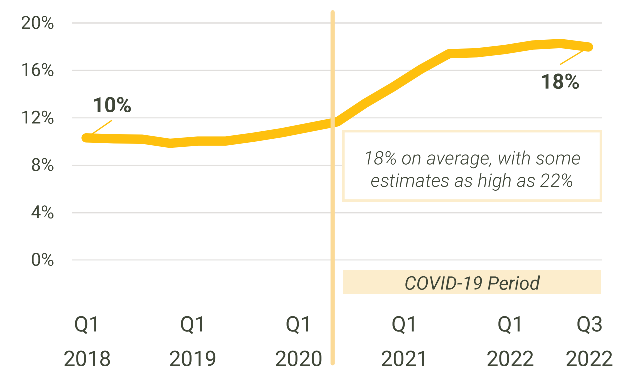
Beginning in March 2020, offices across the city closed to protect people from COVID-19. Many office-based workers worked from home, and at least 128,000 jobs in office-based industries were lost in the early stages of the pandemic.[1] As of October 2022, employment in office-based industries has largely recovered,[2] but physical office attendance has not. As of November 2022, it is estimated that on average, office employees came to the office less than half as frequently as they did prior to the pandemic (Figure 1).[3] Increased work-from-home and general economic uncertainty have led some office tenants to delay or downsize leasing office space. The result has been a significant increase in the office availability rate, reaching levels not seen in New York City for several decades. The percentage of Manhattan office space available to rent has increased from around 10% pre-pandemic to around 20% in Q3 2022 (Figure 2). Most of that increase occurred in late 2020 and early 2021; since then, rates have remained elevated but largely stable.

Figure 1: Physical Attendance in Offices by Employees Relative to Pre-COVID-19 Baseline



Source: Kastle Data (a building security technology firm that provides publicly available data on office building entry and exits)

Figure 2: Manhattan Office Availability or Vacancy Rate



Source: Average of six estimates from Cushman & Wakefield, Colliers, Newmark, JLL, Savills, CoStar

Importance of New York City's Office Market

New York City is the largest office hub in the United States[4] with upwards of 600 million square feet of office space,[5] more than Dallas and Los Angeles combined. New York City's offices contribute approximately $6 billion in annual property tax, which support essential government services for all New Yorkers.[6]

Significant uncertainty remains around the impact of remote work on the office market.

Hybrid schedules, where employees work from home and at the office, have been embraced by many workers in a strong labor market and seem set to remain at significantly higher levels than pre-pandemic, at least in the medium term. According to a survey conducted in September 2022 by the Partnership for New York City, 77% of office-based employers indicated a hybrid schedule would be their predominant "post-pandemic" policy, mainly in response to employee preference.[7] The net impact of remote work on office space demand is still uncertain. The same survey found that 20% of companies plan to increase their New York City real estate footprint in the next five years and that 22% expect to reduce their footprint; most employers expected their footprint to either remain the same (33%) or did not know (25%).[8]

The pandemic has not impacted all office properties equally.

The combination of significant amounts of newly constructed office space becoming available for lease, along with an increase in the availability of existing space, has allowed some tenants to secure higher-quality space, often with concessions. Interviewed practitioners have noted a pronounced "flight to quality" as tenants seek amenity-rich "commute-worthy" buildings that will attract employees back to the office. While tenants have always moved to newer and better office space when they can afford to, the pandemic also appears to have eroded the value of lower-quality office buildings, many of which have struggled to attract tenants in recent years. In contrast, "trophy-class" offices have been able to better weather the impacts of COVID-19. An anticipated pipeline of new, premium office space around regional transit centers in Midtown suggests that this "flight to quality" trend may continue and should be planned for.

While demand for office space has yet to recover fully, demand for residential space has rebounded and remains strong.

After uncertainty in 2020 and 2021, average residential rents in New York City reached historic highs during 2022, continuing a pre-pandemic trend of escalating prices and strong demand for residential space. A desire to repurpose underutilized office space to help meet the need for new housing was one factor spurring the creation of the Office Adaptive Reuse Task Force.

77%

Percentage of office-based employers who will adopt hybrid work policies in New York City[7]

22%

Percentage of companies that expect to reduce their footprint in New York City in the next five years[7]

20%

Percentage of companies that expect to increase their footprint in New York City in the next five years[7]

Regulations Governing Reuse

Regulations governing permitted changes in a building's use are outlined primarily in the New York City Zoning Resolution and New York City Construction Codes. Other regulations may also apply; for example, residential conversions are subject to some regulations that are more permissive and some that are more restrictive under the New York State Multiple Dwelling Law. The section below provides a capsule summary of key regulations affecting office-to-residential conversion, including the interactions among City and State regulations; a more detailed overview is provided in Appendix 3.

