He Turned Wall Street Offices Into Homes. Now He Vows to Remake New York

Metro Loft's Nathan Berman takes on the risky business of converting empty downtown towers. Will it pay off?

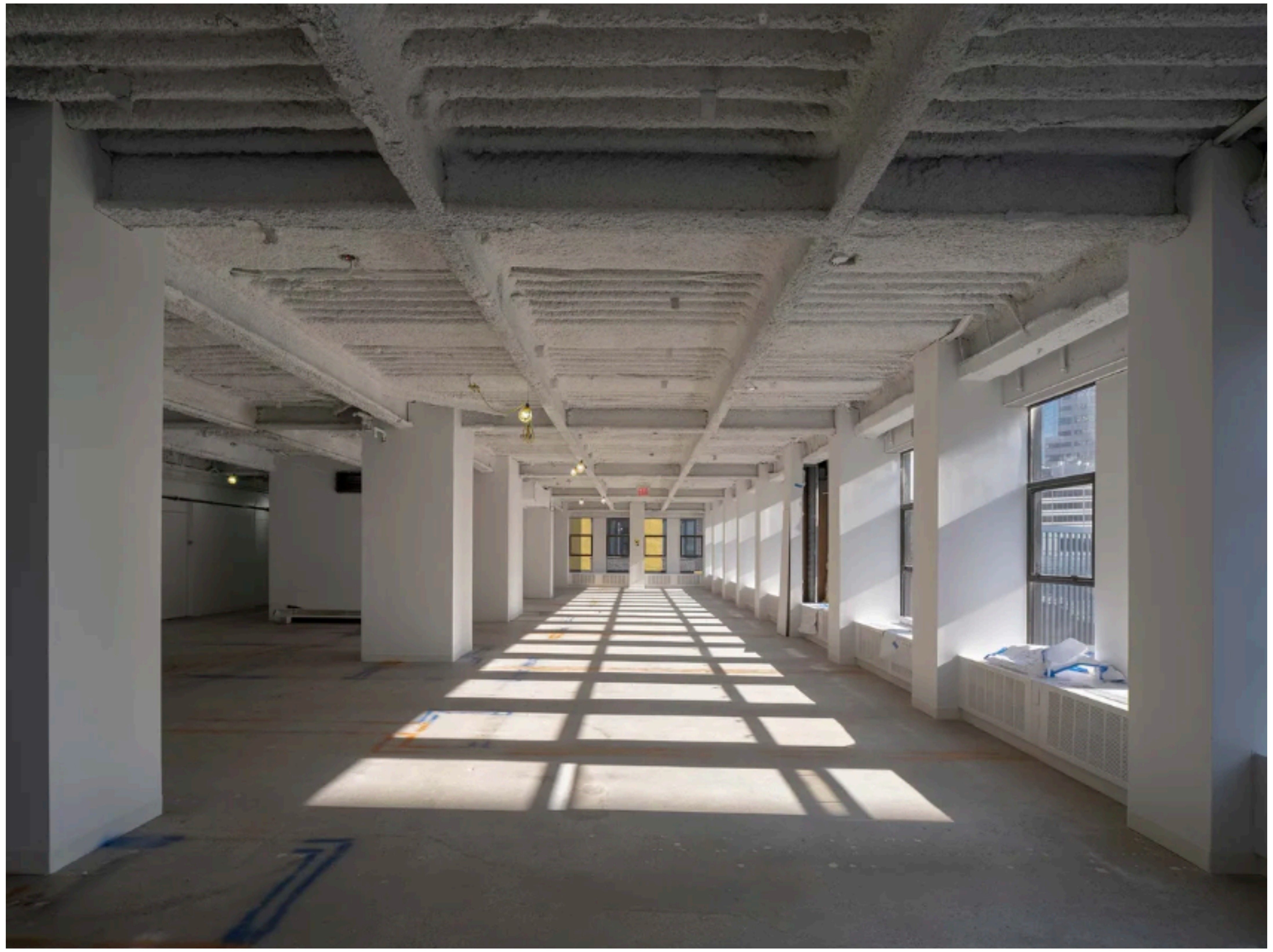
Bloomberg

In the lobby of a downtown Manhattan tower, Nathan Berman pauses to admire the marble walls and terrazzo floors. A real estate developer, he has a taste for old-world detail, like the fur lining in his navy overcoat, accented with a polka-dot scarf. It's rush hour in the heart of Wall Street, and Berman's at its white-hot center, 55 Broad St., former offices of Goldman Sachs Group Inc. But, like many buildings in the age of working from home, this onetime hub of capitalism is largely empty. Many of Berman's rivals would be discouraged. He's thrilled. Berman transforms vacant office buildings into top-of-the-line apartments. At 63, he's the king of office conversion. From the 23rd floor of 55 Broad, Berman can make out five of his projects in the bright December sunlight. They include 20 Broad, a midcentury modern building that had outlived its usefulness as the onetime headquarters of the New York Stock Exchange. Today, along with apartments, it features a rooftop terrace with views of the harbor, a theater, a yoga studio, a game room and a fitness center. Gazing into the distance, Berman points toward another of his alchemies: a former Tribeca bookbindery where Oscar-winning actor Jennifer Lawrence and pop star Harry Styles have owned homes. A Ukrainian immigrant and relative newcomer among New York's real estate families, Berman found his niche because he envisioned rich rewards where the establishment saw only risks.

"Imagine you have half-a-million-square-foot architectural gems with extraordinary detail, landmarked, tall ceilings, ornate finishes, incredible lobbies of marble and granite, and all of sudden nobody wants that building," he says. "I'm not sure why the big New York families didn't just scoop it all up, but it gave people like myself the opportunity to come in and pick them up at prices that allowed for inexpensive conversions."

His roughly 25-person firm, Metro Loft Developers LLC, has converted more than 3.5 million square feet of offices in Lower Manhattan into thousands of residential units, likely the most of any developer in the city. An additional 1.5 million square feet are in the pipeline. In the past year alone, Metro Loft has announced more than $1 billion in deals with many of the industry's boldface names, including the Flatiron Building owner GFP Real Estate, technology billionaire Michael Dell's MSD