

2021

Analysis and Case Studies on **Office-to-Housing Conversions**

National Association of REALTORS®

Research Group

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**NATIONAL
ASSOCIATION OF
REALTORS®**

ANALYSIS AND CASE STUDIES ON OFFICE-TO-HOUSING CONVERSIONS

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Summary

The COVID-19/Delta variant pandemic dealt a heavy blow to the office commercial real estate market by way of its impact on employment and with more workers performing their tasks remotely. As of September 2021, 518,000 jobs in office-intensive industries still have to be recovered and 20.3 million workers worked remotely compared to 8.9 million in 2019.

With nearly half a million office-using jobs lost and with more workers working from home compared to pre-pandemic level, occupancy has fallen by 127 million square feet since the second quarter of 2020 through October 2021. On the other hand, there are 1 million more occupied apartment units since the second quarter of 2020 as of October 2021.

Upon the recommendation of the Real Estate Research Advisory Board under Chair Dawn Aspaas (SD) and Vice-Chair Beth Cristina (LA), NAR Research Group undertook an analysis of how vacant office buildings are being converted into housing.

The first component of the research is an analysis of office-to-housing conversions in 27 markets with the largest decline in occupancy since the pandemic. A conversion is economically feasible if the apartment rent (Class A) is higher than current Office Class B/C rents.

The analysis shows that 22 out of 27 metros heavily impacted by the pandemic have market conditions that make office-to-housing conversions feasible. In the local markets, apartment rents are higher than office market rents, encouraging office-to-housing conversions, mainly in Class B office buildings. NAR estimates that 43,500 housing units can be created if 20% of the vacant square footage is converted into housing with an average size of 1,000 square feet per unit and with 20% common area. Office Class B building conversions account for 77% of the housing units created. The new housing units account for 6% of annual housing permits.

Metro areas or submarkets with the potential to create at least 2,000 housing units from office building conversions are New York (7,484), Chicago (5,688), Los Angeles (4,200), Orange County (3,065), Boston (2,808), Atlanta (2,799), Philadelphia (2,733), Minneapolis (2,081), and Denver (2,009). Seattle rounds out the top 10 (1,709).

In the second component of the study, NAR Research analyzed the market conditions and the factors that led to the success of eight office-to-housing conversions in Maryland, Washington DC, New York, California, and Illinois.

The case studies reveal that projects succeeded because of the commitment of local developers and investors with deep ties and experience developing projects in the local market. A clear project purpose and the identification of the target market (e.g., first-time buyers, luxury, homeless, etc.) is essential as this determines the building's location and aesthetic yet functional design. The conversions can entail a complex engineering design especially if existing tenants need to remain operational during project construction. Last but not least, community buy-in is essential in getting the project to start and finish on schedule.

Impact of the Pandemic on the Demand for Office Space

The COVID-19/Delta variant pandemic dealt a heavy blow to the office commercial real estate market through its impact on job losses in industries that use office space intensively¹ and on the number of workers working from home. While jobs in industries that use office space intensively continue to recover, 518,000 jobs of the nearly 3 million jobs lost in office-intensive industries still need to be recovered. In 2021, an average of 80,000 office-using jobs were created each month. At this pace, the 518,000 lost jobs will be recouped by June 2022.

Primary cities suffer the largest job losses while secondary markets gain jobs

The largest losers of nonfarm payroll employment are the metropolitan markets of New York City, Los Angeles, Chicago, San Francisco, Miami, Philadelphia, Boston, Washington, DC, Houston and San Diego where major finance and tech companies are headquartered, each with over 100,000 jobs lost since February 2020 as of September 2021.

On the other hand, employment in several secondary/tertiary markets such as Salt Lake City, Provo, Austin, Ocean City, Ogden, Colorado Springs, Jacksonville, Boise, Spokane, and Myrtle Beach are above pre-pandemic levels.

Metro areas with top payroll jobs gains and job losses as of September 2021 compared to pre-pandemic peak employment (February 2020)

Most net job losses ('000): Sept 2021 vs. Feb 2020

New York City NY	-490.3
Los Angeles-Long Beach-Anaheim, CA	-428.5
Chicago-Naperville-Elgin, IL-IN-WI	-195.2
San Francisco-Oakland-Hayward, CA	-188.5
Miami-Fort Lauderdale-West Palm Beach, FL	-152.0
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-126.3
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-123.3
Washington-Arlington-Alexandria, DC-VA-MD-WV	-122.2
Houston-The Woodlands-Sugar Land, TX	-115.8
San Diego-Carlsbad, CA	-101.7
Orlando-Kissimmee-Sanford, FL	-95.3
Detroit-Warren-Dearborn, MI	-91.3
New Orleans-Metairie, LA	-81.9
Las Vegas-Henderson-Paradise, NV	-81.2
Minneapolis-St. Paul-Bloomington, MN-WI	-79.2
Atlanta-Sandy Springs-Roswell, GA	-70.9
Bergen-Hudson-Passaic, NJ	-66.8
Philadelphia City, PA	-65.1
San Jose-Sunnyvale-Santa Clara, CA	-57.1
Urban Honolulu, HI	-55.2
Riverside-San Bernardino-Ontario, CA	-55.1
Pittsburgh, PA	-50.0
Cleveland-Elyria, OH	-49.4

Highest net job gains ('000) : Sept 2021 vs. Feb 2020

Salt Lake City, UT	19.60
Provo-Orem, UT	18.80
Austin-Round Rock, TX	16.70
Ocean City, NJ	15.40
Ogden-Clearfield, UT	12.40
Barnstable Town, MA Metropolitan NECTA	8.90
Salisbury, MD-DE	8.30
Fayetteville-Springdale-Rogers, AR-MO	7.90
St. George, UT	6.80
Elkhart-Goshen, IN	6.70
Coeur d'Alene, ID	6.20
Baltimore City MD	6.00
Idaho Falls, ID	5.50
Colorado Springs, CO	5.20
Lakeland-Winter Haven, FL	4.80
Jacksonville, FL	4.10
Logan, UT-ID	4.10
Daphne-Fairhope-Foley, AL	3.80
Tyler, TX	3.60
Boise City, ID	3.30
Rapid City, SD	3.30
Spokane-Spokane Valley, WA	3.20
Pocatello, ID	3.10
Myrtle Beach-Conway-North Myrtle Beach, SC-NC	2.60
Kansas City, MO	2.10

Source: US Bureau of Labor Statistics



¹ Information services (NAICS 51), finance and insurance (NAICS 52), real estate, rental, and leasing (NAICS 53), and professional and business services (NAICS 54, 55, 56).

Impact of the Pandemic on the Demand for Office Space

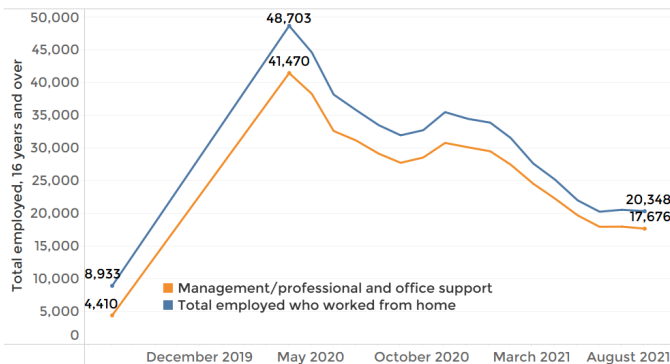
Workers are heading back to the office but working from home remains elevated compared to pre-pandemic level

The number of workers who teleworked or worked from home continues to decline. However, this number is still more than twice the 8.9 million who worked from home prior to the pandemic.

As of September, 20.3 million worked from home or teleworked, less than half of the nearly 50 million people who worked from home when the economy went into lockdown, according to employment data from the Bureau of Labor Statistics COVID Supplement Survey. As a percent of employed workers, the number of workers who teleworked accounted for 13% of employed workers 16 years old and over, a decline from 54% during the economic lockdown in 2020. A higher fraction of management, professional, and administrative support occupations worked from home, at 22% or 17.7 million workers which account for 87% of the total number of workers who worked from home.

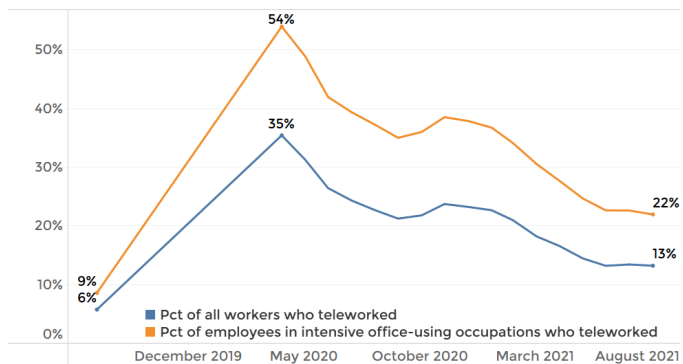
The number and fraction of workers who work from home will likely continue to trend down in 2022 as more workers return to the office, with many likely to do so on a hybrid schedule (mix of in-office or at home). According to a Deloitte survey² of 300 companies, only 7% of companies plan to require workers to return to their pre-pandemic work locations once health concerns no longer influence decisions about the physical location of work and 69% reported their companies can support and manage a remote workforce.

Employed 16 years old and over in management/professional and office support occupations who teleworked as of September 2021 (in thousands)



Source: Bureau of Labor Statistics COVID Supplement and 2019 American Community Survey. Office-using occupations are management, professional and related occupations and office administrative support workers.

Percent of employed 16 years old and over who teleworked as of September 2021



Source: Bureau of Labor Statistics COVID Supplement and 2019 American Community Survey. Office-using occupations are management, professional and related occupations and office administrative support workers.

Impact of the Pandemic on the Demand for Office Space

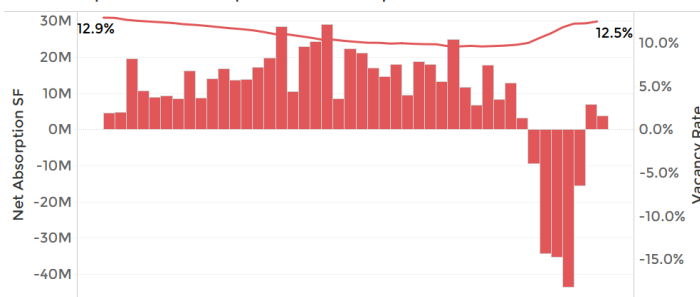
Office occupancy falls while apartment demand and rents soar to decade-high records

With nearly half a million office-using jobs lost and with more workers working from home compared to pre-pandemic level, 127 million square feet of office space has been given up (negative net absorption) since the second quarter of 2020 through October 2021.³ Absorption of office space has turned around starting in the third quarter, with positive net absorption of 10.9 million square feet. Rents have also stopped falling.

However, the job recovery has not been matched by the same increase in office absorption. Seventy-five percent of the 3 million jobs in office-intensive industries has been recovered but only 10% of the 138 million square feet of office space that became unoccupied has been recovered since 2021 Q3. This indicates that a significant fraction of new hires are working from home. With the loss in office occupancy, the office vacancy rate increased to 12.5% from 9.8% in 2020 Q1. The average office asking rent fell 2% year-over-year in 2021 Q1 although as of October 2021, the average asking rent is at par with the average asking rent one year ago.