Existing regulations for office-to-residential conversion

Zoning regulates both the use and bulk (physical dimensions) of buildings. Any office building located in a zoning district that allows residential use may convert under use regulations, but they must also comply with any applicable bulk regulations. This can occur if the building meets all the bulk regulations for a newly constructed residential building. Because of differences in these building types, this is often practically impossible or financially challenging. To better support the reuse of older buildings that cannot be brought into compliance with current regulations, the Zoning Resolution includes an alternative set of more flexible standards for conversions. To be eligible for these more flexible standards, the non-residential buildings must meet the following three criteria:

1. **Located in a zoning district that allows residential**
2. **Located in either:**
   - Manhattan south of 59th Street; or
   - Parts of inner Brooklyn and Queens (colored green on the map on the next page); or
   - Downtown Jamaica, St. George, or Coney Island Special Districts; or
   - A Special Mixed Use District
3. **Building built:**
   - Before December 1961; or
   - Before January 1977, in the Financial District, Downtown Jamaica, Coney Island, and St. George; or
   - Before January 1997, in a Special Mixed Use District

Zoning allows buildings that meet all three criteria to be converted in their entirety using more flexible regulations related to light, air, and yards that are specified in Section 277 of the New York State Multiple Dwelling Law (MDL). Most office-to-residential conversions rely on these more flexible regulations. Occasionally, additional requirements are placed on conversion activity. Areas with these requirements are shown as yellow in Figure 3.

While the Mulitple Dwelling Law provides some more flexible standards, it also limits what zoning may allow. For example, Article I, Chapter 5 of the Zoning Resolution allows all the floor area in an office building to convert to residential, but the MDL caps residential floor area ratio (FAR)* at 12, with an exception only for buildings built prior to the 1968 Building Code. This prevents zoning from allowing the full conversion of larger office buildings built in the 1970s or later.

** FAR stands for Floor Area Ratio and is the principal bulk regulation controlling the size of buildings. FAR is the ratio of the total building floor area to the area of its zoning lot.*

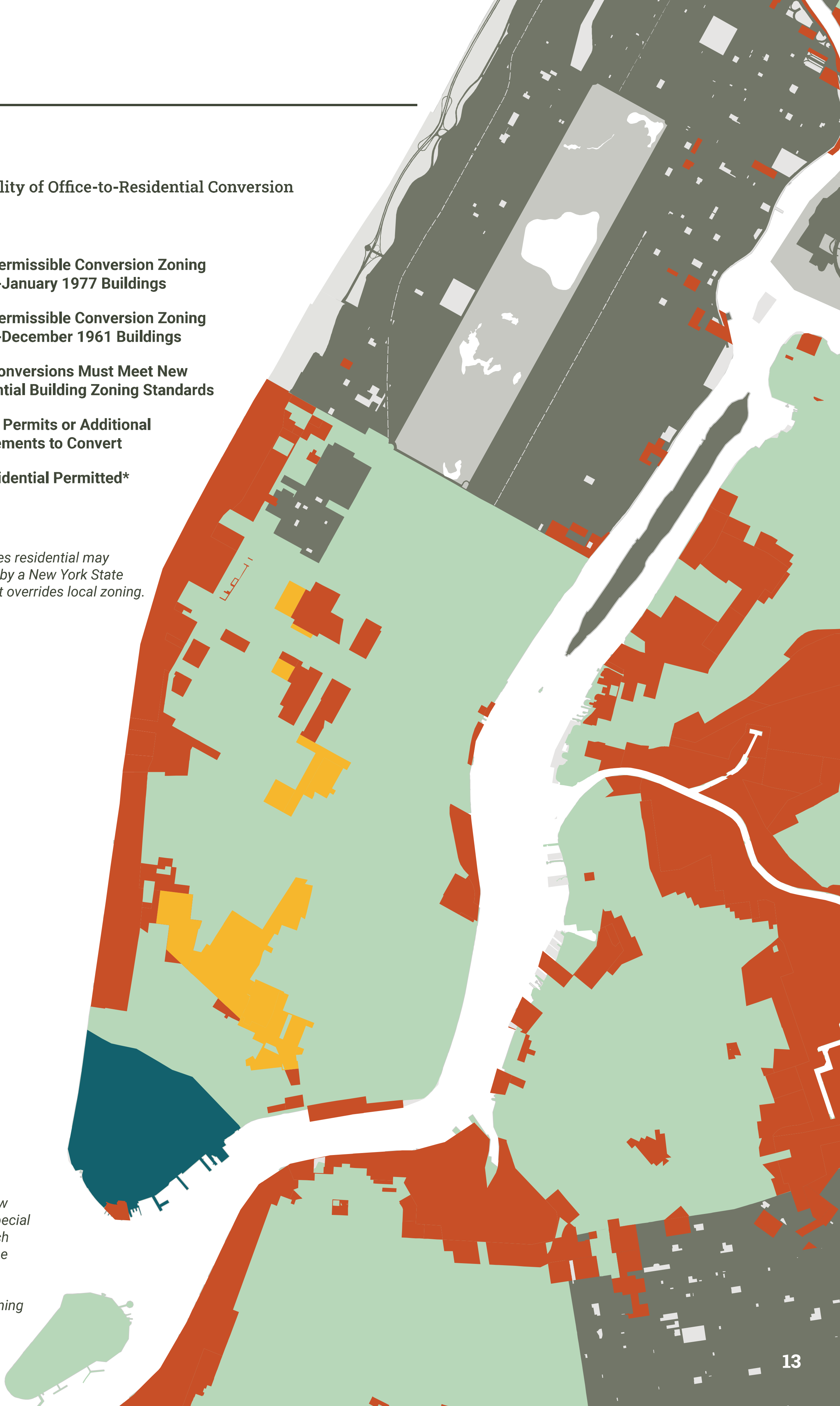
Figure 3: Permissibility of Office-to-Residential Conversion Under Zoning

