Turning offices into condos: New York after the pandemic

A growing roster of the city's towers are being rendered obsolete by remote working. Developers spot a chance to meet demand for homes

FINANCIAL TIMES

Over the past quarter century Nathan Berman has developed a savant-like mastery of a peculiar trade in New York City property development: converting out-of-fashion office buildings into residential towers. Berman, now 63, a child of Holocaust survivors, emigrated with his family from Ukraine when he was 14, and took a meandering path to real estate. He worked for years as an art dealer, specialising in the works of Russian émigrés, before dabbling in property in the 1990s. What intrigued him about conversions was the realisation that he could give new life to a fading work of art. The 18 projects he has since completed, he says, are a way of "paying homage to the skill, artistry and sheer effort" of previous craftsmen. These days, conversions are the talk of the city's property developers and Berman has become their unexpected man of the hour. Fellow developers, lenders and urban planners are all seeking his expertise as they grapple with a growing roster of New York City office towers being rendered obsolete by the rise of remote working. "This is all he does. He sort of wrote the book on this," says Marty Burger, chief executive of Silverstein Properties, which owns the World Trade Center, among other properties. Last year Silverstein partnered with Berman's company, Metro Loft, to buy and convert 55 Broad Street, a 30-storey office tower in the financial district. It is now raising a $1.5bn fund to pursue other conversions. "Right now, I bet you every major developer has a feasibility study on their desk on residential conversion," says Dan Shannon, managing partner at MdeAS Architects, adding: "I would seriously doubt the Chrysler Building's next life will be as an office building — at least not the top [section]." For city officials, conversions are a "lemons-to-lemonade" way to chip away at a chronic shortage of housing on a highly-regulated island where new construction is a notoriously slow and expensive undertaking. The shortage has grown so acute that in January the median monthly rent for a Manhattan apartment increased by 15 per cent from the previous year to a record $4,097. The city's exorbitant cost of housing is widely blamed for its related crisis of homelessness.

A panel appointed last year by Mayor Eric Adams to envision a "new" New York City has identified conversions as a top priority and recommended tax incentives and zoning changes to hasten them. "The need for housing is desperate, and the opportunity offered by underused office space is clear — we know what we need to do," Adams told a gathering of civic leaders in January. The mayor has also announced separate proposals to make it easier and faster to build housing in New York. Even some panel members doubt that conversions will create much, if any, affordable housing without generous government subsidies. In any case, there are myriad reasons — from architecture to economics — why conversions have been such a rarity, and why most New York City developers have found easier ways to make money. "It's almost like surgery," is how Berman describes his painstaking work. He sounds bemused by the sudden buzz surrounding it. "Five years ago, people looked at me like I had two heads," he observes. "Conversions weren't as mainstream. But now its time has come." The neat logic of repurposing What has brought them forward is the Covid pandemic. Nearly three years ago it shut down New York City and ripped up decades-long patterns in the way people work and live that not only sustained offices and their owners but structured the city itself. Armies of commuters rode public transit into central business districts such as Midtown and Lower Manhattan in the morning and then fled in the evening. For a time, developers consoled themselves that workers would eventually return to the office five days a week, and life would resume as normal. But most now accept that the pre-Covid days are gone and remote working is here to stay. "The genie is out of the bottle," Scott Rechler, chief executive of RXR, one of the city's leading developers, concedes. In this emerging era, the newest and most modern buildings are still fetching record rents. But their many dated and middling competitors are fast losing tenants and collapsing in value. By Berman's rough estimate, that lower class could cover about 20 per cent of New York's 460mn square feet of office space. The options, then, for owners are either to spend money to gussy up dated offices and hope that they can become competitive, convert them, or surrender them to lenders. For investors, residential conversions have a neat logic, according to Max Herzog, senior managing director, at JLL, the property services company. While office buildings are plummeting in value, so-called multifamily housing — essentially, rental apartments — have become prized by investors as New York City rents have surpassed pre-pandemic levels.

“The market is just so ripe for these conversions,” Herzog says. “It’s very hard to create new supply of residential in this city. Really, one of the only ways to bring new supply to the city is to convert these buildings.” If successful, the initiative could leave a lasting imprint on the city, according to Vishaan Chakrabarti, the renowned architect and a member of Mayor Adams’ panel. They have the potential to seed residential life in corporate bastions like Midtown Manhattan. The example that Chakrabarti and others point to is Lower Manhattan. As New York rebuilt from the 9/11 terror attacks, authorities prioritised the conversion of office buildings, and — with the help of federal financial incentives — eventually lured tens of thousands of residents to the neighbourhood. An area that once went dark after 5pm is now a swirl of office workers, baby strollers, schools and restaurants. Chakrabarti is hopeful that conversions could replenish a neighbourhood like Midtown, where local businesses have been devastated by the lack of commuters, leading to vacant storefronts and other signs of decay. New residents would help to sustain those businesses, and so enhance the neighbourhood’s appeal for new corporate and retail tenants. They would eventually justify investments in public parks, wider sidewalks and other improvements.