While office occupancy has been declining, the absorption of multifamily units and rent growth are at decade-high levels. As of October 2021, there were 1 million apartment units absorbed since the second quarter of 2020. The apartment vacancy rate has fallen to 4.6% while the average rent in 390 markets tracked by CoStar® increased 11% year-over-year.

Net Absorption of Office Space in Million Square Feet as of October 2021

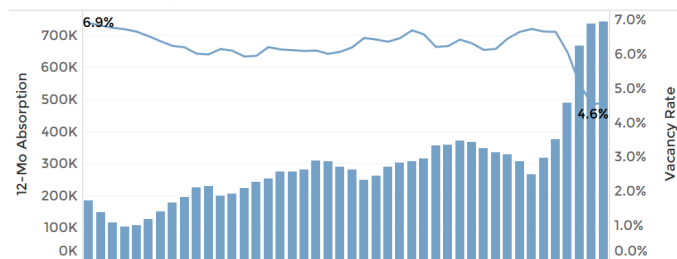


Year-over-Year Percent Change in Office Asking Rent

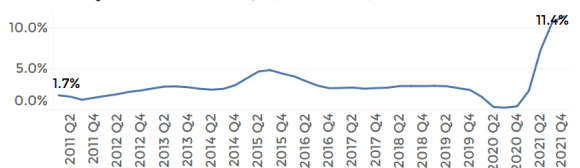


Source: NAR analysis of CoStar® data

12-Month Net Absorption of Multifamily Units and Y/Y Percent Asking Rent Growth as of 2021 Q4 (October 23)



Y/Y Percent Change in Average Asking Rent Growth for Multifamily Units as of 2021 Q4 (October 23)



Source: NAR analysis of CoStar data



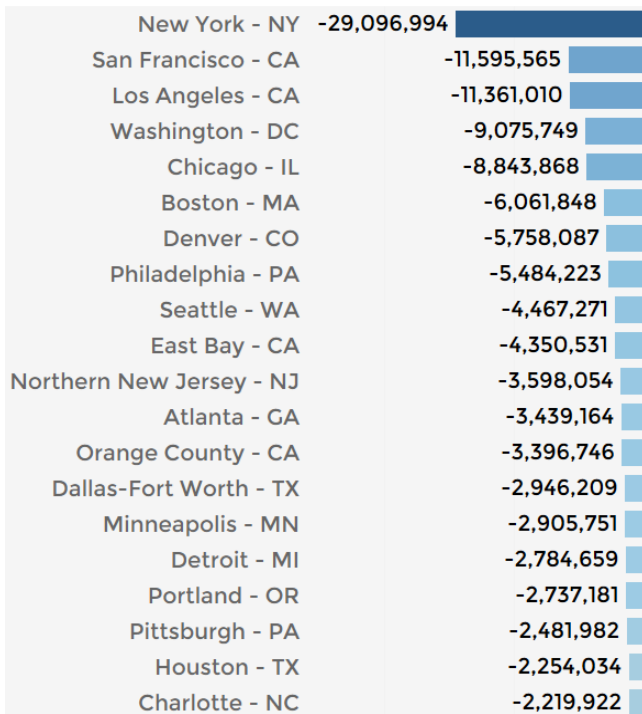
Impact of the Pandemic on the Demand for Office Space

Primary markets suffer large losses in occupancy while demand rises in secondary/tertiary markets

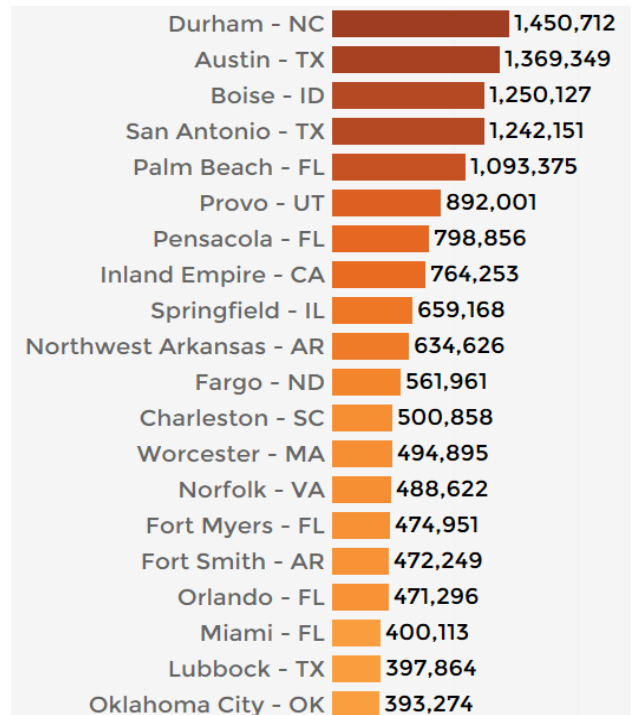
From 2020 Q2 through 2021 Q3, the major commercial real estate markets of New York, San Francisco, Los Angeles, Washington DC, Chicago, and Boston had the largest losses in office occupancy, each losing over 6 million square feet of office space. In the New York metro area alone, a staggering 29 million square feet of office space has become unoccupied.

On the other hand, many secondary markets saw an increase in occupancy, such as Durham, Austin, Boise, San Antonio, and Palm Beach, with at least 1 million square feet occupancy gains since 2020 Q2. In fact, only half of 390 markets experienced negative net absorption, according to CoStar® market data. Office occupancy has increased in these markets due to their relatively cheaper rent and cost of living compared to the more expensive primary markets. Office absorption is starting to recover but the absorption of office space is still just a trickle of the unoccupied space.

Negative Net Absorption Since 2020 Q2



Positive Net Absorption Since 2020 Q2



Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

The significant loss of office space amid the strong demand for housing behooves an analysis of the feasibility of converting office buildings into housing, particularly multifamily housing. In analyzing a market area or a project's potential for office-to-housing conversion, an examination of market fundamentals, the building's physical condition and layout, and zoning regulations are essential.

Office vs. residential rent differential. The rent differential between office and apartment rents is a key factor that will determine the feasibility of office-to-housing conversions. The higher is the office rent relative to apartment rents, the less is the potential for office-to-housing conversion as there is no clear incremental benefit to justify the cost of the conversion. However, over time, the office rent premium is expected to decline if rents are expected to rise faster than office rents. The cost of owner-occupied housing and expected job growth in the area are factors that affect the long-run outlook for office rents and apartment rents. Markets with a high fraction of office-intensive jobs will be more affected by the shift towards remote work.

Age of the building and past renovations. Older buildings, Class C buildings, or buildings that have not been renovated for quite some time are potential targets for conversion because they are likely to be had at a price discount and need the most rehabilitation anyway.

Physical characteristics of the building that make it suitable for conversion. The shape of the building, size, location of the office building's systems (elevators) and regulations on residential housing pertaining to residents' safety and comfort (e.g., natural light and air, fire alarms, sprinklers, multiple means of egress) will determine the extent of the conversion and the associated cost. Wedge-shaped or cube buildings lend themselves more easily to conversion than rectangular buildings where much office space is far from exterior walls with no natural light. In this case, the conversion may require modifying the basic building structure or the building roof to allow light in the inner space.⁴

Zoning regulations. . If local zoning regulations are restrictive, developers will likely need to request for zoning variance or a change in regulation which can increase project cost and discourage office-to-housing conversions. A rule-based or by-right zoning process also results in a quick and objective approval process that can encourage office-to-housing conversions.

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

Table 1 compares the net absorption (demand), vacancy rates, rent growth in the office and multifamily market, and the year-over-year percent change in the median single-family existing-home sales price⁵ in the 27 metro areas or submarkets sorted by net absorption in the office market.

In all 27 markets, there was positive net absorption of apartment units while there was negative net absorption of office space. In all 27 markets, apartment vacancy rates were lower than office vacancy rates. The indicators show that apartment demand is rising faster than office demand which indicates the potential for office-to-housing conversions.

Table 2 compares the vacancy rates by Office Class A, B, and C to the vacancy rate of Apartment Class A properties based. The table shows low vacancy rates for in Office Class C properties and higher vacancy rates in Office Class A and B. This indicates that most conversions will likely be of Class B offices which account for a larger share of the vacancies (along with Class A) compared to Office Class C.

Table 3 compares the rent across Office Class A, B, C, to Apartment Class A. The tables shows that on average, rents in Apartment Class A buildings are generally higher than rents in Office Class B and C buildings, which will encourage office-to-housing conversions.

Based on the rent differential for Office Class B and Apartment Class A, the four major commercial real estate markets of Chicago (+30%), New York City (+20%), Boston (+30%), Los Angeles (+10%) have a potential for office-to-housing conversion. San Francisco's Office Class B rents are still on average 10% higher than its Class A Apartment rents, which Washington DC's rents are just at par. However, conversion can occur in the Office Class C buildings, but this make up only a smaller fraction of the vacant space.

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

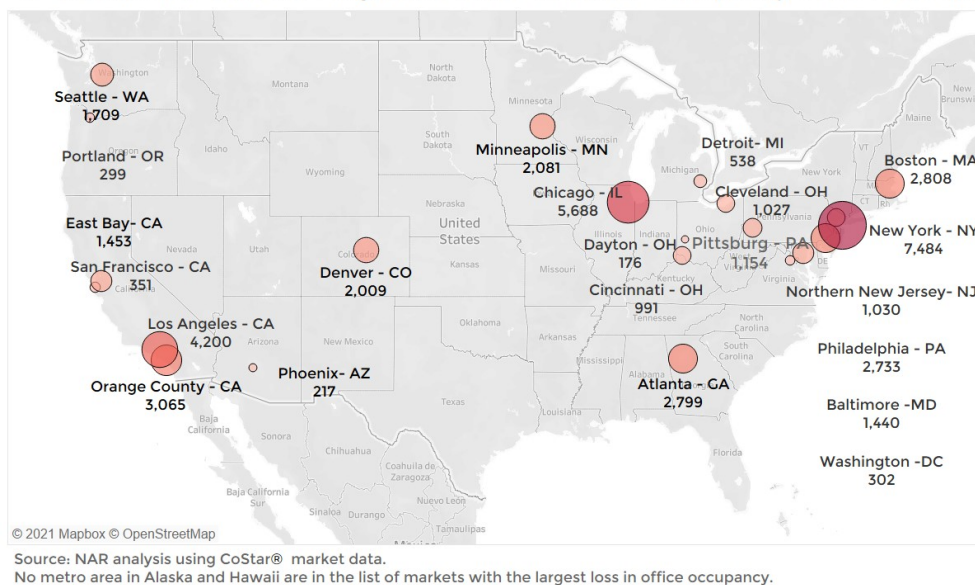
43,500 units of housing from office-to-housing conversion in 22 metros or submarkets heavily hit by the pandemic

Table 4 shows that if just 20% of the vacant square footage is converted into housing at average size of 1,000 square feet per unit⁵ and with 20% common area, 43,500 housing units can be created from the conversion of vacant office space in 22 markets (out the 27 markets heavily impacted by the pandemic.). Of this, 77% are conversions of Office Class B buildings.