Easiest

- More Permissible Conversion Zoning for Pre-January 1977 Buildings
- More Permissible Conversion Zoning for Pre-December 1961 Buildings
- Most Conversions Must Meet New Residential Building Zoning Standards
- Special Permits or Additional Requirements to Convert
- No Residential Permitted*

Hardest

** In limited circumstances residential may be allowed, for example by a New York State General Project Plan that overrides local zoning.*



Note: Map does not show the limited number of Special Mixed Use Districts which allow conversion of some pre-1997 buildings.
Source: New York City Department of City Planning

Historical Perspective on Adaptive Reuse of Buildings

New Yorkers have long repurposed buildings in response to new technologies, economic trends, and periods of crisis.

Adaptive reuse of buildings is not new and has been part of New York City's economic success for over one hundred years. A single building can have many useful lives, and office buildings are no exception. New York City's aging office buildings have been creatively converted into space for labs, education, and childcare, as well as homes and hotels. This adaptive reuse of space also has the added benefit of often being faster, more environmentally friendly, and more cost-effective than demolishing and building anew.[9]

Case Study

Adaptive Reuse of Lower Manhattan Office Buildings

In 1995, New York City and State adopted the Lower Manhattan Revitalization Program, which included financial incentives and regulatory reforms to encourage office development and office-to-residential conversions when many firms were relocating to Midtown.[10]

Zoning changes implemented in 1997 loosened standards governing office-to-residential conversion in the Financial District for buildings built before 1977. A Financial District specific tax incentive, called 421-g, also encouraged conversions between 1995 and 2006. Conversion activity was further stimulated by a tax-exempt Liberty Bond program designed to promote investment in Lower Manhattan after the tragic events of 9/11, which gave developers access to low-cost financing for conversions and other construction projects between 2002 and 2010.

Collectively these programs helped transform the Financial District into a more mixed-use neighborhood. Since 1995, around 20 million square feet of Financial District office space has been transformed into approximately 17,000 homes.[11] Despite the sunsetting of 421-g and the Liberty Bond program, office-to-residential conversions have continued, at a slower but still significant rate.

PATH TO FINDINGS AND RECOMMENDATIONS

Task Force Composition

Consistent with the requirements of Local Law 43 of 2022, developing the recommendations outlined in this document was the responsibility of a 12-person task force chaired by Department of City Planning Director Dan Garodnick. Experts were appointed by the Mayor, City Council Speaker, and Public Advocate and included four government officials and eight appointees from the private and non-profit sectors. Appointees have diverse expertise in architecture, development, law, economics, finance, and tenant advocacy, ensuring a holistic approach to the issues and opportunities.

A range of city government entities supported the task force, including the New York City Department of City Planning, New York City Economic Development Corporation, New York City Department of Housing Preservation and Development, New York City Department of Buildings, New York City Mayor's Office of Management and Budget, New York City Housing Development Corporation, and New York City Department of Finance. Econsult Solutions, Inc. and Packard Beasley Consulting provided additional support.

Members of the Task Force

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Michael Zenreich[‡]
Principal, Michael Zenreich Architect, PC

** NYC Mayoral appointee, † NYC Public Advocate appointee, ‡ Speaker of the NYC Council appointee, § Law 43 of 2022 appointee.*

Task Force Process

The task force met five times between July and December of 2022, with each session dedicated to a different aspect of office adaptive reuse. In the first session, the task force discussed goals and opportunities, as well as the current state of the office market. The second session discussed the architectural and design challenges of office building conversions. The third session covered regulatory provisions limiting building reuse, and the fourth covered financial considerations for office-to-residential conversions and inclusion of affordable housing. Finally, task force recommendations were discussed in the fifth session. The material discussed incorporated research done by city staff and the consultant team and insights from interviews with 26 industry experts, including property owners, brokers, developers, architects, engineers, financiers, and construction firms. PowerPoint decks from these task force sessions are available on the New York City Department of City Planning website, linked in the Appendix.

