



HOUSING OPPORTUNITY CONFERENCE

Tools to Unlock Housing Supply: Making Cities Nimble and Adaptable

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MODERATOR

MARCH 28, 2023



UP FOR GROWTH[®]



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OUR VISION

Housing is always an opportunity, never an obstacle.

OUR MISSION

Up for Growth forges policies and partnerships to achieve housing equity, eliminate systemic barriers, and create more homes.

WHO WE ARE

Up for Growth is a national, cross-sector member network committed to solving the housing shortage and affordability crisis through data-driven research and evidence-based policy.



Office to Residential Conversions: Scalable Opportunity or Too Unique to a City Block?



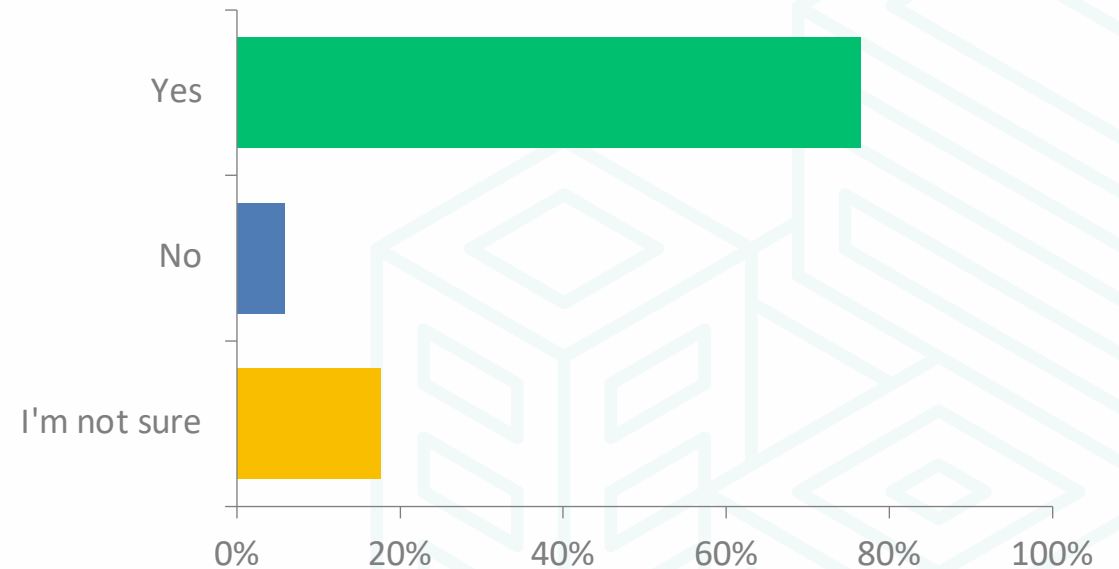
Adaptive Reuse

As news sources and politicians increasingly look to adaptive reuse to revitalize downtowns and increase their residential stock, it is important to analyze how large of an opportunity actually exists here, what the barriers are and what buildings are best suited to this type of building



Survey Results

- Revitalizing cityscapes, providing affordable housing, and revitalizing vacant buildings were the primary benefits of this conversion, according to UFG members
- Bypassing neighborhood opposition to building new housing is also considered a benefit of these polices



- *Nearly 80% of surveyed Up for Growth members suggest that policy action is needed to encourage more office to residential conversion*



Why aren't there more office to residential conversion projects?

- After taking into consideration building floorplates area and dimensions, building heights, and their ages only 6% of buildings or about 16% of rentable office space was suitable for conversion in our studied city, Denver, CO
- Vacancy rates are unevenly distributed throughout central business districts with only a few majority-vacant buildings in the study area; in combination with considerations of building structure this can create financial challenges



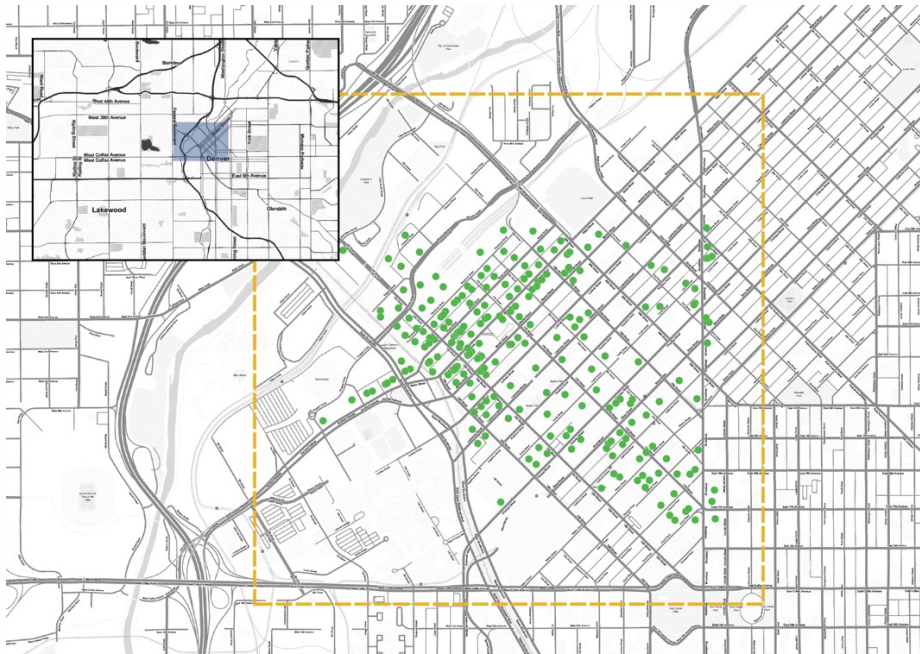
Structural concerns with conversion

Discussions with architects, builders and developers demonstrate that conversion projects, including office to residential, are extremely specific and unique to the site and existing building

- Vacancy rates are unevenly distributed throughout central business districts with only a few majority-vacant buildings in the study area; in combination with considerations of building structure, this can create financial challenges
- Cities often focus on historic, industrial buildings to convert due to their larger, open floorplans, and tall ceilings; they span a portion city block and are 4-5 stories tall
- Purpose-built office spaces do not typically have the same dimensions and open interiors as industrial buildings
- Offices typically have:
 - Lower ceiling heights
 - 1-2 staircases
 - Few bathrooms per floor which can limit the ability to reroute the systems needed

Denver, CO in depth

According to Cushman & Wakefield, Denver experienced 24.9% office space vacancy in Q1 and 26.4% in Q2— the problem is most of this vacancy is spread across multiple buildings and the prevalence of fully vacant or 70% vacant is much lower.



For this analysis, we looked at the characteristics of 208 office buildings in Denver's two-square mile central business district.

When measured against feasibility criteria, the potential for office-to residential conversion was found in 6% of the total building area in Denver's central business district.

Characteristics of good conversion opportunities

Research and our stakeholder interviews suggest that not all buildings are good candidates, but some specific characteristics make them better

- Best candidates:
 - At least 5 stories tall
 - Have floorplates larger than 5,000 sq ft
 - Width between 30-80 ft
- These dimensions allow for:
 - Residents units would be less than 40 ft long
 - Enough square footage for at least 4 1,000 sq ft apartment units
 - Enough units to be financial profitable



Policy Implications

Policies encouraging office-to-residential conversion in central business districts are a good idea, however, they are challenging to scale. This brief found that only 12 of 208 offices in Denver (16% of collective rentable area) were suitable. Removing zoning barriers offers a “low hanging fruit” first step to encouraging this type of development.

- Other financial barriers for developers:
 - Acquisition costs are high
 - Commercial rents are still typically higher than residential rents
 - Rehabilitation costs are often higher than new construction
 - One-off nature means there are few market comps for developers and lenders to underwrite the risk
- For policymakers:
 - These conversions are desirable for benefits related to revitalizing downtowns and circumventing community opposition
 - Policymakers and developers should orient policies to expand the “goldilocks zone” of suitable properties and layer in financial subsidies

Office to Residential Conversions

An opportunity for housing



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Introduction



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HR&A Advisors, Inc. (HR&A) helps create more equitable, resilient, and dynamic communities.

HR&A is an **industry-leading economic development, real estate, and public policy consulting firm** with offices in New York, Washington, DC, Los Angeles, Dallas, Atlanta, and Raleigh.

We bring decades of experience analyzing housing markets and developing strategies for cities, counties and states across the country.