The markets where rental conditions can potentially lead to at least 2,000 new housing units from the conversion of vacant space are New York (7,484), Chicago (5,688), Los Angeles (4,200), Orange County (3,065), Boston (2,808), Atlanta (2,799), Philadelphia (2,733), Minneapolis (2,081), and Denver (2,009). Seattle rounds out the top 10 (1,709).

The new housing units account for 6% of housing permits that totaled 683,134 in the past 12 months as of September 2021. The additional housing accounts for at least 10% of the 12-month housing permits in 11 of the 22 markets. On average, the fraction of housing units from conversions accounts for 10% of the 12-month rolling housing permits as of September 2021 in these markets.⁶

Estimated Housing Units from Office-to-Housing Conversions in Metro Areas or Submarkets with the Largest Declines in Office Occupancy Since 2020 Q2



5 US Census Bureau Characteristics of New Housing in 2020. The 1,000 square feet per unit assumption is based on US Census Bureau reported that the median size of family-built units for rent in 2020 was 1,075 square feet.

6 Some CoStar® markets are submarkets of a metropolitan area but the housing permits are of the entire metropolitan area delineated by the US Census Bureau. For example, CoStar® data is for Orange County California, but the housing permits data of the Los Angeles-Long Beach-Anaheim area.

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

Table 1. Market Conditions in Metro Areas with the Largest Declines in Office Occupancy Since 2020 Q2

CBSA Code	Geography Name	Office Net Absorption SF ± 12 Mo	Apt Absorption Units 12 Mo	Office Vacancy Rate	Apt Vacancy Rate	Office Market Asking Rent Growth 12 Mo	Apt Market Asking Rent Growth 12 Mo	YY Pct Change in Median Existing-Home Single-family Sales Price
35614	New York - NY	-21,848,412	35,498	11.6%	2.4%	-2.7%	4.2%	32.5%
47900	Washington - DC	-8,522,148	20,947	15.0%	6.4%	-1.3%	8.7%	21.1%
16980	Chicago - IL	-6,416,644	19,102	14.5%	5.7%	-0.4%	7.9%	23.2%
31084	Los Angeles - CA	-6,143,595	31,214	13.6%	3.9%	0.0%	5.6%	28.8%
14460	Boston - MA	-4,961,003	15,855	9.7%	4.8%	1.4%	10.0%	20.8%
41884	San Francisco - CA	-4,950,976	8,662	13.4%	7.4%	-4.7%	6.3%	31.9%
37980	Philadelphia - PA	-3,771,498	13,168	10.3%	3.6%	1.5%	9.0%	17.0%
35084	Northern New Jersey - NJ	-3,544,702	4,482	13.9%	3.6%	0.4%	5.6%	24.0%
42660	Seattle - WA	-3,212,697	17,801	9.6%	4.6%	0.2%	10.6%	24.7%
19740	Denver - CO	-3,151,185	12,834	14.3%	5.5%	-0.8%	13.3%	29.3%
12060	Atlanta - GA	-2,578,283	21,545	13.8%	5.3%	1.3%	19.5%	25.7%
11244	Orange County - CA	-2,332,325	7,696	12.0%	2.1%	-2.2%	18.1%	29.2%
36084	East Bay - CA	-2,314,229	6,647	12.8%	6.3%	-1.5%	4.2%	29.2%
38060	Phoenix - AZ	-2,139,131	15,422	14.4%	4.6%	0.8%	22.7%	29.9%
19100	Dallas-Fort Worth - TX	-1,945,315	48,031	17.9%	5.7%	0.4%	13.8%	20.6%
33460	Minneapolis - MN	-1,882,490	10,985	9.9%	5.3%	0.8%	3.3%	16.9%
38300	Pittsburgh - PA	-1,803,281	2,814	10.5%	4.2%	-0.5%	5.6%	9.9%
18140	Columbus - OH	-1,781,400	8,033	9.8%	5.1%	0.8%	7.6%	17.5%
38900	Portland - OR	-1,515,593	11,156	11.5%	4.5%	2.4%	9.6%	25.3%
17460	Cleveland - OH	-1,340,558	3,438	8.3%	4.6%	0.7%	5.5%	15.4%
16740	Charlotte - NC	-1,158,142	13,010	12.0%	6.3%	1.7%	17.1%	22.9%
17140	Cincinnati - OH	-1,073,959	3,172	10.0%	3.8%	1.7%	7.1%	25.0%
19380	Dayton - OH	-1,043,208	1,261	9.3%	4.4%	1.7%	7.6%	16.6%
12580	Baltimore - MD	-1,002,083	6,234	11.0%	3.6%	0.8%	11.6%	13.7%
41940	San Jose - CA	-973,112	6,749	12.9%	6.9%	0.8%	6.7%	23.1%
19820	Detroit - MI	-952,434	4,904	11.7%	4.4%	-0.1%	7.7%	19.0%
26420	Houston - TX	-879,744	37,346	19.0%	7.0%	-0.9%	8.8%	19.9%

Source: NAR using NAR, CoStar®, US Census Bureau, and Bureau of Labor Statistics data

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

Table 2. Comparative Office and Apartment Vacancy Rates as of 2021 Q3

CBSA Code	Geography Name	Vacancy Rate_Office Class A	Vacancy Rate_Office Class B	Vacancy Rate_Office Class C	Vacancy Rate_Apt Class A	Vacant Class A as a Percent of Total Vacant Sq. Ft.	Vacant Class B as a Percent of Total Vacant Sq. Ft.
35614	New York - NY	13.9%	10.9%	6.7%	5.5%	58.2%	32.1%
47900	Washington - DC	17.0%	14.3%	4.7%	9.4%	60.2%	37.3%
16980	Chicago - IL	19.0%	13.3%	7.2%	7.5%	51.7%	40.1%
31084	Los Angeles - CA	17.7%	12.9%	5.6%	8.4%	55.1%	37.2%
14460	Boston - MA	11.3%	10.8%	3.5%	7.7%	49.5%	44.2%
41884	San Francisco - CA	13.1%	15.1%	9.0%	12.2%	47.4%	43.8%
37980	Philadelphia - PA	13.3%	10.6%	4.7%	6.8%	48.5%	41.3%
35084	Northern New Jersey - NJ	21.0%	9.7%	4.5%	6.1%	69.8%	23.8%
42660	Seattle - WA	11.6%	9.7%	3.1%	6.0%	49.4%	46.1%
19740	Denver - CO	18.1%	13.4%	4.3%	7.1%	51.4%	45.2%
12060	Atlanta - GA	19.5%	11.4%	4.4%	5.8%	61.7%	33.4%
11244	Orange County - CA	18.5%	10.2%	4.2%	3.8%	48.3%	47.0%
36084	East Bay - CA	19.8%	12.8%	4.9%	15.2%	38.5%	53.2%
38060	Phoenix - AZ	19.1%	14.1%	5.2%	5.8%	39.7%	55.5%
19100	Dallas-Fort Worth - TX	22.9%	16.0%	7.1%	6.5%	55.1%	40.2%
33460	Minneapolis - MN	11.8%	10.3%	5.6%	11.7%	34.9%	54.4%
38300	Pittsburgh - PA	17.9%	9.0%	3.9%	7.4%	50.9%	40.6%
18140	Columbus - OH	15.0%	9.9%	4.7%	6.3%	43.3%	42.6%
38900	Portland - OR	15.3%	10.9%	7.3%	8.1%	41.5%	44.0%
17460	Cleveland - OH	10.6%	9.5%	4.1%	14.5%	27.4%	59.1%
16740	Charlotte - NC	17.0%	10.6%	4.1%	7.6%	57.8%	35.9%
17140	Cincinnati - OH	13.1%	11.6%	4.7%	4.8%	40.7%	45.2%
19380	Dayton - OH	19.8%	10.1%	5.5%	9.3%	30.1%	42.9%
12580	Baltimore - MD	15.0%	10.6%	4.2%	5.4%	45.8%	47.9%
41940	San Jose - CA	14.0%	14.2%	6.4%	11.6%	37.3%	55.0%
19820	Detroit - MI	12.8%	13.4%	7.0%	8.1%	26.3%	59.2%
26420	Houston - TX	23.0%	18.7%	6.4%	7.7%	53.5%	42.4%

Source of data: CoStar®

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

Table 3. Comparative Office and Apartment Rent Per Square Foot Per Year as of 2021 Q3

CBSA Code	Geography Name	Office Rent Class A	Office Rent Class B	Office Rent Class C	Apt Rent_ClassA	Office Class A Converted to Apt Class A	Office Class B Converted to Apt Class A	Office Class C Rent Converted to Apt Class A
35614	New York - NY	\$69	\$46	\$39	\$54	0.8	1.2	1.4
47900	Washington - DC	\$44	\$34	\$29	\$33	0.8	1.0	1.1
16980	Chicago - IL	\$37	\$25	\$22	\$33	0.9	1.3	1.6
31084	Los Angeles - CA	\$47	\$38	\$34	\$42	0.9	1.1	1.2
14460	Boston - MA	\$53	\$32	\$25	\$41	0.8	1.3	1.6
41884	San Francisco - CA	\$67	\$57	\$52	\$52	0.8	0.9	1.0
37980	Philadelphia - PA	\$32	\$24	\$22	\$27	0.8	1.1	1.2
35084	Northern New Jersey - NJ	\$30	\$24	\$23	\$29	1.0	1.2	1.3
42660	Seattle - WA	\$46	\$34	\$28	\$35	0.8	1.0	1.3
19740	Denver - CO	\$33	\$26	\$22	\$27	0.8	1.0	1.2
12060	Atlanta - GA	\$34	\$23	\$20	\$24	0.7	1.1	1.2
11244	Orange County - CA	\$35	\$30	\$27	\$39	1.1	1.3	1.5
36084	East Bay - CA	\$48	\$37	\$33	\$43	0.9	1.2	1.3
38060	Phoenix - AZ	\$32	\$25	\$20	\$23	0.7	0.9	1.1
19100	Dallas-Fort Worth - TX	\$33	\$25	\$23	\$22	0.7	0.9	1.0
33460	Minneapolis - MN	\$31	\$24	\$22	\$25	0.8	1.0	1.1
38300	Pittsburgh - PA	\$29	\$19	\$16	\$22	0.8	1.2	1.4
18140	Columbus - OH	\$24	\$21	\$19	\$18	0.7	0.8	0.9
38900	Portland - OR	\$34	\$27	\$23	\$27	0.8	1.0	1.1
17460	Cleveland - OH	\$24	\$19	\$16	\$23	0.9	1.2	1.4
16740	Charlotte - NC	\$36	\$26	\$22	\$21	0.6	0.8	1.0
17140	Cincinnati - OH	\$24	\$19	\$17	\$19	0.8	1.0	1.1
19380	Dayton - OH	\$21	\$17	\$15	\$16	0.8	1.0	1.1
12580	Baltimore - MD	\$28	\$22	\$20	\$26	0.9	1.2	1.3
41940	San Jose - CA	\$71	\$59	\$50	\$42	0.6	0.7	0.8
19820	Detroit - MI	\$24	\$21	\$18	\$19	0.8	0.9	1.0
26420	Houston - TX	\$34	\$25	\$22	\$20	0.6	0.8	0.9

Source: NAR analysis using CoStar® market data

Evaluation of Office-to-Housing Conversions and Impact on Housing Supply in 27 Markets