Figure 4: The Path to Recommendations

12
TASK FORCE EXPERTS

26
PRACTITIONER INTERVIEWS

5
TASK FORCE WORKSHOPS

JUL: MEETING 1
GOALS AND OBJECTIVES
Align on task force goals and objectives and understand current real estate market

SEP: MEETING 2
DESIGN CHALLENGES
Ascertain the architectural and design challenges for office conversions

OCT: MEETING 3
REGULATORY HURDLES
Determine the current regulations that govern office conversions

NOV: MEETING 4
FINANCIAL FEASIBILITY
Understand financial viability of office conversions with a focus on affordable housing

DEC: MEETING 5
RECOMMENDATIONS
Task force aligns on final recommendations

Vision and Objectives

Our Vision

Vibrant, successful business districts and mixed-use neighborhoods

Our Objectives

- Support the reuse of obsolete office buildings for other productive uses, such as housing, education space, hotels, and labs
- Identify opportunities to relax regulations that unnecessarily impede market-driven office building reuse
- Create housing and economic opportunities for residents of all income levels through the adaptive reuse of office buildings

The task force developed a vision and objectives to guide its recommendations and ensure office districts continue to serve a critical role in supporting the city’s economy and fiscal health. Economic and behavioral shifts started by the pandemic have triggered a need to reevaluate regulations for the reuse of office buildings to help ensure the success of our city's business districts as vibrant, global centers of commerce and investment.

KEY RESEARCH FINDINGS

Regulatory Findings

Complex and geographically inconsistent regulations have not been comprehensively updated for several decades.

Over time, logical but piecemeal changes have resulted in a complex web of city and state conversion regulations that are inconsistent across different business districts. Changes enacted 25 years ago to support conversion in the Financial District remain hampered by inconsistent state regulations, and regulations differ significantly among areas such as Downtown Flushing, Midtown, and the Financial District in ways that may no longer make sense.

Outdated regulations limit the market-driven reuse of some office buildings.

Today, there are offices built in the 1960s, 1970s, and 1980s that are ineligible for the most flexible conversion regulations because of the year they were built. Practitioner interviews revealed several buildings where market-driven conversion would likely occur if the most flexible conversion regulations were expanded to buildings of those age cohorts.

Additionally, a review of past conversions revealed indications that existing regulations may be suppressing office building reuse. In the Financial District, where 1960s office buildings can access the most permissive conversion regulations, there are examples of 1960s office buildings converting to housing. In Midtown, where the most flexible conversion regulations are only available to buildings built before December 1961, no conversions of 1960s office buildings were identified over the last decade, suggesting that there may be a market for 1960s office building conversions if eligibility for flexible conversion regulations were more inclusive outside of the Financial District.

For more details about regulations and how they affect conversions, see Appendix 3.

Existing Threshold Years

1961

In most business districts, only office buildings built before December 1961 can use the most flexible conversion zoning

1968

In most cases, only offices permitted prior to the 1968 Building Code can convert more than 12 FAR of office space to residential

1977

In the Financial District, office buildings built before January 1977 have access to the most permissive conversion zoning

Architectural Findings

In NYC, a variety of office building types have been converted over the last decade. Early twentieth-century office buildings with shallow floor plates and individual operable windows are generally the easiest and most attractive to convert because they require less intense physical alteration and allow for relatively efficient apartment layouts.

The physical characteristics of an office building are an important determinant of its viability for conversion. Some of these characteristics are the dimension, shape, and proportions of their floor plates, the building envelope and façade system, the location of the vertical circulation core, average ceiling heights, and existing energy and acoustical performance. Building location, neighborhood context, and connectivity are also key factors for the general viability of a conversion project.

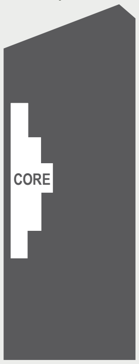
Post-1960s office buildings tend to have larger, deeper floorplates and glass curtain-wall facades, which are generally more costly to reconfigure because operable windows are required for residential buildings, and deeper floorplates present challenges for laying out apartments efficiently. These more extensive physical alterations typically increase construction costs and sometimes reduce revenue per square foot because of inefficient unit layouts, making these types of projects less financially competitive against the current office use of the building. However, there are instances of successful conversion in buildings with larger floorplates and glass-dominated facades, including 180 Water Street (pictured at right).