HR&A



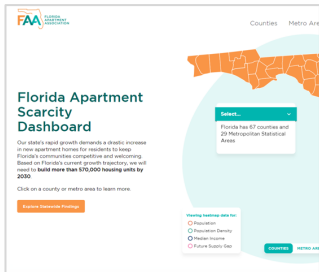
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HR&A's Housing Practice addresses housing systems work at three mutually reinforcing levels.

HOUSING PLANS & DASHBOARDS

Creating data-driven housing assessments and strategies based on local needs and priorities



Florida Apartment Scarcity Dashboard



Atlanta Equitable Housing Needs Assessment

HOUSING POLICIES & PROGRAMS

Designing, launching, and operating policies that align community goals with housing market conditions



Charlotte Housing Affordability Calculator



New Orleans Incentives Strategy

HOUSING FUNDS & TRANSACTIONS

Designing, implementing and underwriting loan products and funds for the development and preservation of housing



New York Housing Authority RFP Response



D.C. Housing Authority Greenleaf Redevelopment



HR&A is supporting clients across the country to understand the opportunity for converting office to residential uses for two purposes: to support revitalization and create needed housing.



Manhattan



**San Francisco Central
Business District**



Downtown Boston



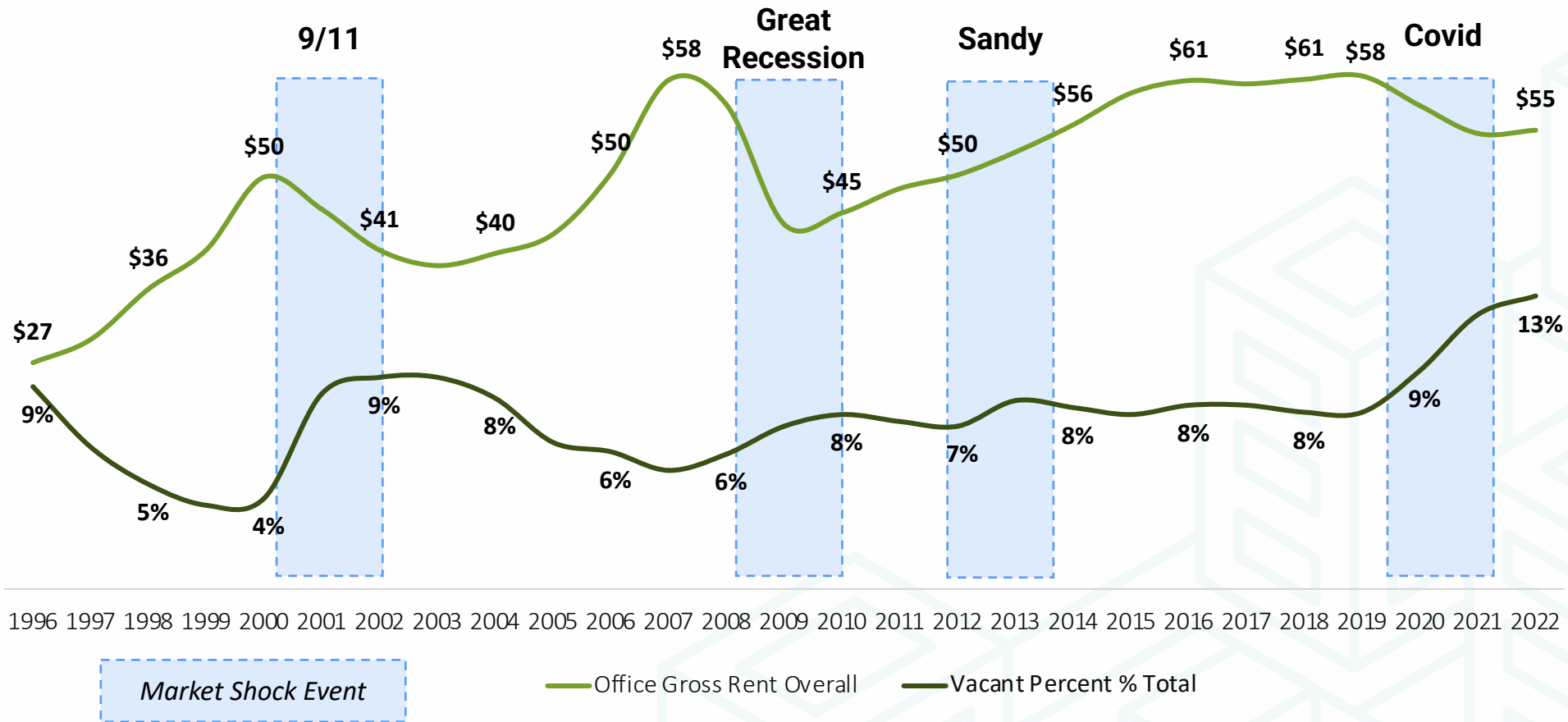
The Opportunity



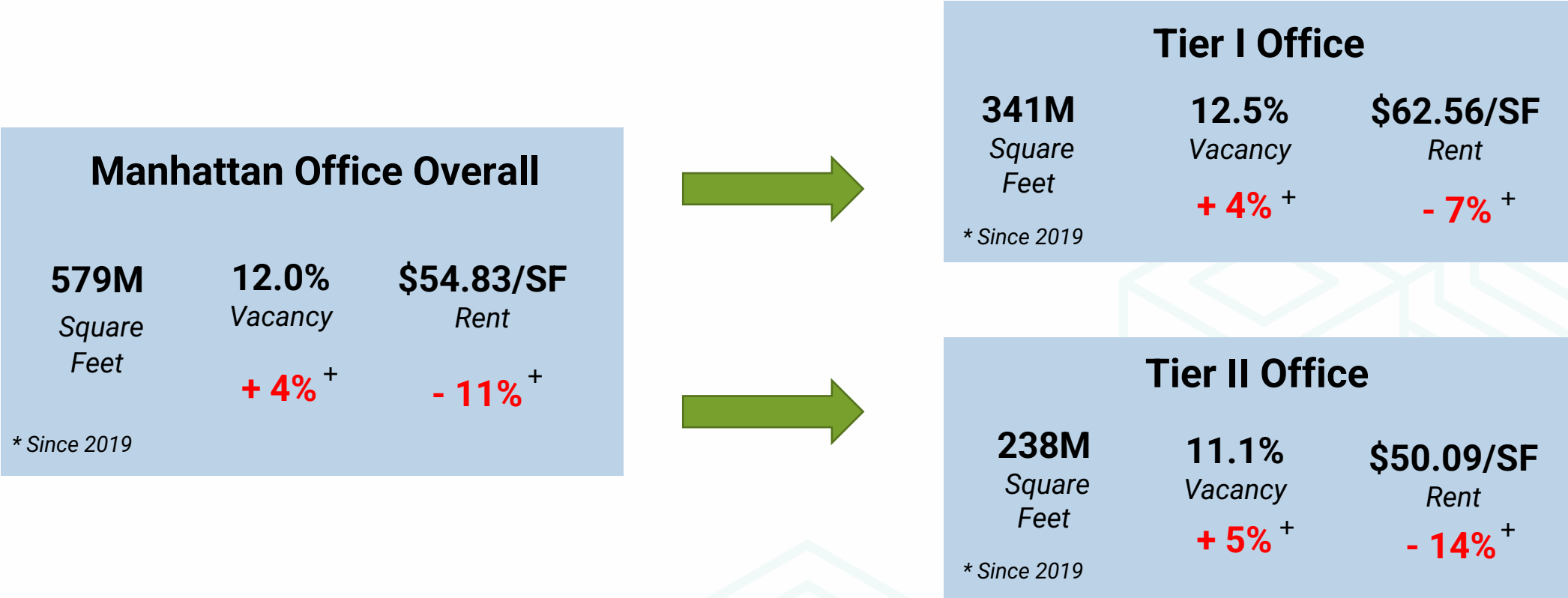
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The Manhattan office market is resilient and has recovered from significant market shocks in the past two decades.

Manhattan Office Rents* and Vacancy Through Four Recent Crises (1996-2022)



Even in a resilient office market, Tier II buildings were hit harder during the pandemic and are struggling to recover, a trend occurring across the country.



Source: CoStar

Underperforming office buildings have real impacts on building owners, city/municipal finances and residents.



From a **building owner's** perspective, the revenue of the building is not sufficient to support the property, and asset value declines.