“9/11 transformed Lower Manhattan in fundamental ways and I do think Covid is going to change Midtown in ways that we still don’t fully understand,” says Chakrabarti, who directed the Manhattan office of city planning under former mayor Michael Bloomberg. And yet, like Berman, he acknowledges that conversions can be daunting, saying: “I think you need a certain amount of intestinal fortitude because it’s a big risk.” ‘People want windows’ One sober developer likens the sudden buzz around conversions to the burst of enthusiasm last year for turning office buildings into life sciences laboratories to serve the biotech industry — until developers discovered the complications. That may again be the case. Many office buildings are simply not fit to be converted. In a residential building New York City requires operable windows and minimum amounts of natural light and ventilation in each habitable room. A typical residential tower might have a 30-foot depth on either side of a core housing an elevator. By contrast, many modern office buildings lack operable windows and their floor plates tend to be far larger to suit corporate tenants. The depth from the edge to the core might be 45ft or more. A crucial challenge, then, for designers is what to do with all that windowless interior space? One solution is to carve an interior room and call it a “home office”, thus skirting the window requirement. (Some conversions have opted for two home offices.) But it is hardly ideal, says Shannon: “People want windows!” Elevators are also an issue. Office buildings tend to have many of them to accommodate a rush of traffic in the morning and evening. For a residential building, that would be excessive. The list goes on and becomes ever more technical — from the ratio of treads-to-risers on stairs to the amount of open space that must be left behind a residential building. A vital measure called the floor-area ratio — which limits the size of each floor relative to the size of the lot — also differs and allows for the far greater density of office buildings compared to residential ones. “It’s not simple. And sometimes the buildings are old and they need repair,” says Gloria Glas, an Argentine-born architect at SLCE, who has spent a career mastering the Byzantine — at times, contradictory — building codes of her adopted city. Developers can petition for waivers but that takes time and often requires them to make other concessions to win approval. In property development, time really is money. Please use the sharing tools found via the share button at the top or side of articles.

Some buildings are off limits because they have been landmarked or because they are in neighbourhoods where residential buildings are restricted. The latter is a remnant of an earlier era when planners wanted to separate housing from the noise and pollution of manufacturing in areas such as the Garment District. Since then, manufacturing has largely departed and the ideal touted by developers is the blended “live-work-play” neighbourhood. Then there is the question of vacancy. Some of the bigger conversions of recent years have involved office buildings that were empty or nearly so. But if tenants must first be removed, that can become a costly ordeal. “There are buildings that are just not well equipped to be converted based on their floor plate size, based on their ceiling height, based on their mechanicals, based on whether you have to move the elevators,” says Burger. “Then you have to look at your market. Then you have to look at whether you can get it for the right price.” Silverstein used artificial intelligence to rank all the properties below 96th Street on a series of conversion criteria. Of 2,500 or so buildings, it identified 323 that were suitable. If the company could convert a fraction of those over the next seven or eight years, Burger estimated, it might amount to 10,000 to 15,000 new units of housing. That is a sliver of the 500,000 new units Mayor Adams has pledged to build over the next decade. Downtown has been the best terrain for conversions. Many of its buildings hail from the pre-air conditioning era and so tend to have smaller floor plates and operable windows. The underlying real estate is less expensive than it is in Midtown. And, by a quirk of zoning, more buildings are eligible. Those built before 1977 can be converted under the most lenient rules. In Midtown, the cut-off date is 1961. The city’s office adaptive reuse task force suggests a new across-the-board 1990 date, estimating it would add 120mn sq ft of office space to the eligibility pool. Possibilities at a price Berman and Downtown go way back. The developer cut his teeth with loft conversions in Tribeca before tackling his first full building conversion. It was at 17 John Street. Once a part of Insurance Row, the 120,000 sq ft building was nearly vacant by the mid-1990s — a time when, Berman says, the neighbourhood “was being given away”. He and his partners paid $5.2mn for the 1926 building, and then spent $14mn on the conversion. A dozen years later, they sold it for $85mn. “At the time, it was a huge building for me,” Berman recalls. By 2014 he had graduated to 180 Water Street. It was nearly five-times the size and required extensive surgery. To solve the depth problem, Berman and his architect, Avinash Malhotra — “we call him the rabbi of conversions” — cut a 30ft by 40ft core from the centre of the building. “It was the only way to bring light and air to an impossibly deep space,” he explains. Zoning rules allowed them to then restore the lost space with additional floors. When they were finished, a 25-storey, 1970s office building had morphed into a 29-storey tower with 580 rental apartments. Metro Loft will soon attempt to top that feat by carving two shafts into 25 Water Street, a squat 1.1mn sq ft building it is now converting with GFP, a family-owned New York developer. Please use the sharing tools found via the share button at the top or side of articles.“What we have basically learnt along the way . . . is that every building is convertible in New York City. Literally,” says Berman. “

The difference is how efficient and how expensive it's going to be." The city's rental properties tend to have firm price points. cube" Manhattan store. Macklowe is optimistic about office conversions in a city where, he says, "there are no more barriers to location" in terms of where New Yorkers are willing to live. But he worries about the numbers. Projects only "pencil", as developers say, if they can buy the underlying asset at a sufficiently low price to justify the investment. Since the onset of the pandemic, investors have been awaiting a fire sale of distressed office buildings that always seems to be just a quarter away. "Everyone always says, 'It's a recession. It's a great buying opportunity.' Then you go to the market and no one wants to sell at a reasonable price," says Burger. Hence, developers are clamouring for incentives. The 1970s-era 421a tax abatement that has been the city's main inducement to encourage the construction of rental housing expired last year. Opponents complain it enriched already wealthy developers without delivering enough affordable housing. Mayor Adams and New York governor Kathy Hochul are vowing to push for some sort of replacement, although it would need the support of the state legislature. In the meantime, Berman should have plenty of puzzles to solve. "We are talking to a lot of people," he says. "Trying to figure out what to do with these buildings."