For more details about the physical characteristics of buildings that affect conversions, please see Appendix 2.

212 Fifth Avenue

A more typical office-to-residential conversion.

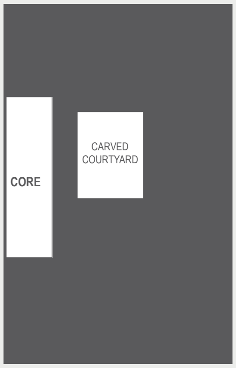
Floor plan*



180 Water Street

A more unusual conversion where a large floorplate was made practical for residential purposes by carving an internal courtyard.

Floor plan*



Floor plan illustrations are the same scale.

Financial Findings

Office buildings of lesser commercial viability have been converted to residential rentals and condominiums without government subsidies.

Between 2010 and 2020, approximately seven million square feet of office space were converted into around 4,300 residential units without government subsidies or other form of financial support.[12] In addition, at least three million square feet of office space were converted into approximately 3,800 hotel rooms over the same period, in many cases utilizing a tax incentive called the Industrial & Commercial Abatement Program (ICAP).[13] Most office-to-residential conversions occurred in Lower Manhattan, while most office-to-hotel conversions occurred in Midtown (see Figure 5).

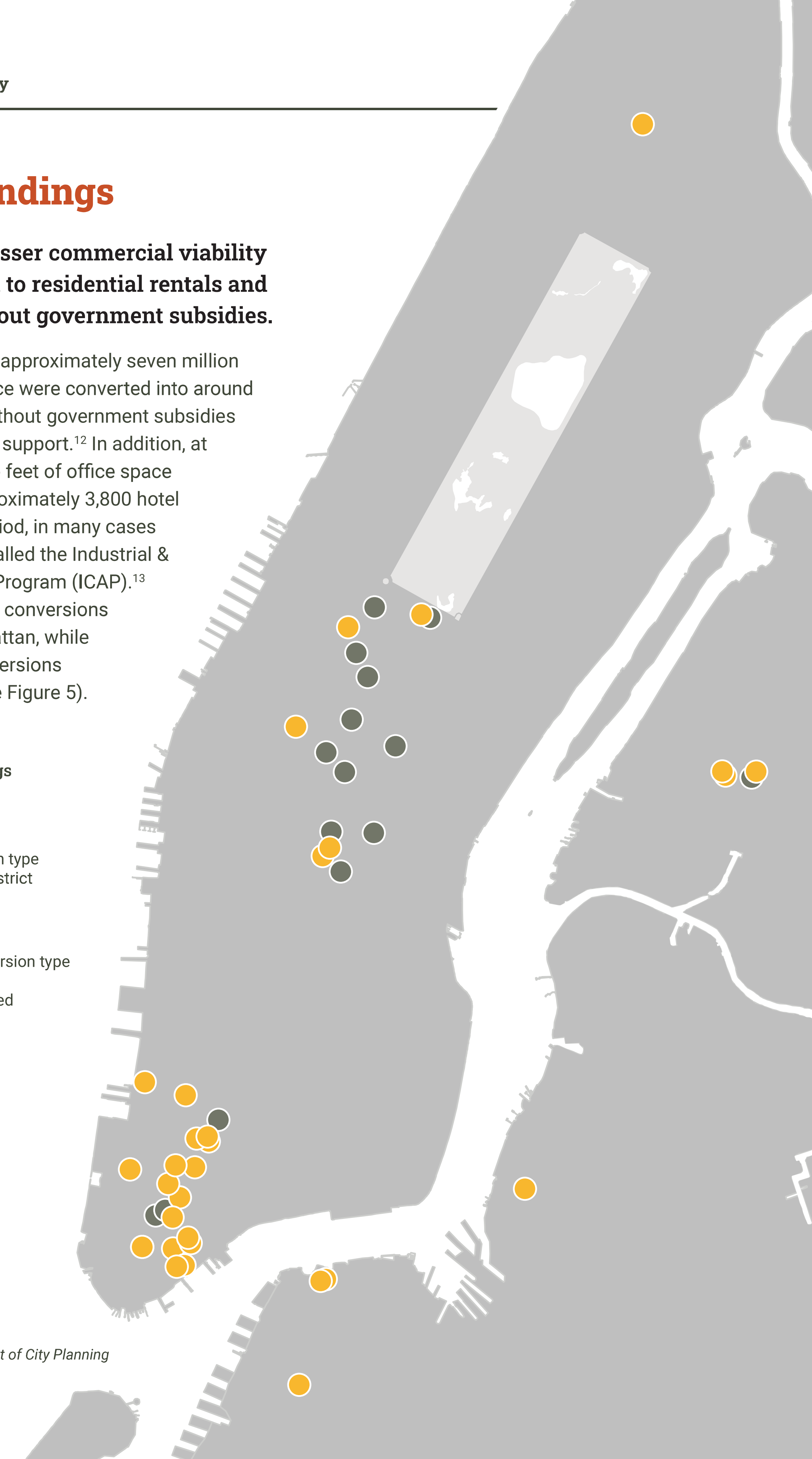
Figure 5: 50+ Office Buildings Converted 2010-2020