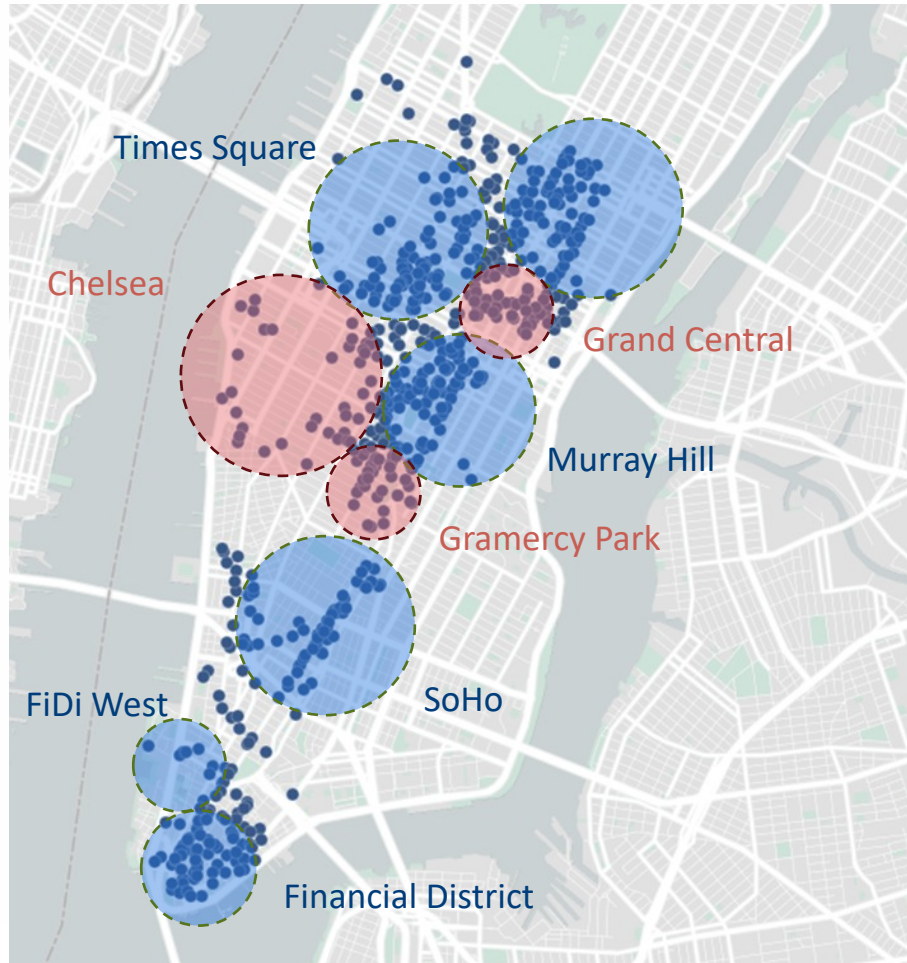
From a **City's** perspective, the building declines as a contributor of property, sales and business taxes and doesn't support economic vibrancy.



From a **resident** or **visitor's** perspective, buildings are empty, unpleasant or unsafe and not contributing to the vitality that draws people to cities and neighborhoods.



And clusters of underperforming buildings can present an opportunity to use conversions to spur recovery and create needed housing, as they may struggle to reposition as office.



	Square Feet	Buildings
Total Underperforming Office	255M	636
Underperforming Office in Underperforming Submarkets	115M	240
<i>% of Manhattan Office Market</i>	<i>19.8%</i>	<i>6.5%</i>

- Underperforming Submarket
- Other Submarket with Cluster of Underperforming Office Buildings

Conversion Feasibility



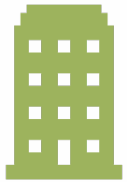
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The decision to convert an office building to residential use is highly dependent on key inputs.



Floorplate Size

Larger floorplates convert less efficiently and may require coring, resulting in lost square footage.



Facade

Converting a building with a curtain wall can add significant hard costs due to window requirements.



Timing

A building's regulatory pathway to conversion and time to empty the building can impact project timing and subsequently decrease the likelihood of conversion.



Location

A building that makes sense to convert in one submarket might not make sense in another due to local office and residential market performance.



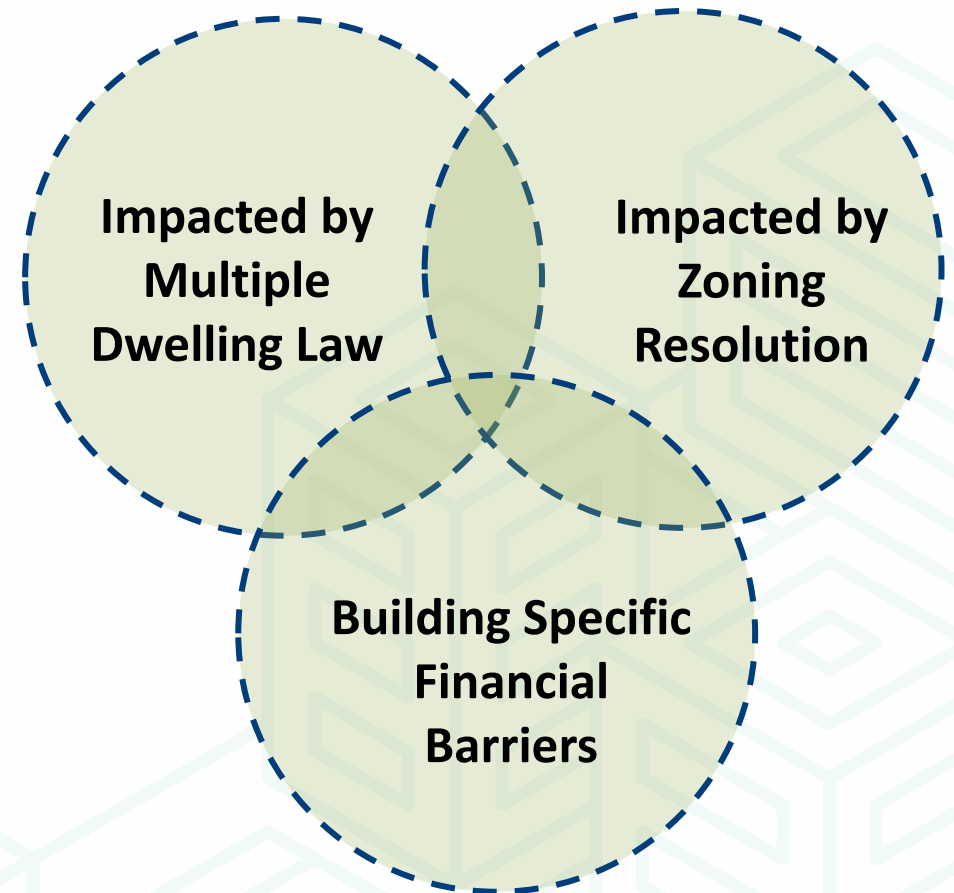
The universe of buildings likely to convert depends on which regulatory and financial barriers are addressed, with some buildings impacted by multiple barriers.

Universe of Manhattan Buildings Impacted by Barriers:

Multiple Dwelling Law (MDL): Light and air standards impact many buildings, and an age requirement precludes most buildings built after 1961 from converting.

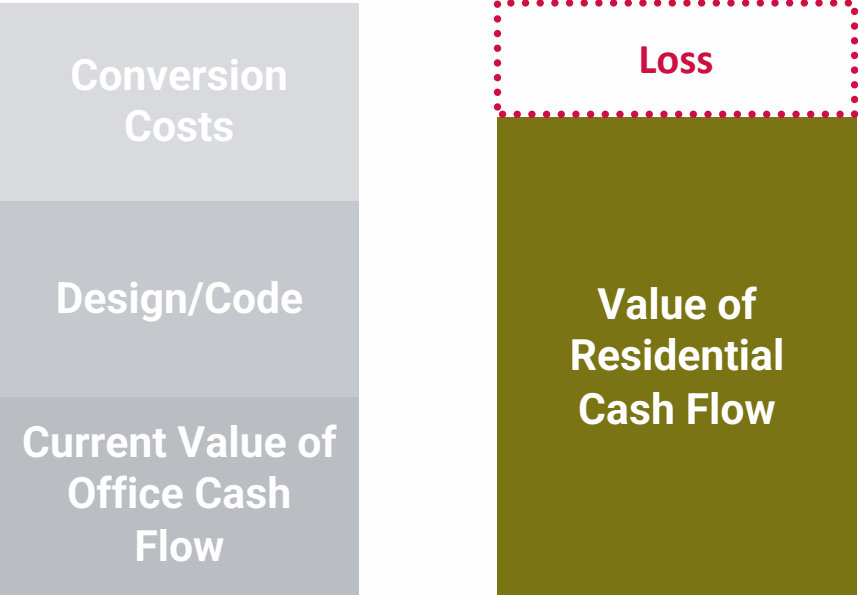
Zoning Resolution (ZR): Age, geography, and bulk limitations impact predominantly post-1961 buildings.

