



## OTTEN JOHNSON ALERT

# Adaptive Reuse: Transforming Office Space to Residential Space

December 2022 • [Emily L. Maino](#) and [Chelsea M. Marx](#)

## INTRODUCTION

As cities across the United States grow and adapt to different demands and needs of their communities in the wake of the COVID-19 pandemic, many have been struggling to balance an excess of office space with a lack of housing, particularly affordable housing. The COVID-19 pandemic exacerbated an already growing trend of underused office space and transformed how many people live and work popularizing a more flexible work arrangement. The resulting abundance of unused office space in downtown areas has Denver and many other cities questioning what to do next.

Some cities are looking to adaptive reuse, the process of renovating and reusing an existing structure for a new purpose, as a creative solution to address this imbalance. Prior to COVID-19, cities implemented adaptive reuse to address shifting demands for structural uses. For example, when cities on the east coast and mid-west, such as [Minneapolis, Durham, Pittsburgh and Atlanta](#), moved away from heavy industry, resulting in excess factory or warehouse spaces, they encouraged adaptive reuse to transform those spaces into restaurants, hotels, or other commercial spaces. One successful example of this movement in Denver is that of the [Source Hotel](#), a former iron foundry transformed into a bustling hub of shops and restaurants. Many other former warehouses and factories across the country have since been transformed into mixed-use centers of lively commercial and residential activity.

## THE CURRENT IMBALANCE

Denver's office landscape was not immune to the challenges the pandemic imposed; while many companies have returned to work downtown, office occupancy levels have yet to return to their pre-pandemic levels. Real Estate Company Avison Young reported office vacancy rates of 24.3% in Denver's central business district in mid to late 2022. Some planners for the City of Denver in turn have noted that they would like to increase the percentage of buildings in the central business district devoted to residential uses from the current 10% to an upwards of 40% in the next ten years. Increasing the housing stock in the central business district would also be an opportunity to address Denver's struggle to meet the growing demand for affordable housing options. Office vacancy rates coupled with a need for more housing have pushed the City of Denver to consider pursuing adaptive reuse as a feasible option.

As part of its 2023 budget, the City of Denver has committed funds to study the feasibility of converting vacant or underused office buildings to residential spaces. This study will devote \$75,000 of COVID relief funds to evaluate ten to fifteen buildings in the downtown Denver area that the City has initially determined might be viable to convert into residential spaces. The study will analyze (i) the suitability of the buildings for a variety of floor plans, (ii) whether the heating and ventilation systems could be transformed to meet residential needs, and (iii) how close the buildings are to public transit. These factors will assist the City in determining whether to move forward in pursuing a conversion of each building, and the City hopes to conclude the study by early 2023.

If the City's study identifies office buildings suitable for conversion to residential space, the City will begin approaching building owners about their interest in converting their spaces. Office to residential conversions present unique challenges such as high cost of conversion, physical difficulties changing offices to residential spaces, regulatory barriers preventing a smooth process, and the rarity of the unique skill set needed in architecture and development to complete a successful adaptive reuse project. In contrast, adaptive reuse also presents key opportunities to address issues of affordable housing and promote sustainability in construction practices. We will discuss these potential challenges and opportunities more in turn below.

## CHALLENGES TO ADAPTIVE REUSE

One of the biggest challenges of turning office space into residential space is the complexity of the physical conversions. Office buildings are often much deeper than residential buildings, making it difficult for natural light to get to the center of the building. Office buildings are often not up to the same codes and standards required of residential spaces, so much of the interior of the buildings must be revamped to meet modern residential building code guidelines, a process which requires time and skill. These projects often require specific architectural expertise, which may not yet be

widely available in the Denver market. While some warehouse to residential conversions have occurred in the Denver metro area, the increased height of office buildings exacerbates the difficulties of converting to residential spaces; each office building often poses new and unique complications for architects and developers to tackle. Time and expertise to solve these challenges can be costly which might dis-incentivize developers from pursuing reuse over rebuilding. If building owners desire to pursue adaptive reuse, this might present an opportunity for developers or architects with those skill sets to expand within the Denver market, thus offering critical support for building owners who opt to pursue such projects.

Regulatory barriers have also posed challenges in other cities considering adaptive reuse. From restrictive zoning codes to strict residential building codes, changing office space to housing is not as simple as it may seem. While Denver's zoning permits residential use throughout most of the central business district, its building codes still may pose challenges for those seeking to transform their office buildings.