Office-to-Residential

- Most common conversion type
- Frequently in Financial District
- 4,300+ units created

Office-to-Hotel

- 2nd most common conversion type
- Frequently in Midtown
- 3,800+ hotel rooms created



10M+ s.f.

Approximate total square feet of office space converted to either residential or hotel in New York City, 2010-2020

Source: New York City Department of City Planning

Conversion is a niche pathway for office building owners reviewing their options. For most office buildings, remaining as an office, or renovating to become a higher quality office building, will make more sense than conversion.

Over the last decade, only around 1% to 3% of office buildings have converted to residential because doing so requires alignment of several architectural, regulatory, practical, and financial factors.[14] Previous sections of this report have noted some of the architectural and regulatory elements that can drive the financial viability of conversion, but many other factors collectively impact the overall viability of conversions, such as owner circumstances, risk appetite, access to desirable financing, existing debt, ability to vacate existing office tenants, conducive market conditions, and differing revenue opportunities between office space and residential space. One factor often noted by practitioners was that although residential space can often achieve higher rents than office space on a per-square-foot basis, conversion results in a significant decline in rentable square footage. The substantial reduction in rentable square footage between a purpose-built office building and a residentially converted office building means the net effect on revenue from converting is only sometimes positive and varies greatly.

Divergent demand for office space versus residential space may stimulate additional market-driven conversions, but current economic conditions present challenges.

Although interest in office conversion is high and several large conversions have recently been announced, it is not yet clear whether investment in conversion is increasing. Already announced or under-construction office-to-residential conversions are expected to create at least 3,600 additional residential units in the future.[15] Given the divergent demand for office space versus residential space currently observed, an increase in office-to-residential conversion might be expected. However, current economic conditions present a challenging investment environment for all construction projects. Rising construction costs, high interest rates on loans, and a risk-averse lending market are significant hurdles to the economic viability of many conversions. Additionally, according to interviews conducted for this report, many current owners are unwilling to sell their buildings at current market valuations, and property owners with existing low-interest debt see holding their current position as more advantageous. This challenging investment environment and uncertainty around the long-term prevalence of remote work are notable headwinds for office-to-residential conversion activity.

For more details about the financial considerations that affect conversion, see Appendix 4.

Property Tax and Affordable Housing Findings

A building's property tax tends to increase after conversion.

Property tax payments for offices and large residential buildings are driven by a building's use and annual net operating income. An analysis of property taxes levied on buildings pre- and post-residential conversion indicate notable increases in net operating income post-conversion, leading to a higher property tax bill. Additionally, differences in tax rates and capitalization rates, as defined by the New York City Department of Finance, also impacted the change in property taxes levied. In cases where an office building is converted to a tax-exempt use, such as a non-profit education space, the property tax would significantly decrease after conversion.

Office conversions under existing regulations produce only market-rate housing.

Furthermore, these conversions have occurred primarily in higher cost neighborhoods with excellent access to jobs and transit but where affordable housing is already scarce and challenging to create at scale. Historically, office conversions were generally ineligible for the 421-a tax incentive, which supported mixed-income housing in new construction projects until it expired in 2022. Now that 421-a has expired, there is a greater need than ever to create affordable housing in neighborhoods where office conversions already exist.

A policy to support the adaptive reuse of unviable office space while generating affordable housing would require some government incentive to encourage developers to participate.

The task force analyzed what a potential mixed-income program could look like. It found that in the absence of incentives, requiring projects to set a meaningful number of units aside as affordable to low-income New Yorkers would make most mixed-income conversions financially infeasible.

For more details, see Appendix 4.

RECOMMENDATIONS

Recommendations

Recommendations to provide more flexibility for the adaptive reuse of obsolete office buildings are outlined in this section. In developing these recommendations, the task force considered a range of building uses that meet New Yorkers' needs, the state of the office market, and the overall economic and fiscal impact of the proposed changes. These recommendations aim to serve the twin goals of providing more opportunities to adapt struggling office buildings and supporting the long-term economic health of business districts with densely clustered office buildings. Through research, interviews, and analysis, the task force identified clear opportunities to relax conversion regulations to help support the office market, create more homes, and provide spaces for other types of facilities.