Capital, private equity giant Apollo Global Management and World Trade Center developer Silverstein Properties. Metro Loft's partnership with Silverstein Properties Inc. is its most ambitious. They're raising $1.5 billion in equity to start SilverLoft, an engine for years of conversions, beginning with 55 Broad. Metro Loft and Silverstein have identified more than 200 candidates. If they were to purchase just 10% of those properties over the next decade, it could result in as many as 15,000 units, according to Silverstein. "There is an avalanche of deals coming," Berman says. It's a huge gamble for Silverstein, which has never done a conversion. Chief Executive Officer Marty Burger is essentially betting on Berman. "People say this is very complicated and it's more costly, but the reason why it makes sense to us is because we have our partner Metro Loft," Burger says. "Not just anyone can do To encourage such deals, New York Mayor Eric Adams is proposing zoning changes and tax incentives. In some neighborhoods, such as Midtown Manhattan, only buildings constructed in 1961 or before can be converted fully without major restrictions. Adams supports raising that limit to 1990, paving the way for 20,000 new homes in the next decade. In Manhattan, which has more than 450 million square feet of offices, almost one-fifth of that is available to rent, according to brokerage firm Savills Plc. New York is joining a global push for office-to-home conversion to alleviate housing shortages and revitalize downtowns with vacant commercial real estate. Canada's Calgary is offering developers $75 per square foot for conversions. UK policymakers have eased zoning rules. The South Korean government has announced that it would buy and transform unoccupied hotels and offices into rentals.

Many real estate analysts are skeptical. While older buildings can have a human-size scale that makes conversions relatively simple, modern offices are trickier. They can have enormous layouts, filled with windowless interiors. (New York requires that living spaces have windows that open.) It's often a long trek from elevator banks to far-flung spaces, which could make units dark and unappealing. Cubicle colonies can make for odd shapes, more suitable for copy machines and watercoolers than night tables and armoires. In the UK, Zurich Insurance Group concluded that converted offices' giant windows make them vulnerable to heat waves. The government cited independent research that found other shortcomings, such as plumbing systems unable to handle household water use and a lack of internal light and ventilation.