Financial: Dependent on individual building performance and location.

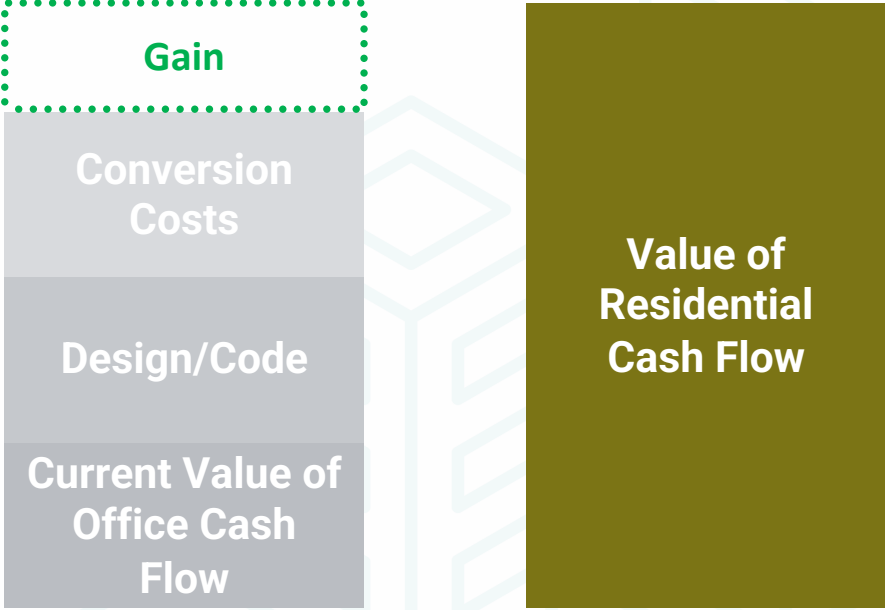


Ultimately, conversions only happen when the cost of conversion plus the existing office value is less than the future value of a residential building.

Remain as Office if...



Convert to Residential if...



**Individual owner decision making will be driven by this and countless other building specific factors*

Our analysis finds that the likelihood of an office building converting varies significantly by building typology and office performance.

- **In New York City, smaller buildings are the most likely to convert** without any added incentives. However, when affordability requirements are added, a tax abatement is necessary to spur more conversions.
- **Larger buildings and particularly curtain wall buildings are highly unlikely to convert** without major policy change or incentive, due to the high cost of **floorplate inefficiencies** and **façade renovations**.
- **A tax abatement tied to the creation of affordable units** can increase the likelihood of conversions that would not otherwise take place.



Conversions can positively impact the City by changing the property tax derived from a building in some cases and offering a potential pipeline for the creation of affordable units.

Potential Fiscal Benefit*:

- There are circumstances in which a **building can provide more tax revenue to the City as a residential conversion than as an office.**
- Recent office to residential conversions in New York City have resulted in up to a **2x increase in annual tax revenue to the City.**
- **The change in fiscal benefit varies by typology** due to differing values of office and residential use.

Affordable Units:

- An abatement may be an opportunity to open a new pipeline for the creation of affordable units at a lower cost than ground-up construction.



Conversions can positively impact the City by changing the property tax derived from a building in some cases and offering a potential pipeline for the creation of affordable units.

Potential Residential Units Through Conversion

Over the next decade

No Regulatory Changes or Tax Abatement

1 – 3

Residential Conversion
Projects per Year

0 Affordable Units

Underperforming type 1& 2 buildings,
built before 1961.

MDL and ZR Changes Only

9,000 or More
Residential Units*

0

Affordable Units

All underperforming type 1& 2 buildings.

Abatement Added for Affordable Units

Up to 19,000
Residential Units

Up to 5,000
Affordable Units*

**Compared to 4K affordable units created below 59th
Street (Districts 1-4) under Housing New York Plan.*

All underperforming type 1 & 2 buildings.
Affordability unlocked through
abatement.



Q&A

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Shannon Norman Principal Planner for Ordinances



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Zoning Solutions: Supporting Policy with Regulation

Case Study: City of Indianapolis Consolidated Zoning and Subdivision Ordinance amendments



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Catalysts

- Bloomberg American Cities Climate Challenge (2019-2022)/Relationship with ULI
- Bus Rapid Transit/Transit-Oriented Development
- Indy Rezone 2016: first comprehensive zoning update since 1979*ish*
- Nexus between Community, Economic and Neighborhood development



Critical Issues within the Zoning Ordinance



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Indy Rezone

- **Huge planning jurisdiction: 400+ square miles!**
- **Lots of districts—15 residential districts, Four (4) Mixed-Use Districts**
- **Limited housing types allowed by-right**
 - Historically constructed building types were not allowed by-right
- **Compact lots were seemingly unbuildable**
 - Infill development required multiple variances or rezones



Zoning “Tune Up”

TABLE 744-701-1: Applicability

ACTIVITY	APPLICABILITY OF STANDARDS
<i>Site or Landscape work on less than 50% of the lot</i>	Standards only apply to the work being done, and only to the extent that any non-conforming situations do not become less compliant.
<i>Site or Landscape work on 50% or more of the lot.</i>	All site and landscape for the entire lot shall be brought into compliance with the standards.
<i>Rehabilitation, remodeling or additions to buildings that add more than 200 square feet to the building footprint or mass, but less than 50% of the total building</i>	Standards only apply to the work being done, and only to the extent that any non-conforming situations do not become less compliant.
<i>New primary structure; or Rehabilitation, remodeling or additions to buildings that add 50% or more of the square footage to the building footprint or mass.</i>	All standards for the entire building and lot shall be met.



Zoning “Tune Up”

Building Typologies

TABLE 742.105.02: COMMERCIAL AND MIXED-USE BUILDING TYPE STANDARDS											
NAME / TYPE	LOT		SETBACKS				BUILDING		ZONING DISTRICTS		
	AREA	WIDTH	FRONT	SIDE	CORNER SIDE	REAR	HEIGHT (MAX.)	OPEN SPACE*	MU-2	MU-3	MU-4
<i>Live/Work</i>	1.5K -6K sf	18' – 50'	See Section 744, Article VII, Section 01C. Private Frontage Types	5'	10'	20'	40' / 3 stories	n/a	■	■	■
<i>Compact Mixed-Use</i>	< 3K sf	20' – 30'		5' / 0' if party wall	0' - 10'	0' min. / 10' if alley	44' / 3 stories	100 sf / unit	■	■	■
<i>Small Mixed-Use</i>	3K - 10K sf	30' – 100'		5' / 0' if party wall	0' - 10'	0' min. / 10' if alley	44' / 3 stories	5%; and 50 sf / unit	■	■	■
<i>Medium Mixed-Use</i>	10K – 1 ac. (or ¼ block max)	100' – 200'		5' / 0' if party wall	0' - 10'	0' min. / 10' if alley	80' / 6 stories	10%; and 50 sf / unit	□	■	■
<i>Large Mixed Use</i>	1 ac. – 2.5 ac. (or ½ block max)	200' – 400'		5' / 0' if party wall	0' - 10'	0' min. / 10' if alley	160' / 12 stories	10%		□	■
<i>Row House - Large</i>										□	□
<i>Row House - Small</i>									□	□	□
<i>Small Apartment</i>									□	□	□
<i>Medium Apartment</i>										□	□
<i>Large Apartment</i>											□

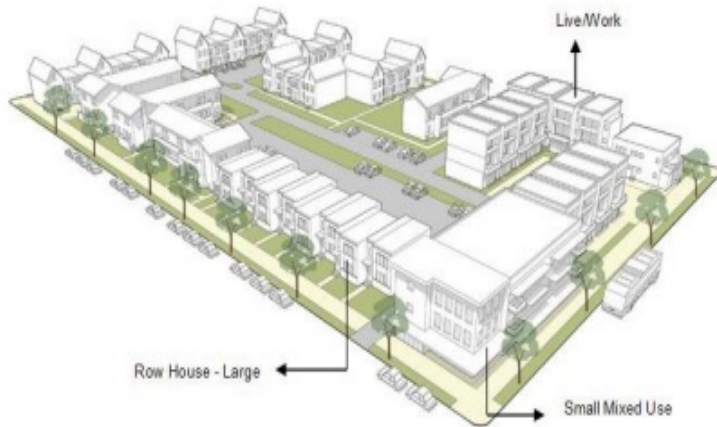
See Residential Building Type Standards in Table 742.103.7