Table 4. Estimated Housing Units from Office-to-Housing Conversions in Markets with the Largest Declines in Office Occupancy Since 2020 Q2

CBSA Code	Geography Name	Housing Units if 25% Vacant Office Class A is Converted	Housing Units if 25% Vacant Class B is Converted	Housing Units if 25% Vacant Class C is Converted	Total Housing Units from Office Conversion	12-Month Housing Permits	Housing Units As % of Housing Permits
35614	New York - NY	0	5,742	1,742	7,484	54,176	14%
16980	Chicago - IL	0	4,725	964	5,688	17,726	32%
31084	Los Angeles - CA	0	3,479	721	4,200	31,552	13%
11244	Orange County - CA	1,480	1,442	144	3,065	31,552	10%
14460	Boston - MA	0	2,460	348	2,808	17,054	16%
12060	Atlanta - GA	0	2,440	359	2,799	38,247	7%
37980	Philadelphia - PA	0	2,192	541	2,733	21,120	13%
33460	Minneapolis - MN	0	1,739	342	2,081	24,890	8%
19740	Denver - CO	0	1,871	138	2,009	27,995	7%
42660	Seattle - WA	0	1,558	150	1,709	26,725	6%
36084	East Bay - CA	0	1,256	197	1,453	12,549	12%
12580	Baltimore - MD	0	1,270	170	1,440	7,659	19%
38300	Pittsburgh - PA	0	955	199	1,154	2,154	54%
35084	Northern New Jersey - NJ	0	811	219	1,030	54,176	2%
17460	Cleveland - OH	0	836	191	1,027	3,440	30%
17140	Cincinnati - OH	0	755	236	991	8,204	12%
19820	Detroit - MI	0	0	538	538	9,054	6%
41884	San Francisco - CA	0	0	351	351	12,549	3%
47900	Washington - DC	0	0	302	302	27,795	1%
38900	Portland - OR	0	0	299	299	14,828	2%
38060	Phoenix - AZ	0	0	217	217	51,164	0%
19380	Dayton - OH	0	0	176	176	NA	NA
41940	San Jose - CA	0	0	0	0	4,984	0%
26420	Houston - TX	0	0	0	0	68,979	0%
19100	Dallas-Fort Worth - TX	0	0	0	0	73,695	0%
18140	Columbus - OH	0	0	0	0	12,425	0%
16740	Charlotte - NC	0	0	0	0	28,442	0%
Grand Total		1,480	33,532	8,543	43,555	683,134	10%

Source: NAR using CoStar® market data

Case Studies



Case Study 1. Octave 1320

Silver Spring Maryland

Adaptive Re-use: Midrise Efficiency Condominiums

Location: 1320 Fenwick Lane Silver Spring Maryland
Year office building was built: 1963
Year conversion construction started: August 2014
Year conversion was completed: May 2016
Number of Units: 102
Gross building area: 81,600 sq. Ft.
Typical Floor: 8,876 sq. ft.
Bedroom size: 800 sq. ft. (2-bedroom) and 500 sq. ft. (1-bedroom)
Sale price in market area : \$240,000/unit (as of October 2021)
Financing: \$4.1 million investment from the Montgomery County

Repurposed from an office building built in 1964, Octave 1320 is an 8-story apartment condominium with efficiency units intended to attract first-time buyers looking for affordable and walkable properties. The conversion started in August 2014 and was completed in May 2016. The building is an 8-minute walk from the Silver Spring transit stop and the Silver Spring Commuter Rail. In 2017, *Octave 1320* earned the Excellence in Adaptive Reuse award from the prestigious Urban Land Institute Washington, a District Council of the Urban Land Institute (ULI). Octave 1320 was also recognized by Delta Associates as the 2016 Best Washington/Baltimore Adaptive Reuse Condominium Community during the group's 20th Annual Apartment and Condominium Industry Awards for Excellence. The conversion of the office building into a mid-rise condominium was undertaken by the developer Promark Real Estate Services LLC and designed by the BKV Group.

Market conditions

In the third quarter of 2013, the year before construction started in August 2014, market conditions in the Washington, DC metro area were stronger in the multifamily market than in the office market as the DC market was still re-absorbing the vacant space released into the market after demand had fallen during the 2007-2009 Great Recession. The office vacancy rate of 12.8% while the apartment vacancy rate was just at 6.2%. Office rents had declined 0.3% year-over-year while apartment rents were up 2% year-over-year, indicating a strong demand for housing. Still, long-term outlook for the DC market was favorable, with the median office cap rate among sales transactions at that time at 6%, just about at par with the apartment cap rate of 6.3%. In fact, by the time the office building conversion into a condominium offering efficiency units was completed in May 2016, the office market had strengthened, with office rents up.

Case Study 1. Octave 1320

Silver Spring Maryland

Adaptive Re-use: Midrise Efficiency Condominiums

2.5% year-over-year, just slightly ahead of the 2.3% year-over-year increase in apartment rents. Office rents would likely have continued to trend upwards, and the vacancy rate would likely have continued to tighten as the economic conditions were improving until COVID-19 hit and led to a rise in the vacancy rate to 15% as of October 2021. However, there is emerging to be a disconnect between where people live and where people work because even as office vacancies rose, the rental vacancy rate for an apartment in the DC Metro area slid to 6.3%, with the average apartment asking rent up 8.7% year-over-year. The apartment cap rate has also fallen to 4.5% which is much lower than the office cap rate of 6.3%, indicating the rising value of residential buildings compared to office buildings.

Washington DC metro area	2013 Q3	2016 Q2	2021 Q3
Office vacancy rate	12.8%	13.9%	15%
Apartment vacancy rate	6.2%	6.6%	6.3%
Office asking rent per sq. ft.	\$35.40	\$36.82	\$38.64
Office asking rent, y/y % change	-0.3%	2.5%	-1.3%
Apartment asking rent per unit	\$1,643	\$1,762	\$1,960
Apartment rent, y/y % change	2.0%	2.3%	8.7%
Office cap rate	6.0%	6.5%	6%
Apartment cap rate	6.3%	5.6%	4.5%
Median household income	\$90,132	\$94,293	\$108,706
Rent as a percent of income	22.0%	22.45	21.6%

Source: CoStar® data

Project Purpose

The goal of the project was to provide affordable condo units in the area. The developer's (Promark Real Estate Services of Rockville) analysis of the market conditions revealed that the best adaptive use was as a residential condominium given that there were already about 300 new rental apartments in the area, but no options for multifamily ownership. Designed to be affordable for first-time buyers, the units were priced from the \$200,000s for one-bedroom units and from the \$300,000s for two-bedroom units as the condominium was being marketed. As of October 2021, sales price per unit in the Downtown Silver Spring Market was \$240,000. According to the Montgomery Planning Department blogpost, "by eliminating parking, keeping the unit size small, and streamlining the condo designs, the developer and architect provided a market-driven, affordable product."

Case Study 1. Octave 1320

Silver Spring Maryland

Adaptive Re-use: Midrise Efficiency Condominiums

Success Factors

Efficient and aesthetic building and unit designs. Utilization of efficient building design was critical to keeping down costs while attracting buyers. With a gross building area of 81,600 square feet, the building has 102 units with an average size of 590 square feet, of which 69 units have an average size of 504 square feet and 33 units have an average size of 771 square feet, according to CoStar® market data. Using small but efficient design principles, BKV Group designed the smaller units with features such as nine-foot-high ceilings, sliding bedroom doors that make the condos look and feel larger, and energy-efficient floor-to-ceiling windows. It also converted a former boiler room at the top of building into a “sky lounge”, a main attraction for buyers and a gathering place for residents. Other community amenities include a fitness center, a common-area lounge with fireplace, and secured bike parking.

Proximity of building to commuter stations. According to the Montgomery Department Planning blog site, the proximity to the Red Line Metro Station and amenities in Downtown Silver Spring were critical to the conversion of the office building into a residential condominium in terms of reducing the cost of development and attracting buyers. Octave 3215 is located within the Silver Spring Parking District so the building did not need to provide onsite parking spaces because residents can park in the nearby county-owned garage. Many residents did not own a car and relied on ride-sharing apps and bikes so one important amenity was the bike parking room in Octave's basement.

Public-private financing Supportive of the project's goal of providing housing for first-time buyers that is affordable relative to their income, Montgomery County invested \$4.1 million into the project and BB&T also provided debt financing. According to ProMark, about 80 percent of the new condo owners are first-time homebuyers, many of them millennials.

Construction cost savings and faster build time. According to Peter McLaughlin, ProMark's Director of Development, converting an office building at a prime transit location was less expensive than ground-up construction. Build time was also reduced by not having to do significant foundation and structural work. Construction time was reduced to 12 to 13 months instead of the 18 to 24 months to construct from the ground up a new building.

Case Study 1. Octave 1320

Silver Spring Maryland

Adaptive Re-use: Midrise Efficiency Condominiums



Source: CoStar®

“Octave has proven to be a win-win. Converting an office building at a prime transit location was less expensive than ground-up construction, the build time was reduced due to not having to do significant foundation and structural work, and the County got to make good on its goal of making homeownership more accessible while earning a nice return on its investment.”

- Peter McLaughlin, ProMark’s Director of Development

“Octave 1320 and our investment in ProMark’s vision is a good example of how stakeholders can work together in finding new ways for cost-effective development that is still good business.”

-Isiah Leggett, Montgomery County Executive

“The project achieved its vision of providing modern homeownership opportunities in a desirable neighborhood to a buyer typically priced out of the market. The exterior renovation brings a modern texture to a tired urban environment. Overall, the jury was impressed with the developer’s ability to identify a need in the market and create a quality project to meet that need.”

- Lisa Rother, Executive Director, Urban Land Institute

Case Study 2. Legacy West End Washington, DC Adaptive Reuse: Luxury Apartments

Location: 1255 22nd St. NW Dupont Circle, Washington DC
 Year office building was built: 1989
 Year conversion construction started: August 2016
 Year conversion was completed: March 2018
 Number of Units: 198 (20 affordable units)
 Gross Building Area: 198,205 sq. ft., 9 stories
 Typical Floor: 19,799 sq. ft.
 Average Unit Size: 753 sq. ft.
 Rent Type: \$3,936 for 1-bedroom unit (as of October 2021)
 Financing: Privately funded; construction loan of \$20.6 million in 2017 and \$108.5 million in 2018

Legacy West End is a 9-story 198-unit luxury apartment building that was constructed from a concrete office building built in 1989 and that had functioned as a Cadillac dealership from 1935 to the late 1970s. It is about a 10-minute walk from Foggy Bottom and Dupont Circle in Washington, DC. The conversion entailed the gutting and repositioning of elevators and heating, ventilation and air conditioning system as well as the expansion of the 106,000 square foot office building into a 200,000 sq. ft. of residential building with the utilization of an adjacent lot. The conversion of the office building was undertaken by the owner/developer Tasea Investment Company who had purchased the office building in 1987. The conversion was designed by MFTA Architecture.