In the biggest 39 US metro regions, only 37 office buildings a year have been converted on average since 2016, according to brokerage CBRE Group Inc. While most result in apartments, some are turned into labs, hotels or mixed-use sites. Projects underway or planned, combined with those completed since 2016, would remove roughly 2% of the total US office supply, the brokerage firm estimates. According to Moody's Analytics, only 3% of New York's offices—35 out of almost 1,100 buildings that the company tracks—would currently be viable for apartment conversions. Julie Whelan, a CBRE executive, says conversions won't solve the empty offices problem immediately because the risky projects are too complex to be cost-effective at prices that current owners will accept. "The majority of the buildings will have to take a haircut, which is difficult for some landlords to swallow," she says. Yet New York towers may be reaching a breaking point. Older offices are losing tenants to newer developments as leases end, and maintenance costs are rising. Landlords will have trouble refinancing their debt as lenders become increasingly wary of the future of offices.

This environment “will push a lot of these borderline buildings over the edge,” Berman says. “The only viable alternative for most of these buildings, being that most of them are overbuilt and you can’t afford to knock them down, is a residential conversion.” Berman runs Metro Loft out of the 17th floor of 40 Wall St., also known as the Trump Building, one of the former president’s most valuable properties. Soft-spoken and bespectacled, Berman works in a modest office, its views obstructed by buildings nearby. He was born in Mukachevo, a small town in western Ukraine, then part of the Soviet Union. His father, a Holocaust survivor, was a tailor; his mother took care of Berman and his brother. In 1973, when Berman was 14, he and his family immigrated to the Kew Gardens neighborhood of Queens, joining the flood of Soviet Jews then arriving in the US. Berman studied accounting at Queens College, though he never graduated. He drove a taxi and, at age 20, married Liza Nakhamkin, whose father, Eduard, ran a Manhattan art gallery featuring the works of fellow Russian émigrés. They both worked in the gallery, but business fizzled by the 1990s, and Berman moved into real estate. At the time, Lower Manhattan was facing an office crisis. Vacancy rates had been above 20% for several years. The neighborhood, mostly commercial, emptied after 6 p.m. Companies looking for space ditched historic buildings and opted for new developments, many in Midtown. Some relocated to New Jersey and other places with richer tax incentives. Berman saw opportunity in converting cheap, empty offices into lofts that could be rented out immediately. In 1995, with $80,000 from his father-in-law toward the down payment, he purchased his first property, 71 Leonard St., a five-story office building in Tribeca. It cost $525,000, $1 million in today’s dollars. Not long after, for $5.2 million, he bought 17 John St., which counted rapper and entrepreneur Jay-Z’s Roc-A-Fella Records as a tenant. He invested $14 million to turn it into 111 rentals with a partner, Tony Fromer, who’s family had been an art customer and owns a real estate firm. “Nathan and I have a phrase that we use with each other, and that is ‘ignorance is our strength,’ ” Fromer says, with a chuckle.

“He was very persuasive, and he has a way about him.” The timing was exquisite: Tribeca became one of Manhattan’s priciest residential neighborhoods. More than a decade later, Metro Loft sold 17 John for $85 million. It still owns 71 Leonard, where a one-bedroom recently rented for more than $6,000 a month. Berman says the economics of the deals are straightforward, though he declined to offer specifics for any of his more recent ones. For a hypothetical 400,000-square-foot office building, Metro Loft might pay $180 million, or $450 a square foot. Then the company spends up to $150 million, or $375 a square foot, to convert it into apartments. That’s about 60% of the cost of building from scratch, which he estimates at $1,300 a square foot, or $520 million. With that savings, the building can be profitably resold or rented out. Today, with the help of past tax exemptions and other incentives, Lower Manhattan has become the poster child for conversions. Since 1995, more than 23 million square feet of offices have been made into homes, according to the Alliance for Downtown New York. Half of residential units are in converted buildings. They include One Wall Street, former home of the Irving Trust bank, which real estate mogul Harry Macklowe turned into a 566-unit condo tower; the Woolworth Building, once hailed as “the cathedral of commerce” and now featuring residences, courtesy of luxury condo developer Alchemy Properties; and 180 Water St., a 1970s glass-and-steel office tower that Metro Loft and Vanbarton Group converted to 580 rentals.