Quasi Form-Based Code

TABLE 742.105.01 – Walkable Neighborhood District Purposes

Mixed Use Two (MU-2)



The MU-2 District is intended to meet the daily needs for surrounding neighborhoods, and include, small social spaces that serve as neighborhood gathering places. The district includes primarily neighborhood-serving businesses and institutions, including a wide range of small-scale retail and service uses that typically do not draw customers from beyond the adjacent neighborhoods, and employment, institutional and residential uses that complement the compact, walkable development pattern. The MU-2 District is implemented as a small node or on busy corridors in the Traditional Neighborhood or City Neighborhood Typologies of the Land Use Pattern Book, or as a Village Mixed Use Typology. The typical size of a district is from 2 to 20 acres (1 to 4 blocks) but depends on the context and what integrates best into surrounding neighborhoods and complimentary zoning districts.

TABLE 744-702-3: PRIVATE FRONTAGE DESIGN STANDARDS

FRONTAGE TYPE ▶	PEDESTRIAN / URBAN	CONNECTOR	BUFFER / SUBURBAN
▼ 'FRONTAGE ELEMENT			
FRONTAGE DESIGN			
<i>Driveway Spacing & Widths (in front of FBL OR within 30' from front lot line)</i>	up to 16' maximum Any lot abutting an alley shall get access off the alley and shall not create new driveways from the street, e with over 200' of street frontage.	up to 24' maximum	up to 36' maximum
<i>Surface Parking Limits</i>	Prohibited – behind building only and setback minimum 50'	25' setback; AND 40% maximum of lot width behind FBL	10' setback
<i>Structured Parking Limits</i>	10% maximum of street wall; or 3 rd story or above; all other behind buildings	30% maximum of street wall; or 2 nd story or above; all other behind liner building	10' setback
<i>Landscape [See Section 744, Article V. for standards and specifications.]</i>	1 street tree per 35' of frontage	1 street tree per 35' of frontage	1 street tree per 35' of frontage landscape tree
BUILDING PLACEMENT & FORM			
<i>Front Building Line (FBL)</i>	0' – 10'	0' – 25'	0' -26' – shall meet Corner design standards Greater than 26' may Suburban Facade design
<i>Required FBL (minimum)</i>	80%	60%	40%



Building Types	Photos
 <p data-bbox="300 568 489 601">Large Mixed-Use</p>	
 <p data-bbox="300 915 489 948">Medium Mixed-Use</p>	

Building Types	Photos
 <p data-bbox="1472 561 1635 594">Small Mixed-Use</p>	
 <p data-bbox="1472 882 1635 915">Compact Mixed-Use</p>	
 <p data-bbox="1516 1192 1605 1225">Live/Work</p>	



Q&A

- Lessons Learned
- Transferability
- A word on stakeholders and public input



Q&A

Thank You!

Shannon Norman, CPM

City of Indianapolis, Indiana

Department of Metropolitan Development

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 [Instagram.com/soto_architecture/](https://www.instagram.com/soto_architecture/)

 www.sotoplhc.com

What makes an existing office a good candidate for conversion?

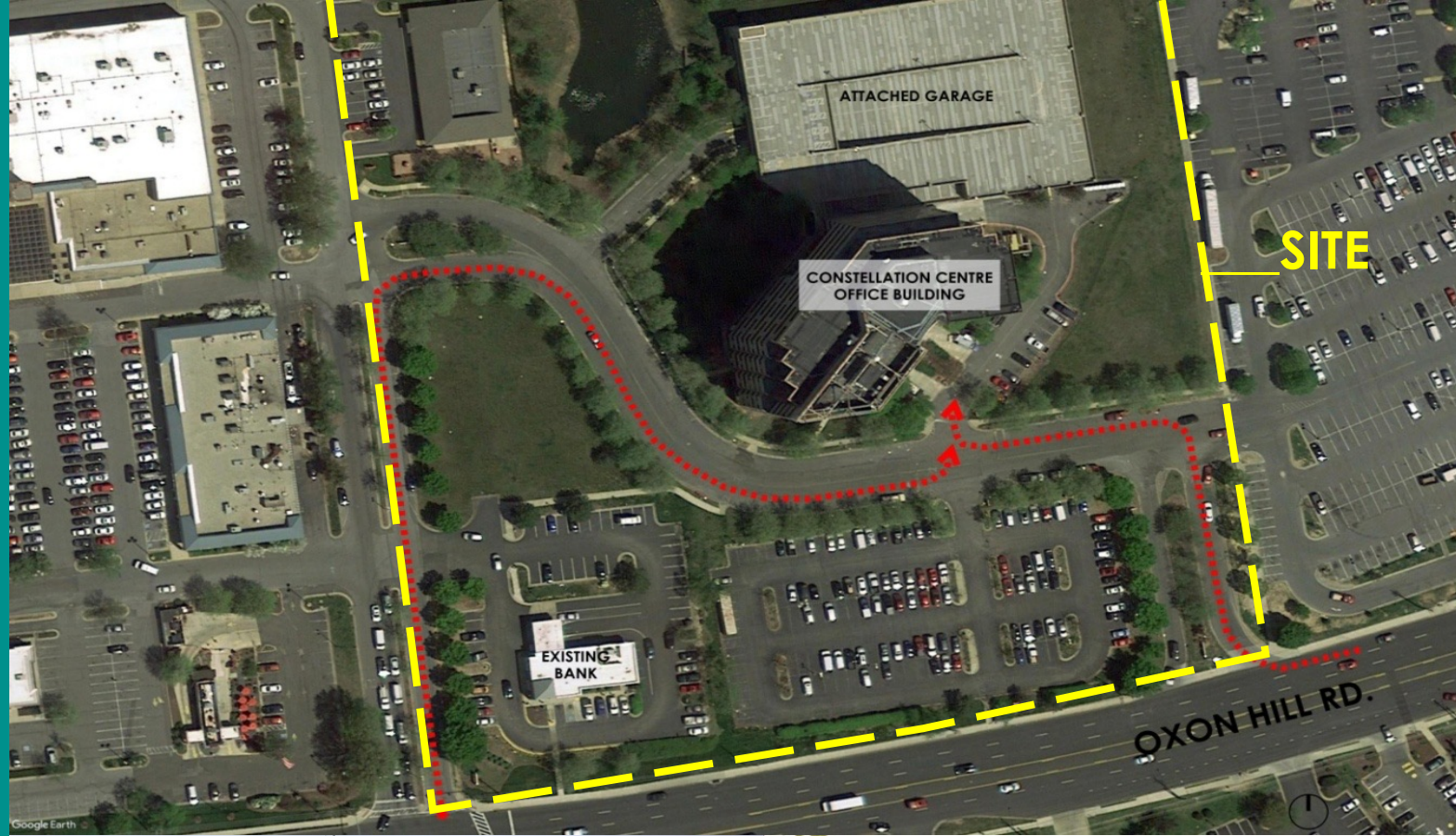
1. Construction type is steel or regular concrete
2. Available ceiling height is 10ft minimum
3. Local building code allows in-board bedrooms
4. Building footprint is 90ft deep maximum
5. Building is vacant
6. Available building information
7. Neighborhood amenities
8. Access to mass transit