Market conditions

In the third quarter of 2015, the year before construction started in 2016, the Washington DC metro area had an office vacancy rate of 13.9% while the

Washington DC metro area	2015 Q3	2018 Q1	2021 Q3
Office vacancy rate	13.9%	12.9%	15%
Apartment vacancy rate	6.7%	6.6%	6.4%
Office asking rent per sq. ft.	\$36.2	\$37.9	\$38.6
Office asking rent, y/y % change	2.0%	1.3%	-1.3%
Apartment asking rent	\$1,727	\$1,794	\$1,960
Apartment rent, y/y % change	3.3%	1.4%	8.7%
Office cap rate	6.9%	6.3%	6.0%
Apartment cap rate	5.5%	5%	4.5%
Median household income	\$92,819	\$100,341	\$108,706
Rent as a percent of income	22.4%	21.5%	27.5%

Source: CoStar®

Case Study 2. Legacy West End Washington, DC Adaptive Reuse: Luxury Apartments

apartment vacancy rate was just at 6.7%. Office rents were up 2% year-over-year while apartment rents were up 3.3% year-over-year. The median cap rate on apartment sales deals during that quarter was 5.5% while the median cap rate for office buildings was 6.9%, indicating the strong valuation of multifamily housing in the area relative to office buildings. Thus, market conditions were conducive to the adaptive reuse of the old office building into a residential building.

Project Purpose

The [website](#) advertises as building as offering “sophisticated spaces with sleek, modern amenities, and “all the comforts you've come to expect, with an unparalleled address.” Because the building was targeted towards the high-end market, the building offered a range of high-end amenities such as a 24-hour state-of-the-art fitness center, an elegant club lounge, a library and flexible space for hosting events, a spectacular rooftop deck with two-tiered pools, penthouses, and even a pet spa.



Source: CoStar®

Case Study 2. Legacy West End Washington, DC Adaptive Reuse: Luxury Apartments

According to CoStar® data as of October, the 4-star rated luxury building offered a mix of studios and 4-bedroom units with an average square footage of 754 square feet with average asking rent of \$3,938. About 57% of the units are 1-bedroom units with an average size of 1,074 square feet that rented at \$3,891 per unit. The building has two 4-bedroom units with an average of 1,800 square feet that rented for \$10,137. As of October 2021, CoStar® reported an occupancy rate of 93% for this building.

As of October 2021, the median household income in the Washington DC metro area is \$108,706 so 1-bedroom unit rent of \$3,891 amounts to 43% of the median household income, which is unaffordable for the typical renter.

How do these rents compare to the office rent had the building not been repurposed? According to CoStar®, the office rent in the Dupont area as of October 2021 was \$44 per square foot annually. So a 697 square foot space office would have rented at \$2,556 per month, which is lower than the \$3,891 apartment rent as of October 2021.

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	34	406	\$2,434	\$5.99	0.9%
1	112	697	\$3,891	\$5.58	0.9%
2	50	1,074	\$4,820	\$4.49	0.9%
4	2	1,800	\$10,137	\$5.63	1.0%
Totals	198	754	\$3,938	\$5.23	0.9%

Success Factors

Replacement of existing systems. The conversion entailed gutting and replacing the building's systems, including heating and air conditioning systems, elevators and electrical and plumbing fixtures. Gutting and rehabilitating an existing building could It also entailed the expansion of the existing office building that was made possible because of an adjacent empty lot. onto an adjacent empty. A new nine-story, post-tensioned concrete structure was connected to the existing building at the third floor and above.

Case Study 2. Legacy West End Washington, DC Adaptive Reuse: Luxury Apartments

Continued business operation of tenants during construction. One success factor that reduced the loss of income during construction was that the U.S. Post Office which was leasing on the first floor remained in operation at all times. Clearly, state-of-the-art demolition and engineering design were critical to the continued operation of the U.S. Post Office even as gutting and reconstruction was going on.

Aesthetic and functional use of space. The conversion of the building also involved the creative, aesthetic, and functional use of the rooftop. According to MFA Architecture, “the habitable roof spaces are surrounded by a green roof that creates an aesthetic rooftop while contributing to the project’s storm water requirements.”

Private financing. Gutting and rehabilitation could be expensive, but the cost has to be compared to the expected revenue. CoStar® public records show a construction loan of \$108.5 million was obtained in 2018 and a construction loan of \$20.6 million was obtained in 2017.

“We worked together with the owner to achieve the maximum development potential of the site and optimal utilization of the adjacent Lot 194 which is integrated into the renovated building.”

-MFTA Architecture

Note: On November 9th, 2018, [MFTA Architecture](#) was awarded AIA Virginia’s T. David Fitz-Gibbon Virginia Architecture Firm Award. The award is the highest honor bestowed by the AIA Virginia to a Virginia-based architecture firm. The award recognizes a firm’s design achievements; their relationship of built work to purpose, environment, user, and physical context; consistency of philosophy, approach, and quality in body of work; and “staying power”.

Case Study 3. Cordell Place

Bethesda, Maryland

Adaptive Reuse: Homeless Permanent Supportive Housing

Location: 4715 Cordell Avenue, Bethesda, Maryland, 20814
 Year office building was built: 1967
 Year Opened as a Homeless Shelter: 2010
 Number of Units: 32
 Rentable area: 17,500 sq. ft.
 Typical floor : 3,500 sq. ft.
 Number of Buildings: 1; 5 stories
 Financing: \$8 million loan from Montgomery County, Maryland

Cordell Place is a homeless permanent supportive housing shelter building that was formerly an office building built in 1967. It is a project of the non-profit organization Montgomery County Coalition for the Homeless (MCCH) and its developer affiliate, Coalition Homes (CH). Cordell Place provides permanent supportive housing to formerly homeless individuals in downtown Bethesda in a 32-unit building.

Market conditions

Cordell Place opened in 2010 around the time of the Great Recession after the housing market had just collapsed. One year into the after the recession, the Washington, DC metro area office market was facing a high vacancy rate of 12.3% while apartment vacancy rate was just at 6%. Office rent was rising by 1.4% compared to apartment rent growth of 4.7%. The office cap rate was 6.8% compared to 6.4% for apartment acquisitions so acquisition of an office was relatively cheaper compared to the expected income. Rent were rising while the unemployment rate was also rising to 6.2% in the DC metro area, up from 4% in 2008 just as the Great Recession had just started.

Washington DC metro area	2011 Q1	2021 Q3
Office vacancy rate	12.3%	15%
Apartment vacancy rate	6.0%	6.4%
Office asking rent per sq. ft.	\$35.4	\$38.6
Office asking rent, y/y % change	1.4%	-1.2%
Apartment asking rent	\$1,564	\$1,961
Apartment rent, y/y % change	4.7%	8.7%
Office cap rate	6.8%	6.1%
Apartment cap rate	6.4%	4.8%
Median household income	\$84,933	\$114,914
Rent as a percent of income	22%	27.5%
Unemployment rate	6.2%	5.3%

Source: CoStar, US Bureau of Labor Statistics

Case Study 3. Cordell Place

Bethesda, Maryland

Adaptive Reuse: Homeless Permanent Supportive Housing

Project Purpose

The purpose of the project was to provide permanent and supportive housing services to single homeless adult men and women who can live independently but have need of on-site supportive services and have income below 40% of the area median income.

Success Factors

Suitable structure for conversion into a residential building. According to the Greater Washington news report, the Class C building had a narrow footprint and was backed up against an existing structure that made it unlikely to be redeveloped into a modern office. However, because it was narrow and wide, with punched windows that let sunlight into the units, it was suitable for conversion into a residential building.



Source: CoStar®

Case Study 3. Cordell Place

Bethesda, Maryland

Adaptive Reuse: Homeless Permanent Supportive Housing

Public and non-profit collaboration. Financial support the Montgomery County was critical to the success of this non-profit project. Montgomery County provided a loan of \$8 million (152% loan-to-value) to finance the sale of the building to Coalition Homes (under the recorded name of Cordell Homes LLC) for \$5.25 million in April 2009 from the owner East Diamond LLC.

As background, Montgomery County's Permanent Supportive Housing (PSH) programs provide funding for long-term rent assistance and case management services to people with disabilities with the programs operated by non-profit organizations such as MCCH through contracts with Department of Health and Human Services.

MCCH is a non-profit organization that seeks to provide solutions in Montgomery County "to ensure that homelessness is rare, brief, and nonrecurring." It is funded by the Housing Opportunities Commission (HOC), Montgomery County Department of Health and Human Services (DHHS) and the Montgomery County Department of Housing and Community Affairs.

Coalition Homes is an affiliate of MCCH that was incorporated in 2005, with the mission of increasing the supply of affordable housing. It touts itself as the only developer of permanent supportive housing projects in Montgomery County. CH acquires, develops and manages nearly 200 permanent supportive housing units in Silver Spring, Takoma Park, Bethesda, Germantown and Clarksburg. CH provides 24/7 property management services in coordination with support services from MCCH.

Case Study 4. 70 Pine

Manhattan, NYC

Adaptive Reuse: Luxury rentals/mixed use

Location: 70 Pine Street, New York, NY, 10270 (Lower Manhattan Financial District)
Year office building was built: 1932
Year conversion construction started: June 2012
Year conversion was completed: October 2015
Number of Units: 589
Gross Building Area: 931,126 sq. ft., 66 stories
Typical Floor: 28,325 sq. ft.
Average Unit Size: 899 sq. ft.
Average asking rent: \$5,751 /unit (as of October 2021)
Financing: acquired for \$205 million in 2011; \$386 million refinancing loan in 2020 provided by Goldman Sachs

70 Pine is luxury apartment rental/mixed use building named for the street on which it is located in Manhattan's Financial District. A beautiful and iconic New York skyscraper, the building and its first-floor interior were designated as official New York City landmarks in June 2011.

The original 66-story building was built in 1932 as the headquarters of the energy conglomerate Cities Service Company (later known as Citgo) founded by Henry Latham Doherty. It was built in Art Deco style with setbacks to allow the flow of light around the skyscrapers that culminated in a spire (in New York City, the Art Deco style is best exemplified by the Empire State Building and Chrysler Building). At its completion, it became Lower Manhattan's tallest and the third tallest in the world, with a historic bank vault that remains today. In 1976, Citgo relocated its headquarters to Tulsa, Oklahoma and sold the building to the American International Group (AIG). It served as AIG's headquarters until it fell into bankruptcy during the Great Recession/Global Financial Crisis of 2007-2009.

AIG sold the building and a small adjacent building in 2009 for \$150 million to Kumho Investment Bank and New York developer Youngwoo & Associates, who planned to turn them into condo apartments, according to the New York Post. After Youngwoo left the partnership, Kumho sold the 70 Pine building alone to Nathan Berman's Metro Loft Management and Luxembourg-based Eastbridge in December 2011 for \$205 million. In December 2011, Metro Loft Management sold its stake to the New York pre-eminent family-owned owner/developer, Rose Associates and its joint venture partner DTH Capital, also a major developer.

In June 2012, construction work started to convert the building into a luxury rental/mixed use building, with the construction completed in October 2015.

Case Study 4. 70 Pine

Manhattan, NYC

Adaptive Reuse: Luxury rentals/mixed use



Source: CoStar®

Market conditions

In the fourth quarter of 2011 when the then AIG Building was sold, the office vacancy rate in the New York-Newark-Jersey City metro area averaged 8.8% while the apartment vacancy rate was just at 3.5%. Still at that time, the average office asking rent was up 5.7% year-over-year while the apartment asking rents were up 1.1% on average. The median cap rate on office transactions was the same as the median cap rate on apartment deals, at 6.5% so an investor who would have wanted to invest in the multifamily market could have purchased an existing multifamily building. Given that this iconic building is in the heart of the Financial District, the conversion of this iconic office building into a residential building faced huge financial headwinds, with two developers backing out of their plans to convert the building into residential units before the major New York developer New York Rose Associates undertook the conversion.

