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Office Conversions Could Be the Key to Urban Renewal



By Gemma Alexander

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Environmental protection usually requires regulations. But sometimes the market really can solve problems when the law gets out of the way, as may be happening in the commercial real estate market.

Post-pandemic, there's a shortage of urban housing, and an overabundance of empty office space. Although zoning laws often present a barrier, some savvy developers are eyeing those office towers for redevelopment as apartments. It could be more than just a financial win, because dense urban housing has a smaller environmental footprint than the suburban alternative.

The pandemic forced companies and employees to find ways to make work-from-home work. Now employers are trying to bring people **back to the office** – 90% of companies plan to require employees to return to the office in 2024, despite ambiguous data on remote workers' relative productivity. Employees aren't really on board with returning to office life. In what some are calling the **Great Resistance**, workers are ignoring orders and continuing to work from home – something that 40% of managers are letting slide – or simply finding new jobs that don't require as many days in the office.

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As a result, office buildings in major cities are [sitting empty](#) or underused. Manhattan has an office vacancy rate of 22.4%. In San Francisco, the rate is 31.8%. With national vacancy rates – which only account for unleased space – hovering above 20% and a third of all current office leases expiring by 2026, a [financial crisis is brewing](#) in downtown real estate. Commercial rents are plummeting as interest rates have doubled, leading to more mortgage defaults and shrinking municipal budgets that rely on property tax revenue.

Housing Crisis

In many parts of the country, urban sprawl has ensured an abundance of affordable housing (while generating a different [set of problems](#)). Those problems, combined with the amenities of cities, have made successive generations less enamored with the suburbs. Millennials are most likely to [prefer urban living](#), even as they age. For workers of all ages who are returning to the office full time, working from home may have made their long pre-pandemic commutes less tolerable, increasing the appeal of downtown housing.

However, many of the country's metropolitan areas have constrained housing inventories that [drive prices higher](#) than the people who most want to live there can afford. In a recent study, San Antonio, Dallas, and Orlando had the [biggest housing shortages](#). In New York, [70,000 people](#) sleep in shelters every night, with nonexistent vacancies in affordable apartment stock. Nationwide, the country is missing about [3.8 million units](#) of housing including both rental and sales demand.

Not a Slam Dunk

For all the hypothetical benefits of office conversions, there are some very real obstacles. In many cities, developers are hindered by [zoning laws](#) and the real or perceived obstacle of “red tape.” Most office buildings are not physically [suitable for conversion](#). Many have too much space far from windows, windows that don't open, or insufficient plumbing. In Seattle, where 112,000 units of new housing are needed in the next two decades, fewer than 100 area buildings are considered optimal candidates for conversion.

More than half of the needed units need to be affordable to people making \$62,000 or less per year, which leads to the biggest obstacle. Converting commercial buildings for residential use is expensive. To cover the cost, converted apartments are not likely to qualify as “affordable.” Even at market rates, conversions may not make economic sense for developers without subsidies – which can be [a hard sell](#), even if there is the potential to [save downtown](#) neighborhoods.

However, incentives don't have to take the form of tax breaks. Looser zoning and building code rules and streamlined permitting could also help tip the balance on conversion projects. Some conversions could also qualify for federal funding for climate adaptation in the Inflation Reduction Act. If you would consider living in a converted office building or even support the idea of office conversion projects, tell your local lawmakers. County and city officials need to know that the [attitudes that led to](#) the housing shortage in the first place no longer apply in their community.

Triple Win

Besides the financial benefit of those federal funds, there is the environmental benefit of upgrading inefficient old buildings into efficient new ones. Construction emissions are [lower for building conversions](#) than for new construction. And

apartment dwellers have a [smaller carbon footprint](#) than their suburban neighbors, thanks to lower square footage, shared walls, and shorter commutes.

Office conversions are unlikely to solve either the climate crisis or the housing crisis. But they could make a difference. In New York City, nearly [80 office buildings](#) have already been converted to apartments. Those 80 buildings are providing homes for hundreds of people, who in turn are supporting downtown businesses that once relied on office-working customers. An area that was once occupied only during working hours has become a vibrant neighborhood.

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By [Gemma Alexander](#)

Gemma Alexander has an M.S. in urban horticulture and a backyard filled with native plants. After working in a genetics laboratory and at a landfill, she now writes about the environment, the arts and family. See more of her writing [here](#).

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