



Adaptive Reuse Guide

NATIONAL ASSOCIATION OF HOME BUILDERS



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*The Continental Centre, Columbus, OH
Source: Brent Warren*

Introduction to Adaptive Reuse

As cities and towns nationwide recover from the impacts of the pandemic, policy makers and housing developers are shifting their focus from mere recovery to strengthening and enhancing local economies. One such opportunity lies in the adaptive reuse of commercial buildings, driven by shifts in work dynamics like the rise of remote work and a ‘flight to quality’ amongst commercial tenants. These changes have led to the underutilization of older commercial buildings (which may include offices, retail, manufacturing, or mixed-use properties) in many markets and an opportunity to meet the high demand for additional housing supply.

While adaptive reuse emerged alongside the historic preservation movement in the mid-20th century and was initially used as a strategy to preserve historic buildings, it has expanded to be a broader strategy to convert underutilized buildings to a use that is in higher demand and more impactful for the local economy.

Now, as demand for commercial and office space shifts, policy makers, building owners, and home builders are once again grappling with how to respond to these changes in the economy and how we work. The underutilization of commercial buildings in single-use districts is a barrier to economic prosperity for towns and cities across the country.

At the same time, the United States is in the midst of its least affordable housing market since 1984¹. This has spurred a collective effort across the real estate industry to explore each available opportunity to create more housing. The intersection of these factors—the evolution of the economic landscape, changes in post-pandemic work patterns, and ongoing housing challenges—sets the stage for adaptive reuse as both a practical option for underutilized buildings and a crucial opportunity to spur the creation of more economically diverse and vibrant downtowns.

However, adaptive reuse can face significant financial, regulatory, and design hurdles that often vary significantly from market to market. Realizing this opportunity requires the implementation of policies and programs that unlock adaptive reuse in line with local market dynamics. This guide offers an overview of the financial, design, and regulatory factors that impact adaptive reuse as well as practical examples of how adaptive reuse can serve to strengthen local markets by diversifying the economic base.

Adaptive reuse involves repurposing existing buildings for uses not originally intended, thereby **creating space for other uses without the need for demolition.**

¹ According to Black Knight, as of 2023, 38.6% of the median household income is required to make the monthly payment on the average home purchase.



Franklin Tower, Philadelphia, PA
Source: Genster

National Context

Policy makers, commercial building owners and home builders across the country are exploring adaptive reuse of commercial buildings in response to recent trends in both the office and residential real estate markets. This conversation is being driven by both the policy conversations from government about the desire for sustainable, active, and vibrant communities, and the desire from owners to make best use of their existing assets.

A number of existing dynamics are driving this trend. The **national office vacancy rate reached an all-time high of 19.6% in the fourth quarter of 2023²**, while the national residential rental vacancy rate remained stable year-over-year at 6.6%, and the homeowner vacancy rate decreased to 0.9%³, creating a strategic opportunity for building owners and developers to explore adaptive reuse as a way to reposition their assets. The widespread adoption of remote work has led to higher office vacancy rates, prompting owners of underperforming buildings to consider the financial implications of maintaining their building as commercial space or converting it to an alternative use. Included in this decision is the reality that office tenants are trending towards higher quality spaces (“flight to quality”) as a strategy to attract their employees back to the office.

Simultaneously, policy makers are recognizing the urgent need to diversify business districts with mixed uses, including residential uses, to create lively and economically viable downtowns that are less vulnerable to large economics shifts. The conversion of underutilized commercial buildings to residential or mixed uses has the potential to increase property values and the tax base while also responding to these shifting trends.

Amidst escalating development costs, adaptive reuse also offers a promising opportunity for developers and localities to work together to create homes more quickly and efficiently than ground-up construction in many cases. Converting existing buildings can shorten construction timelines, often outpacing the time and cost of ground-up construction, and also avoid local delays and opposition to housing development. In the current market defined by escalating construction costs and high interest rates, adaptive reuse—when viable—offers a practical avenue to reposition assets and respond to high unmet demand for homes.

National office vacancy rates reached an **all-time high of 19.6%** in the fourth quarter of 2023.