Case Study 4. 70 Pine

Manhattan, NYC

Adaptive Reuse: Luxury rentals/mixed use

New York-Newark-Jersey City	2011 Q4	2015 Q4	2021 Q3
Office vacancy rate	8.8%	8.5%	11.6%
Apartment vacancy rate	3.5%	3.3%	2.4%
Office asking rent per sq. ft.	\$44.2	\$56.3	\$56.2
Office asking rent, y/y % change	5.7%	7.1%	-2.7%
Apartment asking rent	\$2,380	\$2,614	\$2,838
Apartment rent, y/y % change	1.1%	3.2%	4.2%
Office cap rate	6.5%	6.1%	6.7%
Apartment cap rate	6.5%	5.0%	6.0%
Median household income	\$57,982	\$62,452	\$76,777
Rent as a percent of income	49.3%	50.2%	44.4%

Source: CoStar®

Project Purpose

The repurposed office building is a 931,126 square foot mixed use apartment building with 96.2% of the square footage for multifamily use (896,126 sq. ft.) and 3.8% (35,000 sq. ft.) for retail use. It has 589 units with an average size of 899 square feet and average rent of \$5,571 per unit, according to CoStar® data. About a third of the units are studios with an average of 558 square feet and average asking rent of \$3,707. Six units are 4-bedroom units, with an average asking rent of about \$15,000 as of October 2021.

The residential building offers high-end amenities such as a gourmet grocer and food hall (City Acres), several fine-dining restaurants, coffee shops, bar, and a Michelin-starred restaurant (Crown Shy), several lounges for hosting events and networking, golf simulators, a bowling alley, and a screening room in the historic bank vault. Some 132 units are run as hotel rooms.

Beds	Units	Avg SF	Asking Rent/Unit	Asking Rent/SF	Concessions
Studio	226	558	\$3,707	\$6.65	1.0%
1	171	649	\$4,849	\$7.49	1.0%
2	129	1,297	\$7,680	\$5.92	1.0%
3	57	1,926	\$11,187	\$5.73	1.0%
4	6	3,139	\$15,382	\$4.90	1.0%
Totals	589	899	\$5,751	\$6.35	1.0%

Source: CoStar®

Case Study 4. 70 Pine St

Manhattan, NYC

Adaptive Reuse: Luxury rentals/mixed use

Success Factors

Big role of private capital. The sale, conversion, and debt refinancing of this grand project was purely financed by private capital. In 2019, Goldman Sachs, a multinational investment bank provided a \$386 million loan to refinance the loan of developers DTH Capital and Rose Associates. Two years earlier in May 2017, Brookfield Real Estate Financial Partners LLC, Bank of China and ING repaid an existing \$375 million construction mortgage debt of the joint venture firm of DTH Capital and Rose Associates. According to [Multihousing News](#), soon after DTH Capital and Rose Associates acquired the AIG property in 2011 for \$205 million, they began a \$550 million renovation to turn the office tower into a luxury residential building.

Commitment by local developers to the community's development and growth. Clearly, the leadership and commitment of New York City's major developers was instrumental to the success of this ambitious, grand, and historical conversion of an iconic building.

[Rose Associates](#) Inc is a New York-based multifamily real estate developer that specializes in the acquisition and development of luxury multifamily properties in the New York Metro area. Their first development project was in 1925. In its website, the company stated, "We are committed to being the premier multifamily real estate firm in the New York metro market." The company is also heavily committed to supporting the vibrancy of New York City. **According to [Rose Associates](#)**, "The Rose Family has enthusiastically participated in the philanthropic life of New York City for over five decades. Deeply grateful to the City where the family flourished, the Roses have funded dozens of cultural, educational, and community-based organizations.

[DTH Capital](#) touts itself as "an experienced developer and owner of real estate focused on the conversion of historic office properties into residential apartments in New York City. As the majority owner, DTH developed and managed a 2.60 million square foot apartment rental portfolio comprising four landmark properties (2,218 apartments) in and around the Wall Street area of Manhattan (70 Pine, 20 Exchange Place, 63 Wall Street, and 67 Wall Street). DTH Capital was initially formed with the US real estate assets of Eastbridge Group, a family holding company based in Luxembourg. In 2013 Eastbridge Group partnered with Belgian operated AG Real Estate, which is owned by AGEAS a publicly traded Belgium insurance company and BNP Paribas, one of the largest European banks.

Case Study 5. 20 Broad

New York, New York

Adaptive Re-use: Luxury rentals/mixed-use

Location: 20 Broad St, New York, NY 10005

Year office building was built: 1956

Year adaptive re-use construction started: September 2016

Number of Units: 385

Rent Type: Market

Bedroom size: 1,100 sq. ft. (3-bedroom), 900 sq. ft. (2-bedroom), 600 sq. ft. (1-bedroom), 500 sq. ft.(studio)

Typical Floor: 18,150 sq. ft.

Gross building area: 473,000 sq.ft.

Number of Buildings: 1

Financing: Private (Debt: construction loan of \$90 million in 2016, mortgage loans of \$81 million (2016), \$16 million (2016), and \$125 million (2015); Equity: \$45 million (2015))

Located in Lower Manhattan, at the heart of the Financial District and on one of the most historic streets in New York City was a 27-story, former New York Stock Exchange building that has since been transformed from 4-star Class A office space with 21,000 sq.ft. of retail space into high-rise luxury apartments called 20 Broad. CoStar® rates the building as 4-star out of a 5-star rating. The property also has a Walk Score® and Transit Score® of 99 and 100.

Project Purpose

Originally built in 1956, architects of the new 20 Broad, Cetra Ruddy, designed the new “white glove” luxury rental property with the history of the property in mind as the architects utilized high-end furnishings such as Italian cabinetry and quartz countertops, created a sky Lounge and a rooftop terrace with views of historic downtown amongst many more amenities. 20 Broad has a gross building area of 473,000 square feet and 385 units where the average unit size for a studio unit is 500 square feet, 1-bedroom units is 600 square feet, 900 square feet for 2-bedrooms and 1,100 square feet for 3-bedrooms.

Prior to the 20 Broad conversion, New York Stock Exchange (“NYSE”) was the major tenant in the building. Vornado Realty Trust, a fully integrated equity real estate investment trust, entered into an agreement to sell its leasehold interest in the property which result in the early termination of the NYSE space lease (NYSE paid \$15 million for early termination) to Metro Loft Management for \$185 million. The ground lease runs until 2081 where there will then be discussions between Metro Loft Management and NYSE parent company, Intercontinental Exchange Group (ICE), with respect to an extension or the paying outright for the ground. The deal

Case Study 5. 20 Broad New York, New York Adaptive Re-use: Luxury rentals/mixed-use

was comprised of \$125 million in acquisition and pre-development financing and \$45 million in preferred equity. The transaction was arranged by JLL. Deutsche Bank and AllianceBernstein were the loan originators while the Vanbarton Group provided the preferred equity.



Source: CoStar®

This property was special to Metro Loft, whom had experience in converting large downtown office properties into multifamily housing because of its location. The property receives a heavy amount of foot-traffic as it rests within half of a block from the intersection of Wall St. and Broad, which is known for its dining, landmarked locations, art, shopping and events. All of New York City is easily accessible as public transit (buss and 1,2,3,4,5,A,C,F,R,J and Z trains) are near the property.

Masonry started construction on 20 Broad in September 2016. Metro Loft negotiated \$270 million in financing for the conversion from Bank of the Ozarks which \$90 million was for a construction loan according to the construction deed of trust and the remaining allocated in mortgage loans. Included within that financing package was \$83 million of mezzanine debt from Brookfield Property Group. Metro Loft filed for 521 apartments with 90,000 square feet of retail space with an additional

Case Study 5. 20 Broad New York, New York Adaptive Re-use: Luxury rentals/mixed-use

six stories atop the current 27-story building in April 2016 and the office-to-residential conversion was ready to begin leasing in 2018. Metro Loft Management partnered with Bold New York, which provided management and leasing services, and by September 2018 leasing was already underway.

Construction on the 29-story hi-rise was completed by Collaborative Construction Management. One of the major factors concerning the conversion was the “lease span”, that is, the distance between the façade and the elevators. With respect to the lease span, Cetra Ruddy found that a smaller span would be more beneficial as the larger it becomes, the more troublesome the space would become to design as there would be spaces that would not adapt well. The lease span at 20 Broad measured in at 45 feet, which is near the maximum of what would work and as such, some floor plans have creative quirks e.g., off-center windows.

Market conditions

In the third quarter of 2015, the year before construction started in 2016, the New York – NY metro area had an office vacancy rate of 8.7% while the apartment vacancy rate was just at 3.1%. Office rents rose 7.3% year-over-year while apartment rents were up 3.5% year-over-year. The office cap rate was 5.4% while the apartment cap rate was 5.2% (so it was cheaper to buy an office). Thus, market conditions were conducive to the adaptive reuse of the old office building into a residential building.

New York – NY metro area	2015 Q3	2021 Q3
Office vacancy rate	8.7%	10.7%
Apartment vacancy rate	3.1%	2.4%
Office asking rent, y/y % change	7.3%	-2.7%
Apartment rent, y/y % change	3.5%	4.2%
Office cap rate	5.4%	6.8%
Apartment cap rate	5.2%	5.9%
Median household income	\$62,188	\$76,777
Apartment asking rent	\$2,608	\$2,838

Source: CoStar

As of October 2021, the asking rent per unit is \$4,253, with a studio average of \$2,311 (average 507 sq.ft.) to as high as \$7,002 for 3-bedroom units (average of 1,080 sq.ft.). Of the 385 units, 100 are 1-bedroom units that rent out for \$3,318 (615 sq.ft.). The median household income within 1 mile of this building is \$142,897. Currently, the building has a 0.9% vacancy rate, which is lower than the 2.4% vacancy rate in the Financial District submarket.

Case Study 5. 20 Broad New York, New York Adaptive Re-use: Luxury rentals/mixed-use

Success Factors

Aesthetic building and unit designs. Considering the historic nature of the former New York Stock Exchange building, ASH NYC and Cetra Ruddy, the award-winning architecture firm was utilized to retain elements from the buildings rich history whilst infusing the property with more modern and high-end furnishings and amenities. 20 Broad is unique with respect to its acknowledgement to mid-century modern styles that were in favor at the time of the buildings original construction and desirable amenities ranging from a rooftop terrace with views of historic downtown a yoga studio.

Building location. According to Nathan Berman of Metro Loft, “The location is very special,” Berman continued, “as it is a half a block from the intersection of Wall and Broad, which is really the Times Square of the Financial District.” Considering its location, the new 20 Broad building is also successful as a result of its proximity to shopping, dining, arts & culture and public transportation for which FDR, West Side Highway, Ferries and trains are nearby and thus, making NYC effortlessly accessible.

Lender sentiment According to Jll's Capital Markets, which organized the transaction (acquisition and pre-development financing), given Metro Lofts experience in converting sizable downtown office properties into residential properties, lenders response to financing this transaction was very positive.

