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Working from home in a former office: Office space to residential conversion - by Joshua Cole

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While employees continue to embrace the benefits of remote work, commercial property owners face the challenge of continued vacancy rates. As leases expire and businesses reduce space to account for full or partial remote work, commercial property owners need to reassess their holdings.

Although remote work has brought about a reduction in the demand for office space, housing needs are increasing in the Tri-State area, with governments proposing legislative action to incentivize the construction of residential housing. In some locations, commercial property owners are seeking authorization to convert office buildings into residential or mixed-use spaces.

While in some instances property type conversion may make economic sense, not every building can be easily converted to housing. In conducting a property review, many factors should be taken into consideration.

Location and Zoning

Determining whether a commercial property is surrounded by the appropriate amenities to service residential tenants is a first step toward evaluating the potential for conversion. While a commercial building may only need proximity to a cafeteria and a parking lot, a residential property requires a different set of amenities.

Zoning regulations vary by municipality and may not currently allow for residential uses in commercial zones. Many areas are looking to increase residential housing, while reducing greenhouse gas emissions from transportation, by promoting and incentivizing transit-oriented developments (TODs). The concept of TODs focuses on siting mixed-use buildings along a transportation corridor. The resulting reduction in vehicle usage, and the increased patronage of local businesses may increase support from local zoning boards.

TODs often allow for lower parking calculations, anticipating reduced reliance on vehicles due to the proximity to amenities, train stations, or bus routes. While TODs can be appropriate in suburban locations, the real benefit can be realized in urban areas, where regular and reliable public transportation is available.

In the past, developments near transportation hubs were designed to serve commuters, who preferred to live in more suburban and rural areas. However, in areas where other office space exists, residential development may be in high demand as many businesses transition to partial remote work, seeking to have employees return to the office only periodically. Many workers, now used to working without any commute, are seeking to reside in closer proximity to a work location than workers who traditionally commuted from suburban areas into larger cities.

Building Design

If the location of a commercial property can support housing, a major factor in considering conversion is the layout of the building itself. Some buildings may have an obvious unit configuration, while others may require repurposing of common areas into building amenities, or the addition of exterior features or additional floors to attract a residential consumer. Unusual layouts may reduce housing unit numbers, but may draw higher rents.

Another consideration when assessing layout and design is the local building code, as it may require different features for residential occupancy than required in the existing commercial building. Engaging the appropriate architectural or structural engineering consultants to review the layout,

ensure code compliance, and design or redesign commercial features into residential selling points is essential.

Additional factors, such as existing financing that may require lender approval, loan restructuring, redevelopment financing, and government incentives must also be considered. Although converting property from commercial to residential or mixed use may not meet the needs of all property owners, a review of these factors can start the analysis.

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