THE OXFORD | OXON HILL, MD

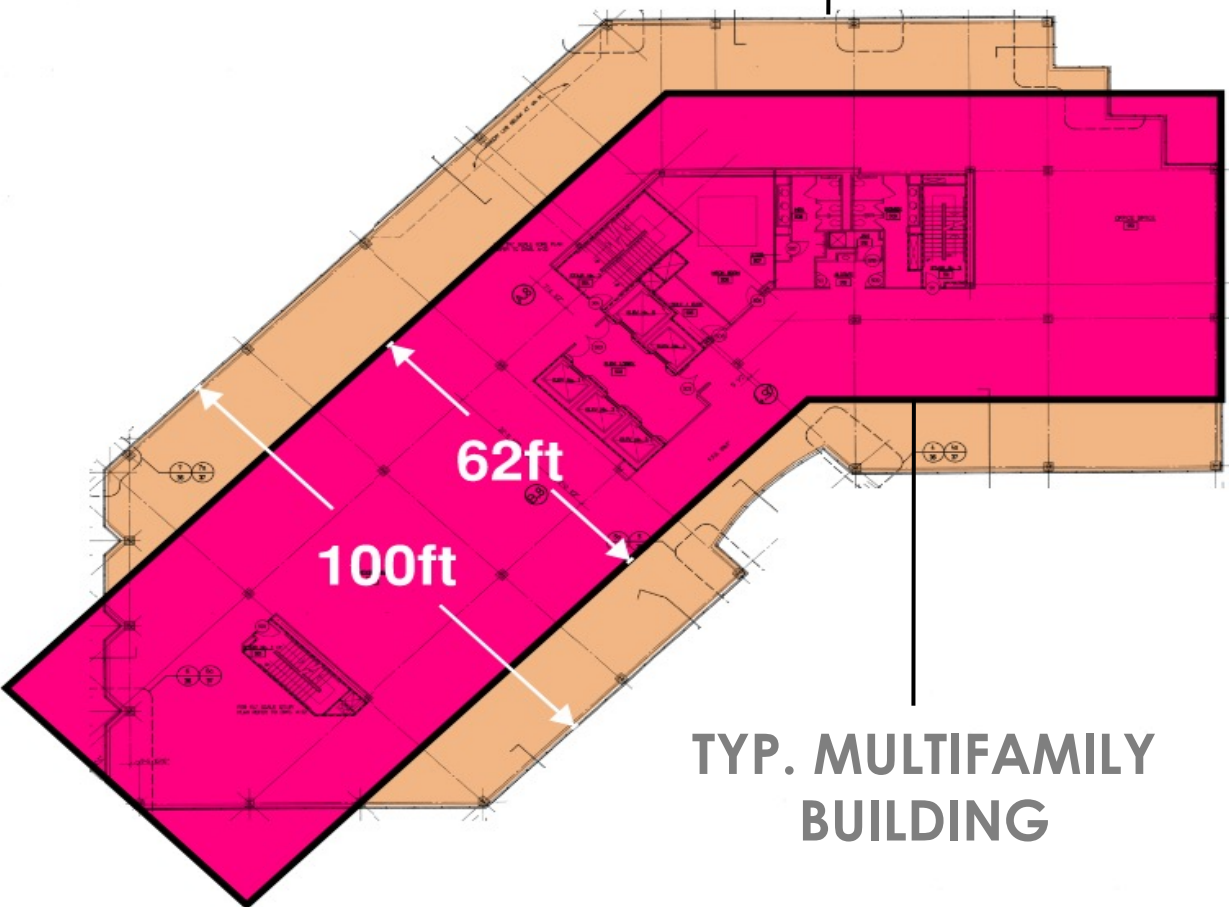
Original Project Data:

- 12.5 Acre site | Commercial Zone
- 10 Stories Office Building
- 196,680gsf
- Built in 1989
- “Class B” Office Building
- Steel Construction
- 12ft+ clear ceiling height
- Precast Panels Façade
- Garage with 400+ spaces
- Purchase Price: \$7 Million (2016)
- Fully vacant
- Existing Drawings Provided



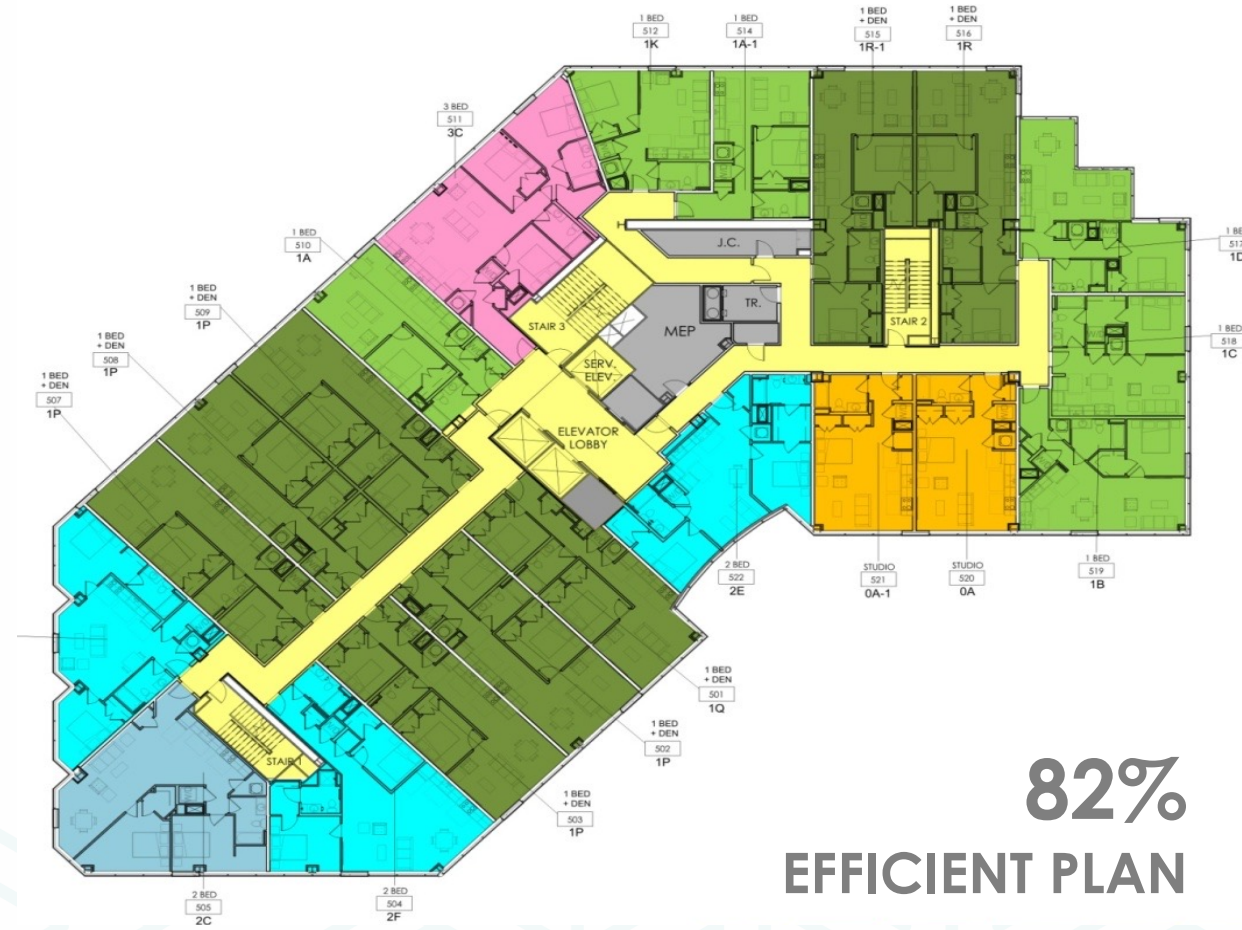


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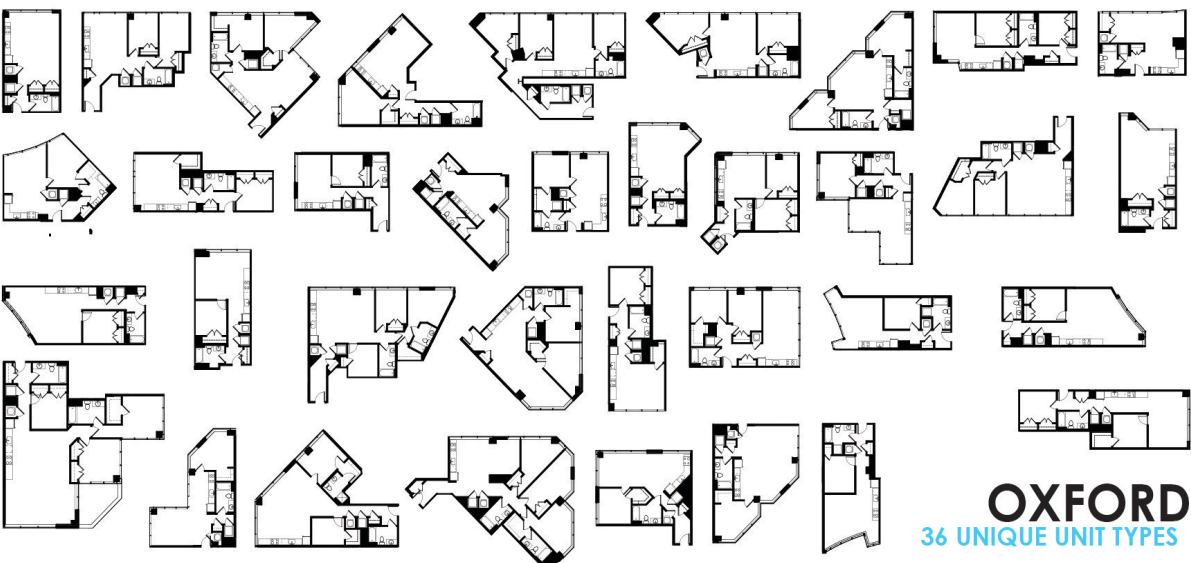