1 Expand the Range of Buildings Eligible for the Most Flexible Conversion Regulations

2 Make Existing Conversion Regulations Work Better

3 Provide Financial Incentives for Affordable Housing and Childcare Facilities

Recommendation 1

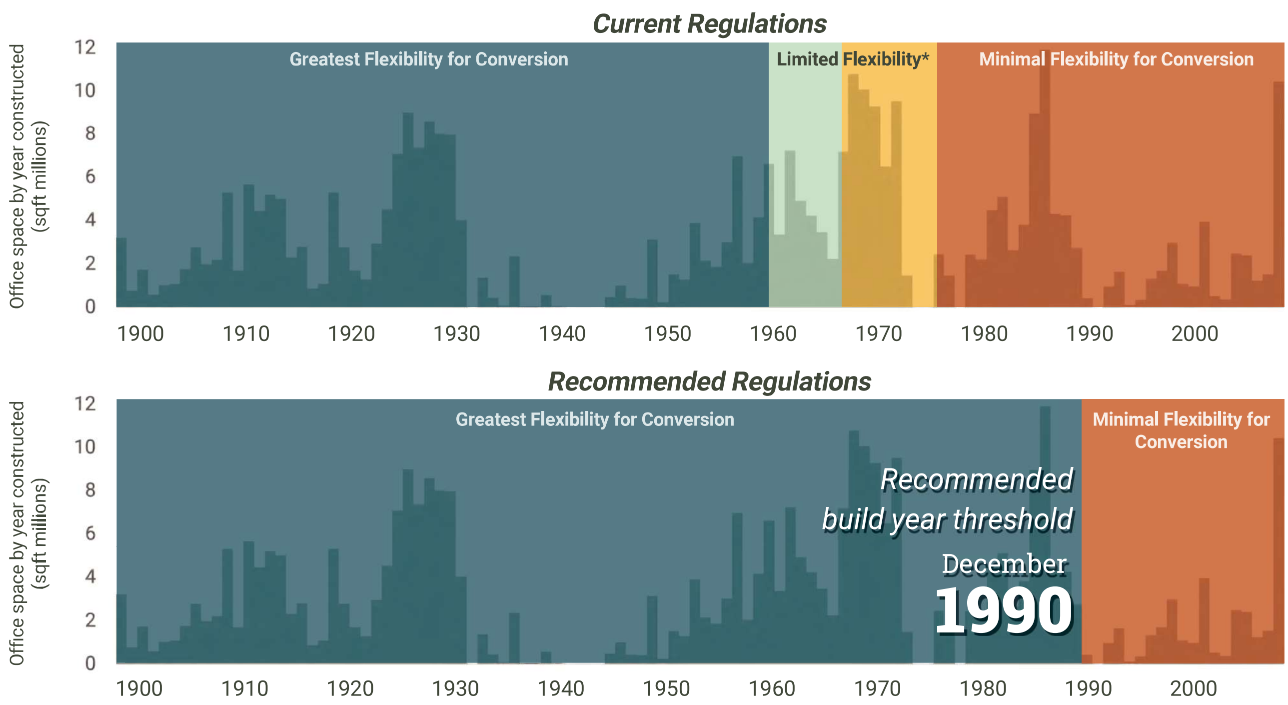
Expand the Range of Buildings Eligible for the Most Flexible Conversion Regulations

Via amendments to New York State Multiple Dwelling Law and New York City Zoning Resolution

Provide office buildings constructed before December 31, 1990 access to the most flexible regulations for conversion to residential use

Several regulations and laws currently limit the adaptive reuse of most office buildings built in the 1960s, 1970s, and 1980s. Those regulations and laws should be aligned and updated to allow office buildings constructed during this period the option to convert under the most flexible conversion regulations (Article 1, Chapter 5 of the Zoning Resolution and the Multiple Dwelling Law). Today, office buildings outside the Financial District typically need to be built before December 1961 to access the most flexible reuse regulations. This meaningful change would provide approximately 120 million square feet of office space with an easier path to conversion.

Figure 6: Comparison of Office-to-Residential Existing and Proposed Conversion Regulations by Year of Construction



** Most flexible conversion regulations are only accessible to an office building located in FiDi. Additionally office buildings permitted after 1969 can typically only transfer 12 FAR of office space to residential uses.*

Note: Chart only includes office area located in the Article 1 Chapter 5 geography in locations where residential is allowed as-of-right. Only include buildings in the following building classes: O2 thru O9 and RB/RC.

