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WHICH OFFICE BUILDINGS ARE STRONG CANDIDATES FOR ADAPTIVE REUSE?

The checklist for these complex projects includes structural integrity, flexible floor plans, natural light, desirable location and more.

By Kristin Harlow

With office occupancy still well below pre-pandemic levels due to the prevalence of the hybrid work model and companies downsizing their space needs, property owners are resorting to creative solutions for vacant or underutilized buildings.

The conversion of office properties into new uses such as multifamily or hospitality is one approach. While these adaptive reuse projects are not for the faint of heart, they are an important way to avoid demolition. Construction debris from demolition

projects contributes to the building industry's huge carbon footprint, states Alan Barker, principal and residential market leader at Chicago-based architecture firm Lamar Johnson Collaborative (LJC).

When considering an office conversion project, the first step is to make sure that the building's structural integrity can safely accommodate renovations. Beyond that, office buildings that are a good fit for adaptive reuse typically have flexible floor plans, access to light and ventilation, existing utilities that can handle changes in



This rendering shows plans for converting a former administrative office building into a 23-unit multifamily development in St. Louis. (Rendering courtesy of HDA Architects)

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capacity, and a location that offers proximity to amenities, transportation and parking, according to Barker.

Recently, LJC created an adaptive reuse scorecard to help developers and building owners assess a property's potential for a conversion project. The scorecard is comprised of seven categories: development potential; building form; building systems; connectivity; amenities and sustainability; building skin; and intangible factors, which include a building's history, reputation and marketing potential.

A weighted score of 1 to 100 is assigned to each of these categories, which are then averaged into an overall score that determines a building's suitability for adaptive reuse. Projects with a total score above 70 are deemed viable candidates for conversion.

"The ideal office building for adaptation includes features such as an elevator servicing all floors, a freight elevator, IT (information technology) infrastructure, ample parking, robust ventilation and lighting, common area hallways, and secondary stairwells offering emergency egress," says Ira Singer, co-founder of Mosaic

Construction in Northbrook, Illinois. "The more flexible the floor plates, the better, so the space can be saw cut to accommodate HVAC, electrical or plumbing requirements."

Micah Solit, project director at Chicago-based Project Management Advisors Inc., a real estate advisory firm, says that office buildings constructed prior to World War II are strong candidates for conversion because they feature operable windows, shallow floor plates that maximize the use of sunlight, and configurations that maximize the amount of square footage for residential use.

"The modern, Class A office building with glass curtainwalls and large rectangular floor plates that rely on artificial lighting and air conditioning is not good a candidate. Much of that interior space is wasted in a conversion," says Solit. "But those Class A buildings don't have the vacancy concerns that many older buildings currently do, so we need to think about the older Class B and C stock."

As of February, the nationwide office vacancy rate stood at 17.9 percent, an increase of 140 basis points year-over-year, per CommercialEdge. The



Bradford Allen is transforming the former Daily Herald office building in Arlington Heights, Illinois, into a medical office development named ArlingtonMed.

commercial real estate data firm states that vacancy rates have been climbing in tech hubs like Seattle, which posted a 22.5 percent vacancy rate in February.

Another factor to consider for adaptive reuse is the width of a building. "If you're converting a vacant office building into multifamily space, a building that is too wide forces the units to be too deep and without enough glass or window space," says Jack Holleran, president of St. Louis-based HDA Architects. "No one wants to live in what is essentially a large hallway with minimal daylight."

Holleran also emphasizes the importance of an office building's location. Urban office properties with nearby stores, schools and public transit are advantageous over locations that do not offer amenities within walking distance.

What's the best reuse?

Sources agree that the best reuse of office space tends to be residential. From 2021 to 2024, the number of apartments scheduled for conversion from obsolete office spaces increased from 12,100 to 55,300 nationwide, according to RentCafe. The apartment search website states that this four-fold increase is a testament to how cities are adapting to a new generation that wants to live where they used to work. Of the top 15 metros with the most planned office-to-apartment conversions in the pipeline, seven are in the Midwest.

"Given the widespread housing shortage and the strong interest from investors, multifamily conversion offers significant advantages in nine out of 10 cases," says Ben Kadish, president and founder of Chicago-based Maverick Commercial Mortgage.

LJC and Lucien Lagrange are currently working with developer Prime Group on a proposal to convert the upper floors of 208 S. LaSalle, a landmark Chicago office building designed by D.H. Burnham & Co. in 1914, into a mix of market-rate and affordable residences. Barker says that the plan was conceived in response to the city's

LaSalle Street Reimagined initiative, which aims to convert high-vacancy office buildings into new uses and reinvigorate Chicago's downtown financial district, which has struggled post-COVID.

In early April, *Crain's Chicago Business* reported that proceeds from tax-increment financing would help spur \$528 million worth of office-to-apartment conversions for four Chicago buildings, including 208 S. LaSalle. The projects are the first four that will move forward with a formal city review process as part of the LaSalle Street Reimagined initiative.

In St. Louis, HDA is completing the conceptual design for the conversion of a four-story, former administrative office building into a 23-unit multifamily development. Holleran says his team has been working extensively with the Historic Preservation Committee on the project to ensure that the replacement of flooring and other building components emulate the original building materials.

Other potential uses for office conversions include hospitality, mixed-use and medical office. Holleran says that low-rise buildings under four stories can be converted into gyms, learning centers, innovation hubs or warehouses.

Chicago-based Bradford Allen is currently redeveloping the former Daily Herald office building in Arlington Heights, Illinois, into medical office space. Branded as ArlingtonMed, the property will be part of an 18-acre mixed-use development that will include retail and apartments.