TYP. MULTIFAMILY BUILDING

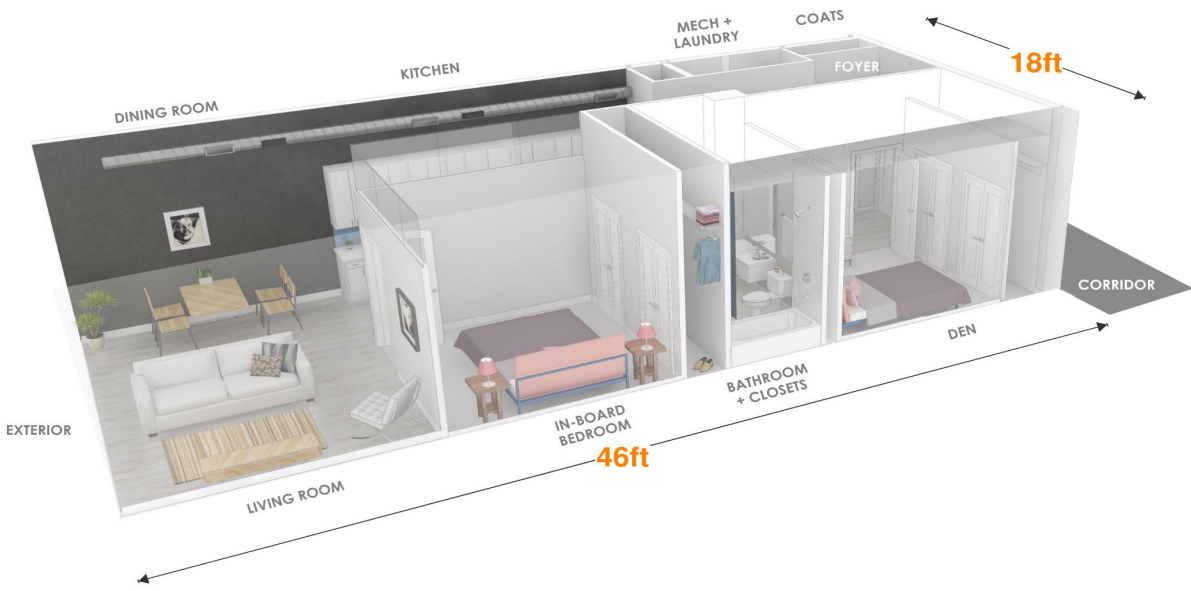
SERVICE AREA	AMENITY / COMMON AREA	CIRCULATION	STUDIOS	ONE BEDROOMS	ONE BEDROOM + DEN	TWO BEDROOM	2 BED/2 BATH	THREE BEDROOM
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82% EFFICIENT PLAN

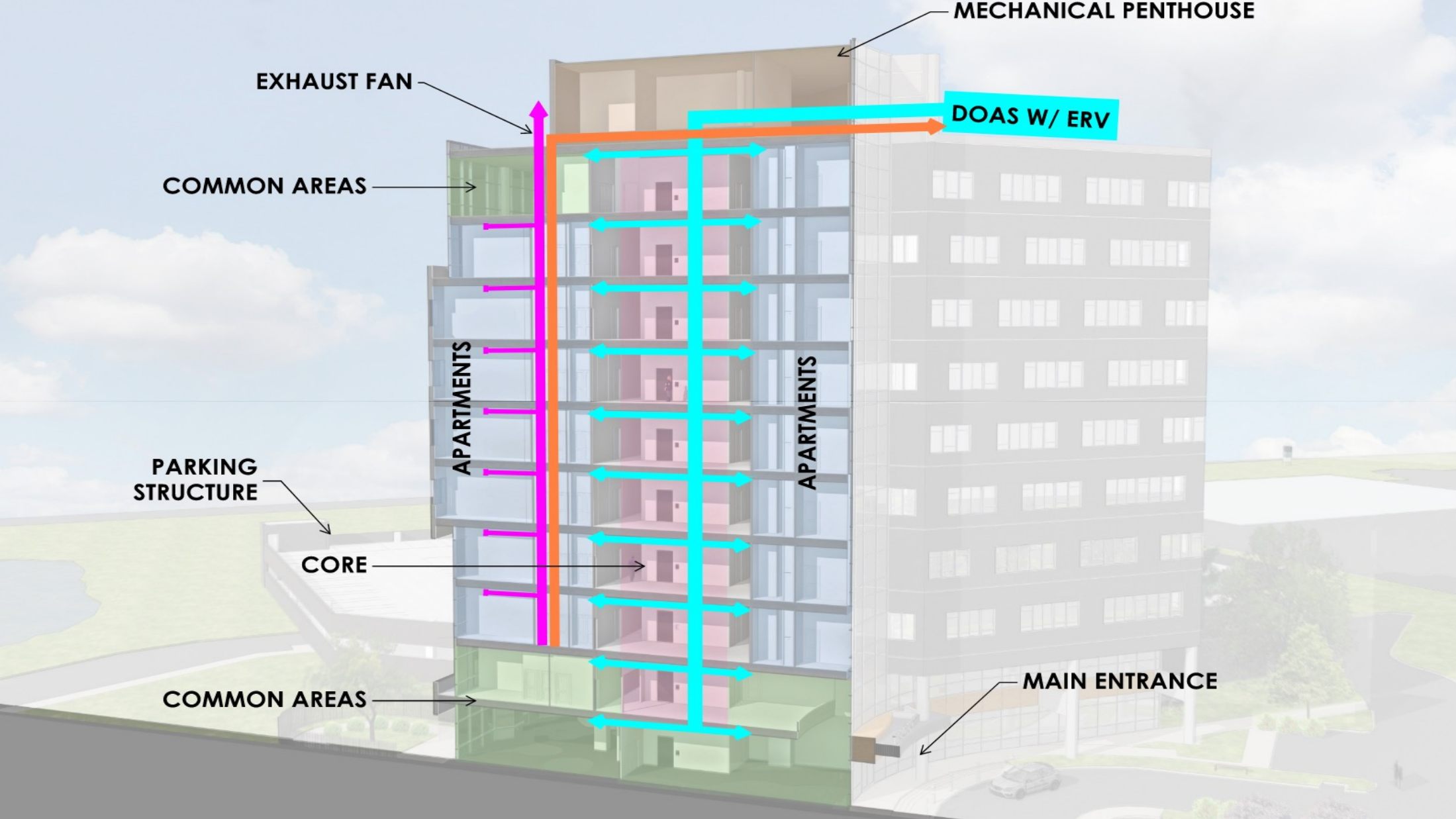


OXFORD
36 UNIQUE UNIT TYPES





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THE OXFORD

01









THE OXFORD | OXON HILL, MD

- 187 Apartments
 - 21 Studios
 - 54 One Beds
 - 67 One Bed + Dens
 - 37 Two Beds
 - 8 Three Beds
- 196,680gsf | 142,525nsf
- 423 parking spaces
- \$25M construction cost
- Renovated in 2019
- Rent: \$2.25/sf
- \$39M current assessment