Source: New York City Department of City Planning

Recommendation 1, continued

Expand conversion regulations to all high-intensity office districts

Currently, the most flexible conversion regulations (outlined in Article 1, Chapter 5 of the Zoning Resolution) apply to only the city's largest business districts. This recommendation would expand the applicability of these regulations to all high-intensity commercial districts (areas designated as C4, C5, or C6 zoning districts). This change would provide approximately 16 million square feet of older office space in areas such as Downtown Flushing and the Bronx Hub with an easier path to conversion. For buildings outside eligible areas, conversion under these regulations could be allowed by discretionary action of the City Planning Commission.

Reevaluate centrally located, high-density Midtown zoning districts that do not allow new residential use

Several areas between West 23rd Street and West 41st Street are zoned as Manufacturing Districts that do not allow for the creation of new residential buildings through conversion or new construction (see map on page 13). In consultation with local elected officials and other stakeholders, the City should study and evaluate the appropriateness of these districts and the potential opportunities for new housing alongside commercial activity.

Recommendation 2

Make Existing Conversion Regulations Work Better

Via amendments to New York State Multiple Dwelling Law and New York City Zoning Resolution

Permit conversion of office buildings to a broader array of housing types

Currently, offices can only convert to dwelling units (as defined in the Zoning Resolution). Expanding regulations to allow conversion to a broader range of in-demand forms of housing, such as supportive housing or dormitories, would provide more opportunities to reuse office buildings and house more New Yorkers.

Allow an expanded array of offices to convert all existing square footage to residential

In 1997, coordinated changes to the Zoning Resolution and Multiple Dwelling Law aimed to allow buildings built as recently as 1977 to convert their existing square footage entirely to residential. However, provisions of the Multiple Dwelling Law capping residential floor area ratio (FAR) to 12 in New York City currently remains applicable when converting buildings permitted after 1969. This makes the conversion of many otherwise qualifying Manhattan buildings impractical. All buildings that will be permitted to use the most flexible zoning regulations for conversion should be permitted to convert all their existing floor area.

Recommendation 2, continued

Eliminate parking requirements for conversions

For many areas outside the Manhattan core or high-density districts, the Zoning Resolution maintains minimum requirements for off-street parking in conversions. Creating structured parking is frequently impractical within an existing building. Eliminating this requirement would create broader flexibility for the reuse of buildings.

Make recreation space requirements for conversions consistent with standards for newly constructed buildings

Conversions must currently adhere to rooftop open space requirements established over 40 years ago in Article 1, Chapter 5 of the Zoning Resolution. These requirements do not consider the widely divergent rooftop conditions that exist in office buildings, the complexities of mixed-use conversions, or the potential for indoor recreation space. More recently, citywide standards for common recreation space that account for these factors have been established under the Quality Housing Program. Requirements for conversions should be aligned with those for a new residential building.

Facilitate more conversions to hotels by updating courtyard regulations

Currently, office-to-hotel conversions require larger courts than office-to-housing. Establishing modest zoning requirements for hotel courts would rationalize regulations and provide more adaptive reuse pathways for office buildings.

Update outdated requirements and clarify regulatory language

Outdated requirements and language in the Multiple Dwelling Law and in Article 1, Chapter 5 of the Zoning Resolution should be clarified.

Recommendation 3

Provide Financial Incentives for Affordable Housing and Childcare Facilities

Explore and pursue a tax incentive to support mixed-income housing within conversions

A government incentive to generate affordable (income-restricted) housing units in converted buildings without deterring overall private investment in conversions should be considered and advanced. Analysis indicates that while office conversion entirely to affordable housing is generally infeasible, conversion to mixed-income housing could be achievable through a property tax-based incentive. Such an incentive should balance the opportunity to generate needed affordable housing in locations where it is often lacking, the scale of incentive necessary to create affordability, and the implications for city property tax revenues. Additional parameters addressed in other affordable housing tax incentives, such as wage standards for building service employees, should also be considered.

Implement a property tax abatement to incentivize retrofitting space for childcare centers

Accessible and high-quality childcare is a priority for New Yorkers and should be incentivized. As part of Mayor Adams's Blueprint for Childcare & Early Childhood Education, a property tax abatement for building owners retrofitting space to accommodate childcare centers will be implemented. $25 million worth of tax abatement is available to help fund retrofits to comply with New York City Health Code requirements for childcare centers.

What Comes Next?

The Office Adaptive Reuse Task Force calls for timely action to ensure our business districts can adapt now to meet the needs of the moment as well as those of future generations. Recommendations outlined by the task force should be implemented expeditiously via statutory changes in the 2023 New York State legislative session, with any other necessary regulatory changes implemented through a city zoning text amendment.

APPENDICES AND ENDNOTES

Appendices

Presentations from each task force meeting provide a deeper insight into the research underpinning the recommendations and form the appendices to this report. Appendices are available on the New York City Department of City Planning website: https://www.nyc.gov/site/planning/plans/office-reuse-task-force/office-reuse-task-force.page.

Endnotes/Sources

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