Case Study 6. 100 Van Ness

San Francisco, California

Adaptive Reuse: Luxury rentals/mixed-use

Location: 100 Van Ness Ave, San Francisco, CA, 94102

Year office building was built: 1974

Year adaptive reuse construction started: June 2013

Number of Units: 418

Rent Type: Market/Affordable

Average Unit Size: 732 sq. ft.

Typical Floor: 19,198 sq. ft.

Gross Building Area: 373,334 sq. ft., 29 stories

Number of Buildings: 1

Financing: Private (Debt: construction loan of \$15 million in 2018, mortgage loans of \$142 million in 2013 and \$5 million (2014))

Located in the Civic Center submarket as part of the San Francisco skyline with unobstructed views of the San Francisco Bay area, the 100 Van Ness luxury apartment building was converted from a 29-story, Class B, 4-star office building with retail space built in 1974. The original building was designed by architect Albert F. Roller Associates and featured a precast concrete wall system. Prior to the office-to-residential conversion, the office building was owned by National Real Estate Advisors (NREA) and was home to longtime tenant and property manager, California State Automotive Association (also known as “AAA”).

In 2008, Emerald Fund’s equity partner, National Electrical Benefit Fund, provided an acquisition and development loan backed by the 100 Van Ness property and in January 2011 took title to the property when previous owner, Vornado Realty Trust, default on the loan. NREA held a \$91.7 million mortgage secured by the property. In 2012, adaptive re-use designs of the former California State Automobile Association’s headquarters into a 418-unit apartment hi-rise began between NREA and Emerald Fund (which operate as Civic Center Commons Associates LLC (CCCA)) with an expected completion by 2015.

NREA weighed options for various uses for the property and chose residential as the property’s building height, ceiling height and views made more economic sense for apartments. The proposed adaptive re-use came at a time when the neighborhood was seeing increased real estate investment and interest in urban living.

Case Study 6. 100 Van Ness

San Francisco, California

Adaptive Reuse: Luxury rentals/mixed-use

Project Purpose

In 2013 the conversion was ready to begin. Emerald Fund was able to reduce the number of sub-market rate units from 60 to 48 as a result of Prop C ordinance approval. If Prop C was not approved, the \$142 million loan Prudential Mortgage Capital Co. would provide would have been in

jeopardy and Emerald Fund stated that, “Without the housing stimulative effect of Prop C being applied to 100 Van Ness, the financial viability of the conversion of the building from office to residential use will be called into question by both our lender and our equity partners.

The result could be that 400 housing units, including 48 affordable units, are never created and the building remains an ugly office building for the foreseeable future.”

Fortunately, the property would be converted to residential as the conversion was completed in 2015. Supplemental funding was provided by Prudential in the amounts of \$5 million (mortgage loan) and \$15 million (construction loan) in 2014 and 2018 respectively.

Emerald Fund sought Plant Construction for construction services, Solomon Cordwell Buenz for architectural duties, McGinnis Chen Associates Inc. performed waterproofing consultation services and primary leasing by Cushman & Wakefield. The conversion involved mainly retention of the existing building structure as both the interior and exterior were upgraded where the exterior utilized a new unitized curtain wall. For retaining the existing building structure, the property has achieved a GreenPoint rating. Additionally, the exterior is now encased in glass. Amenities include a fitness facility, controlled access parking, wine storage, a roof deck and gardens, rooftop playground, pool deck, basketball court, luxury kitchen, 24/7 concierge, conference room, private party room, business center, library, game room, resident lounge and public transit access (SFMUNI/BART) 3 minutes walking.

Market conditions

In the third quarter of 2012, almost a year prior to when construction began in 2013, the San Francisco metro area had an office vacancy rate of 8.3% while the apartment vacancy rate was just at 5.2%. Office rents significantly increased 15.9% year-over-year while apartment rents were up 3.3% year-over-year. The office cap rate was 5.4% while the apartment cap rate was 5.2% (less expensive to purchase office space).

Case Study 6. 100 Van Ness San Francisco, California Adaptive Reuse: Luxury rentals/mixed-use

San Francisco metro area	2012 Q3	2021 Q3
Office vacancy rate	8.3%	11.5%
Apartment vacancy rate	6.7%	6.4%
Office asking rent, y/y % change	15.9%	-4.7%
Apartment rent, y/y % change	3.3%	8.7%
Office cap rate	5.4%	4.6%
Apartment cap rate	5.2%	4.8%
Median household income	\$80,267	\$138,314
Apartment asking rent	\$2,476	\$2,928

Source: CoStar

The repurposed office building, a 373,334 square foot mixed use apartment building with 99.2% of the square footage for multifamily use and 0.2% (3,064 sq. ft.) for retail use had a vacancy rate of 6.2% as of October 2021. Additionally, the 12-month sales price for units in the Civic Center sub-market area is \$488.3k. The median household income within 1 mile of this building is \$77,325. Overall market rent in the area is \$2,947. Rents are up 6.3% year-over-year.



Source: CoStar®

Case Study 6. 100 Van Ness San Francisco, California Adaptive Reuse: Luxury rentals/mixed-use

Success Factors

Properties of the building. 100 Van Ness's tower did not need a huge retrofit which is uncommon considering the property was more than 41 years old. That was because of the way the original structure was designed, for old precast panels for which forced significantly heavier loads than the new system. The new interior floor design created more open space with 360-degree views of the city and with more open space via the removal of mechanical shafts, elevator shafts, bathroom and more, additional rentable square footage was realized. Property amenities such as the roof deck which provides unobscured views of the Bay area, lounges, garden area all attracted more individuals wanting to live there.

Increase in nearby commercial office space and demand for residential development. One success factor that proved beneficial for the 100 Van Ness property was the growth of office space nearby and increase in demand for urban living. With Twitter and Square developing new office space in close proximity, younger professionals were wanting to live near their work.

Community buy-in. "Everyone was very eager for this project. The old building, everybody hated it," including the late Mayor Ed Lee, according to Emerald Fund. The approval process for this project took only nine months where most residential projects take substantially longer. The city furthered the project along by easing the affordable housing requirement.

Case Study 7. Millennium On LaSalle Chicago, Illinois Adaptive Reuse: Luxury Rentals

Location: 29 S LaSalle, Chicago, IL, 60603

Year office building was built: 1900

Year adaptive reuse construction started: June 2016

Number of Units: 216

Building Area: 195,432 sq. ft.

Typical floor: 12,000 sq. ft.

Number of Buildings: 1; 13 stories

Bedroom size: 1,122 sq. ft. (2-bedroom), 812 sq. ft. (1-bedroom), 605 sq. ft.(studio)

Financing: Private (\$51.6 million, variable rate, LIBOR-based structure containing a senior mortgage and mezzanine loan)

The Millennium On LaSalle is an adaptive reuse of an historic 156,973 sq.ft. office building with 11,819 sq.ft. of retail space that was built in 1900 and located in the heart of the Loop's financial district. DLC Residential owns and developed the Millennium On LaSalle. The property is managed by Cushman & Wakefield with primary leasing responsibilities held by SVN | Chicago Commercial.

Market conditions

The Millennium On LaSalle officially opened July 2021 during an ongoing global pandemic, after it was initially scheduled to open in the 2019. A year prior to opening, in 2020, the Chicago metro area office market was facing a high vacancy rate of 12.4% while apartment vacancy rate was just at 7.6%. Office vacancy rates for the Chicago metro area has climbed towards 14.5% while apartment vacancy has decreased to 5.7% as of 2021 Q3. Office rents were increasing by 1.6% compared to apartment rent growth of -0.8%. The office cap rate was 9.4% compared to 8.8% for apartment acquisitions, thus office would have been less expensive.

Chicago metro area	2020 Q2	2021 Q3
Office vacancy rate	12.4%	14.5%
Apartment vacancy rate	7.6%	5.7%
Office asking rent, y/y % change	1.6%	-0.4%
Apartment rent, y/y % change	-0.8%	7.9%
Office cap rate	9.4%	8.0%
Apartment cap rate	8.8%	7.6%
Median household income	\$74,453	\$78,111
Apartment asking rent	\$1,446	\$1,535

Source: CoStar

Case Study 7. Millennium On LaSalle Chicago, Illinois

Adaptive Reuse: Luxury Rentals

Project Purpose

The new Millennium On LaSalle high-rise apartment building is a 4-star CoStar rated, class b building. Prior to the office-residential conversion and with a rentable area of 156,973 square feet, the historic property was known as Barrister Hall, a 3-star office building designed by Jenney Systems Associates. Barrister Hall, once home to the Chicago Bar Association, was situated near the Chicago Board of Trade, City Hall, banking headquarters, numerous law firms, CTA public transportation, Union Station, public parking and Ogilvie Transportation.



Source: CoStar®

The 115-year-old property was sold and executed on January 27, 2015 by ROC II IL LaSalle, LLC (Hamilton Partners) to Millennium On LaSalle LLC (DLC Residential) for \$12.9 million (\$82.31sq.ft.) who had plans to redevelop the property into apartment or condominiums. The property was 70.8% occupied at the time of the sale.

Capital for the redevelopment to Millennium On LaSalle was originated by ACORE Capital Mortgage, LP in the amount of \$51.6 million with a variable rate, LIBOR-based structure that contained a senior mortgage and mezzanine loan.

Case Study 7. Millennium On LaSalle Chicago, Illinois

Adaptive Reuse: Luxury Rentals

With general contracting services from Momentum Construction Co, Fitzgerald Associates Architects were chosen to design the new Millennium On LaSalle high-rise that would retain some of the property's historic elements whilst offering studio, one-bedroom, and two-bedroom residences. Residences feature "smart" systems that include USB power sources, Bluetooth and a media hub. Other apartment amenities include stone countertops stainless steel appliances, premium Italian cabinets, marble bathroom tile, dishwasher and washer & dryer. Additionally, community amenities include a new 14th floor amenity level that includes a pool, lounge, multi-sport court, dog park, fitness facility and landscaped roof deck with grilling area. Amenities for the property aside from those mentioned on the 14th floor include bike storage, theater room, workspace, demonstration kitchen, WIFI lounge, poker room, and dry-cleaning services.

As of October 2021, the asking rent per unit is \$2,215, with a studio average of \$1,587 (average 605 sq.ft.) to as high as \$2,975 for two-bedroom units (average of 1,122 sq.ft.). Of the 216 units, 104 are 1-bedroom units that rent out for \$2,192 (812 sq.ft.). The median household income within 1 mile of this building is \$127,095. Currently, the building has a 20.1% vacancy rate, which is higher than the 7.6% vacancy rate in the Chicago Loop submarket.

Success Factors

Modern amenities. With a significant emphasis on amenities, the Millennium On LaSalle architects delivered one of the most advanced and amenity-rich residential buildings developments in the area with "smart" mechanical systems and modern technology utilized throughout the apartments e.g., Bluetooth audio, a media hub, usb power sources. Additionally, amenities such as the new 14th floor amenity level delivers the futuristic-residential style of living that renters were looking for in the area.

Location. The apartment complex is in the heart of Chicago's financial district where restaurants, entertainment and shopping are plentiful and in proximity. Public transportation is in proximity as well with CTA Pink, Brown, Purple, Orange, Blue Lines and Metra – Union and Metra – Oligvie contributing the overall success of the property.