Ross Moskowitz, a real estate lawyer who worked on Lower Manhattan rezoning legislation, considers the area a road map. “This is a real-life example of how government can work with the private sector and literally create a new neighborhood,” he says. He and others call for another round of incentives, such as the more relaxed Midtown zoning the mayor is supporting. At Metro Loft, Berman isn’t holding his breath. “If the city wants to bring in incentives to help, that’s terrific, and it would be very helpful,” he says. “But frankly, I’m not counting on that happening anytime soon.” Berman and his family like to play a game: They scour their projects for any hint of a former life as a workplace. “If you can point out any relics of the office, you get a prize,” says his son, Daniel, who works at Metro Loft with Berman’s younger brother, Jack. The elder Berman, who hires architects and engineers for his projects, still spends hours going through dozens of iterations of each floor plan. He likens it to solving a Rubik’s cube or a crossword puzzle. Still, Brett Joshpe and Juliana Clay, tenants at Metro Loft’s 20 Broad St., the former New York Stock Exchange headquarters, weren’t pleased with the result. They encountered, among other shortcomings, poorly insulated walls that made it easy to hear neighbors’ conversations, they alleged in a 2020 breach-of-contract lawsuit. Metro Loft denied their claims and settled for an undisclosed sum. For two years during the pandemic, Lily McMillan, 27, lived at 63 Wall St., a Berman conversion that his company has since sold. The former headquarters for investment firm Brown Brothers Harriman & Co., it was one of the first residential towers to open on Wall Street after the terrorist attacks of Sept. 11. “The building was really big, and it did feel almost office-like, not super-communal or homey,” says McMillan, a digital marketer for a public-relations company. “They tried their best to turn it into a beautiful, grand luxury building, but I lived in a studio, and it was a very awkward space. It wasn’t square, it wasn’t a rectangle, it had all kinds of bizarre edges and weird corners.” Still, there’s clearly demand for these properties, suggesting many other residents are satisfied; 20 Broad St., for example, is almost entirely occupied, and studios average $3,350 a month. For more than a year, Sarah Hinchen has lived in a studio at 67 Wall St, also a Metro Loft conversion that it’s sold. She loves the 10-foot ceilings, the views, the neighborhood and the building’s amenities, which include a gym, a game room, a rooftop terrace and a speakeasy-style bar only for residents. She sees no evidence of its former role as a workplace.

“I don’t plan to leave here until I have a very significant life change,” says Hinchen, 36, who works in financial services. Now Berman is stepping up the size of his deals, in a test of whether conversions can work at a far larger scale. His biggest single project: 25 Water St., an outpost of JPMorgan Chase & Co. that will soon become 1,300 high-end rentals. The project, a partnership with the Flatiron Building’s GFP and investment firm Rockwood Capital LLC, has reduced the downtown office stock for the first time since the pandemic began. The complex will include coworking areas, indoor basketball and pickleball courts, swimming pools and music studios. Metro Loft is also working with finance titan Fortress Investment Group LLC and a Canadian pension fund on the potential transformation of a former Goldman Sachs headquarters. The building at 85 Broad St., Goldman’s home for almost three decades until it moved to its current headquarters, has generators that are still able to light up an entire downtown block in a power failure, Berman says. When Goldman built the tower on the site of Manhattan’s first City Hall, it divided Stone Street, the first thoroughfare to be paved in the Dutch settlement of New Amsterdam that became New York. Today, an 1,800-square-foot curved cobblestone corridor cuts through the lobby, mirroring the street’s route and reflecting a city’s perpetual transformation.