Source: Moody Analytics

² Moody Analytics

³ U.S. Census Bureau

Financial Considerations

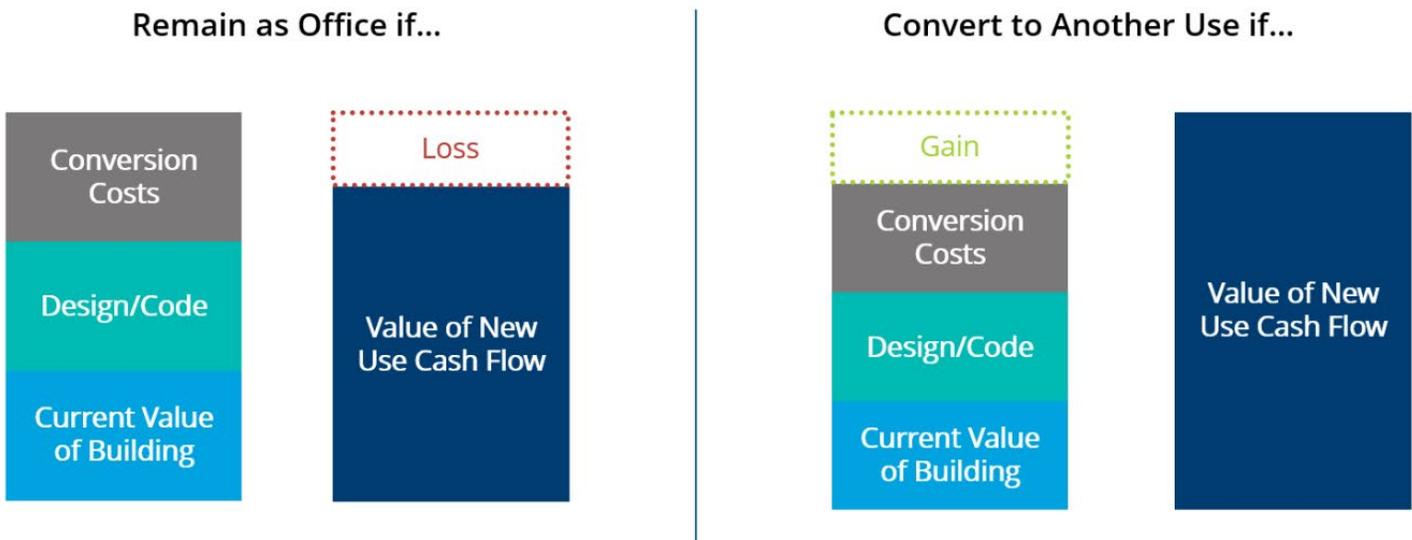
While several core principals guide the financial viability of adaptive reuse projects, there are also many building and market-level factors that significantly impact financial feasibility. Effectively evaluating financial feasibility requires understanding both the project-level dynamics and the broader regulatory and financial barriers and opportunities in the market. The following financial principles apply in most adaptive reuse projects:

Underperforming commercial buildings face two paths forward: **remain and reposition as commercial space or convert to another use.**

Performance of Commercial vs. Residential Uses

Underperforming commercial buildings face two paths forward: **remain and reposition as commercial space or convert to another use.** Conversions will only happen when the cost of conversion plus the existing commercial space value is less than the future value of a converted building, as shown in Figure 1. Practically speaking, conversion to residential uses requires that the residential market is outperforming the office or retail market (depending on the existing use) in the submarket that the building is in.

Figure 1: Approach to Financial Consideration to Adaptive Reuse



Cost to Convert

The costs associated with converting a commercial building to another use include:

- Hard and soft costs
- Time to vacate the building
- Construction and lease-up period
- Costs to refinance existing mortgage/debt

Building Financial Performance

Comparing the current and future performance of an existing building against the projected performance of alternative uses is essential for evaluating the potential revenue of the different uses. These key performance indicators include:

- Occupancy levels
- Rents
- Efficiency factor
- Gross building area and ability of the market to absorb it

Incentive Programs

Adaptive reuse projects can benefit from incentives that boost financial viability. These include financial subsidies, like tax breaks and grants, as well as development incentives that allow for increased building area or streamline the regulatory process to reduce costs dependent on the project's timeline.

Key Building Performance Indicators

- *Occupancy levels*
- *Rents*
- *Efficiency factor*
- *Gross building area*

Regulatory Considerations

Each municipality has a unique set of zoning regulations, permitting processes, and building codes, including specific requirements for residential uses, that impact not only the cost and timing of adaptive reuse projects but also the possibility to convert existing buildings at all. **A comprehensive understanding and adherence to these regulatory requirements are essential for accurately projecting the cost of conversion.**

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Zoning Regulations

Change in zoning or a special permit may be needed if the proposed use is not allowed as-of-right. Zoning limitations may restrict the stacking of different uses, impacting mixed-use buildings and phased construction.

Building and Fire Codes

Proper circulation and access to windows may pose a challenge depending on floorplate size and shape. Minimum unit size requirements may also pose issues, especially for smaller buildings. Open space requirements may be difficult to achieve in dense neighborhoods.