Accessibility, building mechanical systems and parking are all important considerations for a medical office conversion, according to Joel Berger, senior managing director and leader of Bradford Allen's healthcare practice group. For example, medical office buildings require six parking spaces per 1,000 square feet compared with four spaces for traditional office.

Zoning regulations and building codes must also be considered by developers to ensure the proposed reuse aligns with local ordinances, says

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Ralph Zucker, founder and CEO of Holmdel, New Jersey-based Inspired by Somerset Development. Zucker's firm redeveloped the former AT&T headquarters building in Hoffman Estates, Illinois, into a multi-tenant office property named Bell Works Chicagoland.

Over the last 12 months, tenants have leased more than 80,000 square feet of office and retail space at Bell Works Chicagoland. This activity includes leases for 12 of the property's "Ready-to-Wear" office suites totaling 24,100 square feet. These suites are available for immediate occupancy with flexible, short-term leases.

Inspired by Somerset Development will soon add a residential component to Bell Works Chicagoland. The city granted approval for 164 high-end townhomes and preliminary approval for a concept plan that includes approximately 300 apartment units. Zucker says that the mixed-use layout is key to the success of the overall development by offering a "one-stop-shop" with residential, retail, office and coworking spaces.

"The rise of mixed-use, live-work-play redevelopment has provided office building owners with many more adaptive reuse opportunities, particularly when they look past typical working hours," says Singer.

In some cases, the entire building does not have to be converted into a new use. Singer says owners can transform existing office space into retail, arts, fitness, healthcare, childcare or private club uses. Rooftops can be converted into restaurants or entertainment spaces.

Redevelop or build new?

Adaptive reuse projects often have shorter timelines and lower costs compared with ground-up development because there is already a building structure in place. According to Berger, who is working on the ArlingtonMed development, project costs for ground-up medical office space typically range from \$400 to \$500 per square foot compared with \$100 to \$125 per square foot for renovation (not including the cost to acquire the building). He says these cost savings, particularly in a difficult lending environment, make adaptive reuse all that much more attractive.

However, complex renovations, zoning changes, building permits and compliance with historic preservation regulations can add costs and extend timelines of conversion projects, says Zucker. Taking those factors into account, adaptive reuse developments can end up costing more than ground-up projects. For Zucker, the main benefit of adaptive reuse is often the value of the land and entitlements.

"Project costs and timelines can be lower for adaptive reuse if the conditions are right and the risks for potential complications are known,"

explains Barker. "Reusing the existing structure and infrastructure could result in lower initial costs, but unforeseen conditions discovered during construction can lead to escalating costs and extended timelines."

Solit cites one study from 2023 in the San Francisco Bay area that showed that construction costs of a conversion project were similar to those of a ground-up project. Office-to-residential hard costs were estimated at \$475,000 to \$625,000 per unit, not including costs of seismic upgrades to the structure.

"Developers may look at this and decide the marginal savings on a conversion project are not worth the finite amount of programming that can be done on an existing building," says Solit. "Cities are trying to ease this burden by reducing or eliminating impact fees for conversion projects, which makes sense given the impact for these structures has already been realized."

While developers of ground-up projects typically take on less risk and have more predictable costs, one advantage for adaptive reuse developers is the ability to qualify for special financing tools such as historic tax credits, tax-increment financing, grants and incentives. The developers of the aforementioned Chicago and St. Louis projects are both applying for tax credits.

"It is imperative for city, state and federal governments to step in and make efforts to subsidize projects that aren't financially feasible but have potential from a use or demand standpoint," says Kadish. "Otherwise, many of these properties will revert to office use at a lower class. Banks may foreclose, new buyers will enter at a reduced basis, and what was once considered a Class A building may transform into Class B or C occupied primarily by back-office users such as



Fairgrounds World's Fair is an onsite bar and eatery at Bell Works Chicagoland, which is the redevelopment of the former AT&T headquarters building in Hoffman Estates.

service or data companies."

Planning for tomorrow

Underutilized office buildings that are not suitable for adaptive reuse are likely to face demolition.

"When buildings are in very poor condition and structurally unsound, this is an unfortunate reality," says Zucker. "Because vacant, derelict properties can be a potential safety hazard to the community and attract vandalism, squatting and crime, it is often best to redevelop parcels from the ground up."

Given the recent run-up in interest rates, the debt owed to the bank is often far more than these office buildings are worth or what a residential developer can pay for the building and spend on a subsequent conversion, states Barker. In those cases, Barker says the only options are continued underuse of office space or "land banking," where an owner sits on a property until future opportunities arise.

In other cases, buildings are converted into uses such as self-storage or data centers. "These projects generally cost less than residential or hospitality conversions, but they don't drive the same foot traffic that an office or residential building would and have less benefit to the overall urban eco-

system," says Barker.

The role of an office building within the larger environment of a successful downtown has been an ongoing discussion for the industry ever since the work-from-home trend gained momentum during COVID-19. Local retailers and restaurants rely heavily on the foot traffic from office workers.

"While the decline of office buildings in use is a legitimate concern to the larger ecosystem of a city, the best solution is to repurpose them to serve the widespread need of affordable housing," says Josh Goodman, principal with HDA. "With a multifamily renovation, hundreds of people will still be supporting the restaurants and retail establishments of the area."

Barker says that cities also need to invest in their public infrastructure. Whether the goal is to refill buildings with office tenants or convert them into new uses, the surrounding streetscapes and neighborhoods need to be attractive places where people want to be.

"Every downtown has a core industry that brings workers to the area," says Solit, "but we should think about how we can diversify our downtowns so they become not just business destinations, but terminals for small businesses, housing, day and night life and more." ■

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