



## **Real estate innovation – an opportunity - by Sandy Klein**

August 29, 2023 - Spotlights



Sandy Klein

Empty office buildings. It's nearly three years since the "return to work" predictions began. However, for quite some time now desks remain empty, floors remain empty, offices remain empty and buildings remain empty. Tenants no longer have the same space requirements and are downsizing. Other tenants are moving to new space and downsizing.

The situation is very serious and is changing the landscape of commercial buildings in most urban cities. It is from this situation where opportunities arise, owners adapt and innovation results in alternatives not previously considered (known as adaptive reuse). Such as the conversion of office to residential. Some of the alternatives we are about to discuss are new and some have been around except are now being taken more seriously and even politically supported.

### Office to residential

Converting office property to residential use has a real history in major cities. For office buildings that are Class B at best and not located in highly sought after areas; a conversion may be an option now to be considered. Giving an aging and less efficient office space a second chance by attracting urban dwellers that seek unique in-city space may be opportune. Office space has large windows, with lots of light and desirable, high, ceiling heights allow for very attractive residential redesign. Office buildings are usually located centrally with easy access to transportation and proximity to urban activities and venues. The special x-factor is that residential conversions offer interesting and unique kinds of spaces. In the past, zoning at times was an issue and a roadblock – today cities are looking to add to urban housing offerings. New York City Mayor Adams and New York State Governor Hochul released an "action plan" at the start of this year to help bring back NYC commercial districts while also addressing the housing supply crisis. The plan included a streamlined approach to re-zoning.

### Mixed-use destination

A redesign of an office building's entry space may provide a dual opportunity of becoming a destination on its own and the office building becoming a preferred location for office tenants. Traditionally, an office building main floor/lobby typically provides the access point for its office workers. What if that same space became a destination unto itself? Retail, dining and indoor open space. If the building is otherwise already empty, a redesign of the first few floors may offer the option to reconfigure the space with these attractive offerings, along with new mixed-use tenants. Not only will the office tenants (and their office workers) find this attractive; the space itself becomes a destination for others in the area to frequent. Additional consideration may be given to redesign a floor that becomes tenant-exclusive amenity space (ie; café, bar, meeting space and/or fitness center). Tenants have expressed interest in this type of space for their office workers.

### Change of use

In the past, filling multiple floors of empty space was historically filled by signing one new tenant for

all the space. Today that space may be best filled with a more unique group of disparate tenants. Higher education (college, university and trade schools), micro or artisan beverage making, health services (hospital-affiliated medical and dental practices), urban agriculture, film studios, multi-floor fitness centers and micro-fulfillment centers. These are some of the categories that have become tenants in office space; including urban office space.

Life sciences facilities. Life sciences companies and their facilities benefit from new urban space; with space needs of tens of thousands (square feet) of needed space for a single facility. This category of space was usually found in suburban office settings. However there has been an increase in interest and need for urban settings. Life science facilities have found being urban situated also offers access to a talent pool not typically available.

Film studios. Existing office tenants and office workers don't like to be disrupted by large film crews descending on their space to shoot interior office building scenes. Production companies are always looking for interior office space for their filming needs. A film studio based in an office tower provides a direct solution. With multiple raw floors an office-tower-based film studio can easily create multiple film sets of offices, conference rooms, cubicles, reception areas and any other needed office setting "scenes" without any disruption to real office settings. And there is a real office view out the windows.

Higher education and health services. Both these categories have seen significant increases in their space needs. Colleges, universities and trade schools can easily adapt office space to accommodate their needs for administrative offices, classrooms and dormitory space needs. Health services has seen dramatic changes with the advent of "hospital systems" creating large faculty practices needing multi-floor, large medical office space and the need for additional administrative office space. Empty office space can be easily adapted to accommodate those needs.

Adaptive reuse of empty office building space is for real. What we discussed above are some of the innovative, out-of-the-box approaches to filling the space. As mentioned, with such a large amount of empty office building space, office building owners are thinking broadly with innovative approaches to fill their space. All of these alternatives, as with any new tenant offering, requires the cash flow and economic analysis to stand on its own. In addition, it is recommended to consult with your financial advisors as part of the due diligence process.

Sandy Klein, CPA, is a partner at Shanholt Glassman Klein Kramer & Co., New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540