One other challenge for building owners to be aware of when considering adaptive reuse is the general length of office leases. Typically office leases have longer terms than residential leases and one long-term office lease could tie up a small portion of an office building for many years even if other office tenants have chosen to leave the building. Building owners considering adaptive reuse might evaluate the terms of existing leases that may need to be amended and draft future leases to preserve an option to transform the building if doing so becomes part of their plan.

## OPPORTUNITIES FOR ADAPTIVE REUSE

The greatest opportunity for the City in pursuing adaptive reuse is the impacts this strategy could have on affordable housing. As [CPR News](#) reported, Denver Mayor Hancock has noted that reuse of office buildings is a key opportunity to offer more affordable housing for workers in the downtown area, which could potentially bring more people back into downtown spaces they can both live and work in. As covered in our [June 2022](#) and [February 2022](#) alerts, Denver has adopted the Expanding Housing Affordability program, which requires developments to include a portion of units as affordable options. Additionally, as we discussed in our [November alert](#), statewide initiative Proposition 123 will set aside a portion of state income taxes into a new Statewide Affordable Housing Fund that can assist developers in applying for new permits for developments that have affordable units. A new adaptive reuse project would be required to include a portion of affordable units. However, the new Affordable Housing Fund could assist in the processing of permits for such projects.

Adaptive reuse also provides environmental benefits that rebuilding does not. Reusing a space has a smaller carbon footprint than tearing down a building and starting over. It promotes recycling of materials, removes the step of transporting demolition materials, reduces waste being sent to landfills, and offers a more sustainable alternative to

completely rebuilding.

Finally adaptive reuse offers the opportunity to create unique living spaces. Office spaces with community gathering areas could be transformed into common areas in a residential community. Transformed spaces can result in some very creative floor plans and appealing residential communities. The [Denver Gazette](#) covered the initial development plans of one recent success in Denver, the Art Institute of Colorado, which was recently converted into the Art Studios, set to open in early 2023. The project incorporates design elements that were creatively designed to play into the existing building's strengths and amenities. Some examples of this are the [Makers Room](#), "a makerspace for photography, 3D printing, crafting, and more," and the [use of old photography equipment](#) as custom art in the building, which highlight some of the existing structures and equipment and embrace the history of the building as the Art Institute. Further, the studio units in the building were specifically designed to adapt to the space and light limitations that the existing building presented. As other projects begin to pursue adaptive reuse, the Art Institute poses a successful example of how to utilize the challenges of an existing building while creating something desirable to the community.

## HOW OTHER CITIES ARE PURSUING ADAPTIVE REUSE

As Denver studies whether to pursue transforming more buildings from office spaces to housing, other cities offer examples of other measures that have promoted conversions of offices to housing. In late 2001, New York City implemented zoning changes and financial incentives to encourage the conversion of office buildings into housing. The buildings themselves offered better rental rates and bigger floor plans than residential spaces available elsewhere in New York City at the time. The measures successfully encouraged the creation of almost 25,000 new units of housing in former office buildings over the years.

Some cities and states have adopted more lenient permitting processes for adaptive reuse projects. Los Angeles, Phoenix, and Santa Ana are just a few examples of cities that have adopted adaptive reuse ordinances (sometimes referred to as "AROs") to streamline the adaptive reuse permitting process. The ordinances generally offer alternative building regulations or create a more lenient approval process. While some of these AROs were adopted before the emergence of COVID-19, the pandemic has pushed many cities to reconsider the ordinances with an emphasis on prioritizing affordable housing within adaptive reuse. For example, New York City has created a task force that focuses on evaluating existing regulations and recommending changes necessary to encourage adaptive reuse in the wake of the pandemic.

Finally, some cities are adopting financial incentives and tax breaks for developers or building owners opting to reuse rather than rebuild. California has allocated roughly \$400 million of its 2023 budget to financial incentives for office owners to convert their

buildings to residential spaces. Other officials in major cities such as Chicago and Washington D.C. have also proposed tax credits, tax abatement periods, or other financing assistance that will incentivize developers to consider an office to housing conversion.

## CONCLUSION

Transforming unused office space into residential units appears to be a growing trend in major cities across the country. While Denver has already seen some successes converting non-residential spaces into housing, the study by the City of Denver to be completed by early 2023 may be a key step toward expanding the trend in Colorado. While adaptive reuse poses some regulatory and construction challenges, it also presents opportunities to grow our affordable housing stock and offer more creative living spaces for the growing population in the Denver metro area. The adaptive reuse trend is something to be on the lookout for in the coming years as Denver and other cities across the country adapt to new ideas of how we live and work.

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