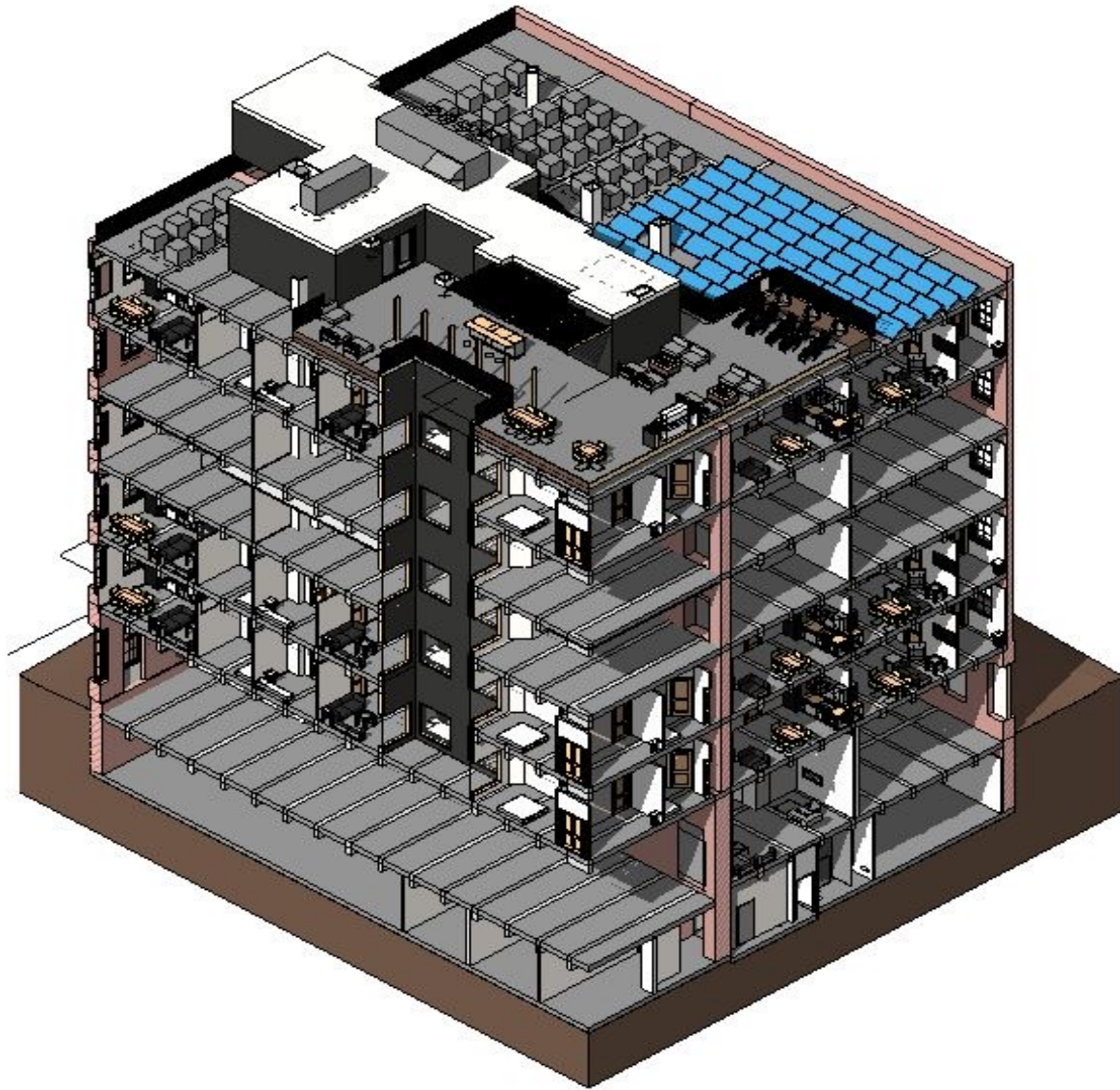
22 LIGHT ST | BALTIMORE, MD

Original Project Data:

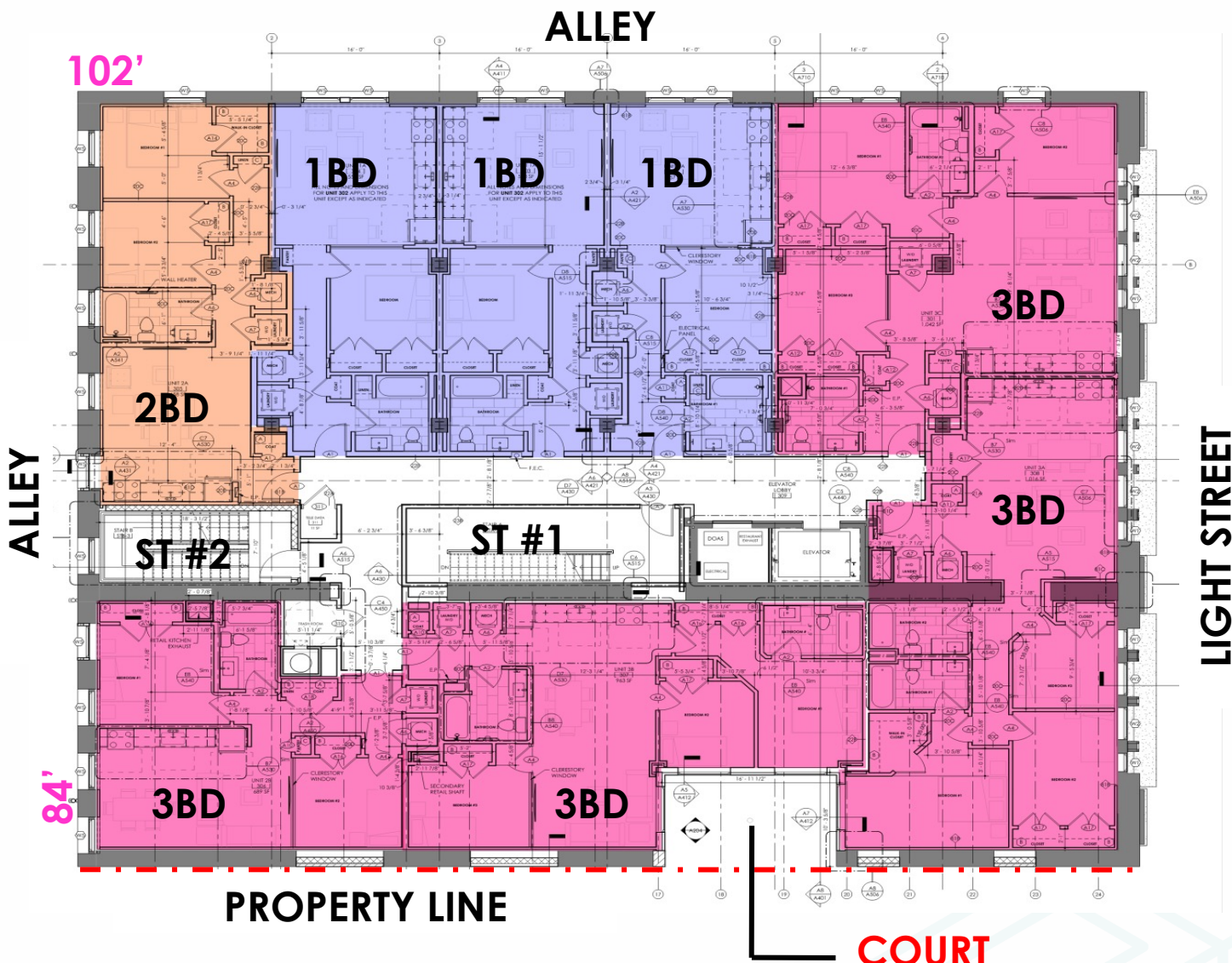
- 0.2 Acre site | Mixed-use Zone
- 6 Stories Mixed-Use Building
- 64,398gsf (w/ basement)
- Built in 1901 as distillery
- “Class C” Office Building
- Steel & Concrete Construction
- 10ft+ clear ceiling height
- Historic District
- No parking spaces provided
- Purchase Price: \$4.2 M (2020)
- 60% vacant
- No existing drawings available







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86% EFFICIENT PLAN



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207	303	401	405	503	507	605	
208	304	402	406	504	508	606	OFFICE
	305		407		601		
301	306	403	408	505	602		
302	307	404	501	506	603	607	
	308		502		604	608	
2P	3P	4P	5P	6P	7P	8P	9P

22



mina
LEASE TO
Stunning
Apartment
Floors



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22 LIGHT ST | BALTIMORE, MD

- 40 Apartments
 - 16 One Beds
 - 9 Two Beds
 - 15 Three Beds
- 64,398gsf | 35,767nsf
- \$10.75M construction cost
- Renovated in 2021
- \$2.3M current Tax assessment
- Funding: 9% LIHTCs + Rental Housing Program Loan + Baltimore City HOME Loan + Maryland DHCD Weinberg Funds + Housing Authority of Baltimore City Project-Based Vouchers



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