Knowing what to do with the property. The previous seller, Hamilton Partners was originally going to demolish the building and construct a more modern high-rise office or hotel before ultimately deciding to part ways with the property. When the current owners acquired the property, they knew that they wanted to redevelop the property into apartments or condominiums given they were a fully-integrated multi-family project development company.

Case Study 8. 180 Water New York, New York Adaptive Re-use: Luxury rentals/mixed-use

Location: 180 Water Street, New York, NY 10038

Year office building was built: 1971

Year adaptive re-use construction started: January 2016

Number of Units: 573

Rent Type: Market

Bedroom size: 1,258 sq. ft. (3-bedroom), 886 sq. ft. (2-bedroom), 724 sq. ft. (1-bedroom), 561 sq. ft.(studio)

Typical Floor: 13,713 sq. ft.

Gross building area: 498,671 sq.ft.

Number of Buildings: 1; 32 stories

Financing: Private (Debt: \$151 million acquisition, \$240 million construction/mortgage loan, \$450 million mortgage loan)

Originally built in 1971 and located in Lower Manhattan with views of the Brooklyn Bridge and the New York City skyline on 180 Water Street was a 24-story, 534,675 square foot 4-star office building with 21,000 sq.ft. of retail space. The property was located near Tribeca, World Trade Center and public transit where Fulton Street (2,3, J, M, Z Line) transit stops, Wall Street (2, 3 Line) transit stop, Broadway-Nassau Street (A, C) transit stop, and Broad Street Transit Stop (J, M, Z) were less than 5, 6, 7, 7, and 9-minute walks, respectively. The 180 Water Street property also had a perfect Walk Score® and Transit Score® of 100.

180 Water Street was home to sole tenant, New York City Human Resourced Administration (NYCHRA), where 2,200 employees occupied 509,000 sq.ft. at the location that began June 1998 and was scheduled to end in 2015 with NYCHRA's plan to relocate to the 4 World Trade Center. Emmes Asset Management (EAM) acquired the 180 Water Street property from Melohn Properties, Inc. for \$151 million (\$282.41/sq.ft) in July 2013 where Bank of America provided \$90 million of debt. Metro Loft was brought in as a minority partner (about 10%) in 2014 as the firm has extensive experience in similar conversions. The new owners contemplated acquiring new tenants for their office space but began considering adaptive re-use when determining the property's highest and best use.

Project Purpose

As a result of new office space in the vicinity e.g., World Trade Center complex and renovated Brookfield Properties office space, office vacancy rates increased. Simultaneously, residential demand was increasing in the surrounding area. EAM permitting paperwork with the Department of Buildings would ultimately indicate their intentions to convert the building into 601 rental units including an additional of seven floors, pool, lounge and deck with an expected opening date in 2017. The application was submitted by Avinash K. Malhotra Architects (AKMA) and indicated 10,500 sq.ft. would be reserved for retail space.

Case Study 8. 180 Water

New York, New York

Adaptive Re-use: Luxury rentals/mixed-use

As part of a corporate restructuring, Emmes Asset Management Company LLC changed its name to Vanbarton Group LLC in July 2015. Brookfield Asset Management (BAM) provided a floating rate construction/mortgage financing in the amount of \$180 million in the summer of 2015 and would sell the first mortgage backing the redevelopment to Capital One, who syndicated the loan to CIT Group and Santander Bank, while BAM provided \$60 million in mezzanine financing.



Source: CoStar®

In January 2016, construction would begin on 180 Water Street property's adaptive re-use development towards what would be a 29-story, 457,238 gross square foot multifamily development known as 180 Water. Cetra Ruddy performed the interiors while Pentagram focused on the design. Construction Consulting Associates, building code and zoning consultants, encountered a few obstacles in the redevelopment such as having to thread plumbing, ventilation and electrical riser through operating office space, but in 2017 the amenity rich office-residential conversion was completed. The developers removed a large atrium in the center and added a roof top amenity fixture with a 24-hour doorman, fitness center, children's playroom, yoga studio, kitchen, dining room, lounge, gaming area, and rooftop terrace with an outdoor pool.

Metro Loft purchased the majority share of the 573-unit conversion from their partners, Vanbarton Group, for \$450 million (\$785,340/unit or \$902.40 sq.ft.). Metro Loft received the loans from Deutsche Bank on October 4, 2017. The overall capitalization rate was 3.75%, NOI was \$16.8 million, and the building was nearly 100% occupied at the time of the sale.

Case Study 8. 180 Water New York, New York Adaptive Re-use: Luxury rentals/mixed-use

Market conditions

In the first quarter of 2015, the year before construction started in 2016, the New York – NY metro area had an office vacancy rate of 7.6% while the apartment vacancy rate was just at 3.0%. Office rents rose 7.5% year-over-year while apartment rents were up 3.1% year-over-year. The office cap rate was 5.9% while the apartment cap rate was 5.5% (so it was cheaper to buy office space). Thus, market conditions were conducive to the adaptive reuse of the old office building into a residential building.

New York – NY metro area	2015 Q1	2021 Q3
Office vacancy rate	7.6%	10.7%
Apartment vacancy rate	3.0%	2.4%
Office asking rent, y/y % change	7.5%	-2.7%
Apartment rent, y/y % change	3.1%	4.2%
Office cap rate	5.9%	6.8%
Apartment cap rate	5.5%	5.9%
Median household income	\$61,504	\$76,777
Apartment asking rent	\$2,558	\$2,838

Source: CoStar

As of October 2021, the asking rent per unit is \$4,886, with a studio average of \$3,157 (average 561 sq.ft.) to as high as \$7,323 for 3-bedroom units (average of 1,258 sq.ft.). Of the 573 units, 203 are 1-bedroom units that rent out for \$4,540 (724 sq.ft.). The median household income within 1 mile of this building is \$123,604. Currently, the building has a 0.1% vacancy rate, which is lower than the 3.7% vacancy rate in the Financial District submarket.

Success Factors

Big role of private capital. The sale, conversion, and debt refinancing of this grand project was purely financed by private capital. In 2013, Bank of America, a multinational investment bank provided a \$90 million mortgage loan for the purchasing of the property. Two years later in July 2015, Brookfield Asset Management provided a \$180 million in construction and mortgage financing and sold the first mortgage backing the redevelopment to Capital One while Brookfield Asset Management provided \$60 million. In 2017 Metro Loft bought Vanbarton out of the 180 Water property with a \$450 million loan provided by Deutsche Bank.

Case Study 8. 180 Water

New York, New York

Adaptive Re-use: Luxury rentals/mixed-use

Commitment by local developers to the community's development and growth and having a developer or partner who is experienced in this type of redevelopment. It is evident that having a commitment of New York City's major developers and those who have expertise in office-to-residential was critical to the success of this redevelopment.

Metro Loft, founded in 1997, is a New York-based real estate developer and management company that is responsible for the acquisition, development and management of some of noteworthy properties in Lower Manhattan and has redeveloped some of the most iconic properties in downtown NYC.

Vanbarton Group, is a New York-based real estate investment and advisory firm that focuses on equity and debt/credit strategies.

Appendix: Data Sources

Case Study: Octave 1320

CoStar ® market data

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Appendix: Data Sources

Case Study: Legacy West End

CoStar ® market data

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Case Study: Cordell Homes

CoStar ® market data

Greater Washington, <https://ggwash.org/view/61871/abandoned-office-buildings-can-become-new-housing>

2019 Report on the Inventory of Rent-Subsidy Programs in Montgomery County; <https://www.montgomerycountymd.gov/OLO/Resources/Files/2019%20Reports/Inventory-Rent-Subsidy-Programs.pdf>

Montgomery County Coalition for the Homeless, <https://mcch.net/mission-vision/>

Montgomery County Coalition for the Homeless; <https://www.guidestar.org/profile/52-1735674>

Coalition Homes ; <https://mcch.net/affordable-housing/>. To learn more about our Coalition Homes efforts, contact 301-917-6647

2019 Report on the Inventory of Rent-Subsidy Programs in Montgomery County; <https://www.montgomerycountymd.gov/OLO/Resources/Files/2019%20Reports/Inventory-Rent-Subsidy-Programs.pdf>

Appendix: Data Sources

Case Study: 70 Pine

CoStar ® market data

<https://therealdeal.com/new-research/topics/property/70-pine-street-2/>

<https://nypost.com/2012/08/07/rose-takes-over-at-70-pine-st/>

<https://www.multihousingnews.com/post/manhattan-landmark-gets-386m-refi/>

<https://ny.curbed.com/2015/12/4/9894230/at-70-pine-street-a-long-closed-art-deco-landmark-prepares-for>

<https://www.rosenyc.com/>

<https://www.dthcapital.com/>

<https://www.emporis.com/buildings/114432/70-pine-street-new-york-city-ny-usa>

<https://untappedcities.com/2015/12/21/top-10-secrets-about-nycs-art-deco-skyscraper-70-pine/>

Case Study: 20 Broad

CoStar ® market data

<https://nypost.com/2015/12/22/metro-loft-snares-former-nyse-offices-for-185m/>

<https://20broadst.com/press/>

<https://therealdeal.com/2016/04/15/office-to-resi-king-nathan-berman-files-20-broad-plans/>

<https://a836-acris.nyc.gov/CP/CoverPage/MainMenu>

<https://www.elledecor.com/life-culture/g26901635/20-broad-fidi-rental-building/>

Appendix: Data Sources

Case Study: 100 Van Ness

CoStar ® market data

<https://natrealestatedevelopment.com/portfolio/100-van-ness/>

<https://www.bizjournals.com/sanfrancisco/blog/2013/02/emerald-fund-ready-to-go-on-100-van.html>

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<https://natrealestatedevelopment.com/portfolio/100-van-ness/>

<https://www.scb.com/project/100-van-ness/>

<https://www.plantconstruction.com/projects/?pid=306>

<http://100vanness.com/amenities>

Case Study: Millennium On LaSalle

CoStar ® market data

<https://www.millenniumonlasalle.com/modern-amenities>

<https://www.cookcountyclerkil.gov/>

<https://www.fitzgeraldassociates.net/project/the-millennium-at-lasalle/>

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<https://data.cityofchicago.org/Buildings/Building-Permits/ydr8-5enu/data>

<https://www.cookcountypropertyinfo.com/default.aspx>

Appendix: Data Sources

Case Study: 180 Water

CoStar ® market data

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<http://www.180waterst.com>

<https://a836-acris.nyc.gov/CP/CoverPage/MainMenu>

<http://vanbartongroup.com/>

https://metroloftnyc.com/?metro_projects=building-title-5

<https://www.ccm.nyc/180-water>

<https://www.ccacode.com/copy-of-443-greenwich>

<https://www.akmarch.com/180-water-street/>

<https://www.skylinewindows.com/residential-180-water-street>

<https://www.cityrealty.com/nyc/market-insight/rental-building-offers/financial-district/fidi039s-massive-rental-conversion-180-water-street-gears-up-for-leasing-later-year/5863>

<https://nypost.com/2017/06/28/luxury-residential-convert-sells-for-450m/>



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500 New Jersey Avenue, NW
Washington, DC 20001
202.383.1000
data@nar.realtor

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