Other Regulations

Other regulations that may be relevant include affordability requirements, compliance with utility and infrastructure needs, and meeting elevated environmental standards for residential uses.

Design Considerations

The physical characteristics of a commercial building can serve as either a cost or revenue driver, impacting the viability of an adaptive reuse project. **Navigating these design considerations effectively requires a comprehensive approach, considering both the physical attributes of the building and the regulatory framework governing its transformation, as previously described.** A compatible design not only ensures the financial success of the residential conversion but also contributes to the overall livability of the transformed space.

Floorplate Size and Depth

These dimensions significantly influence the configuration and design possibilities for apartment and condo units. Window-to-core distance and the existing number of elevators determines the compatibility of the building with residential floor plans.

Building Form

The shape of the building influences the ease of planning for spaces or units of other uses.

Building Envelope

Window-to-wall ratio and the ease of window replacement effects the adaptability of the building to another use, specifically for residential uses.

Building Class

The building's classification can provide an initial benchmark that identifies the extent of improvements needed to attain the desired level of quality for the converted use.

Adjacencies and Neighborhood Context

Adjacencies, including whether the building shares a wall with another structure or stands alone, can impact the feasibility of conversion. Neighborhood context includes infrastructure, schools and community facilities, open space, retail, and other amenities to support a residential community.

Gross Building Area and Efficiency

The building area available post-conversion—i.e., the efficiency—significantly impacts financial viability.

A compatible design not only **ensures the financial success of the residential conversion** but also contributes to the **overall livability of the transformed space.**

Local Benefit Opportunities

As home builders engage with city officials on the potential of implementing adaptive reuse policies, they should consider the following benefits that can be provided. Adaptive reuse can not only support economic revitalization but also sustainable and inclusive urban development. **The transformative impact of adaptive reuse extends well beyond individual buildings and lays the foundation for resilient, vibrant, and thriving communities.** By highlighting the following benefits in conversation with city officials, home builders can effectively advocate for policies that support adaptive reuse and its positive impact on cities.

- 1. Increase the Supply of Housing:** By converting underutilized commercial spaces into residential units, cities and towns can increase their housing supply without the need for more land and new construction. In addition, this new housing can be built on top of and take advantage of existing infrastructure, including water, power, sewer, and transit.
- 2. Strengthen and Revitalize Local Economies:** Replacing an underutilized building with one of greater value, occupancy, and activity can catalyze local economic activity through attracting new residents, workers, and visitors to the area.
- 3. Create Greater Density Outside the Urban Core:** Adaptive reuse can enable the creation of greater density outside of the urban core by providing an opportunity to develop higher value uses in a neighborhood where its current use does not provide developers with rate of return they seek.
- 4. Activate Business Districts through Diversifying Uses:** Diversifying the uses of office buildings can activate business districts, and transform them into dynamic hubs that extend beyond regular business hours and create a vibrant area of activity.
- 5. Expand Tax and Revenue Base:** Adaptive reuse can broaden the tax and revenue base for local jurisdictions. The conversion of underused properties can increase property values and generate more revenue from real estate taxes.

It is vital for home builders to align the benefits of adaptive reuse with the local priorities and goals of the community. This alignment is crucial for gaining public support, which is essential for creating well-informed and successful policies.

Tax, Financing, and Process Tools

Several tools have been successfully employed in various cities to facilitate conversions:

- **Tax Abatement:** Tax abatements are commonly utilized to enhance conversion feasibility. This often involves reducing the tax bill of the converted building, typically in exchange for the inclusion of affordable housing units.
- **Financing and Funding Tools:** Various financing and funding sources, including Tax Increment Financing (TIF), tax credits, and grant funding, offer upfront capital to developers to facilitate building conversions.
- **Process Tools:** Streamlining the permitting process, reducing fees, or updating building standards are examples of process tools that make it more convenient for developers to undertake conversions.
- **Regulatory Tools:** Changing permitted uses or building code requirements can enable adaptive reuse projects that otherwise would not be permitted.



*San Fernando Building, Los Angeles, CA
Source: Los Angeles Conservancy*

Figure 2: Examples of Tax, Funding, and Process Tools for Adaptive Reuse

Tool	Type of Tool	Location	Details	Impact
Tax Abatement	Tax	New York City, NY	1-year construction period exemption, 12-year tax abatement on the increase in real estate taxes resulting from the work, and a 14-year abatement of about 80% of the real estate taxes paid on the property before conversion.	Between 1996 and 2006, approximately 13 million square feet of office space underwent conversion, resulting in the creation of around 12,900 units, all of which are 100% rent stabilized.
Tax Abatement	Tax	Philadelphia, PA	100% abatement on the increase in real estate tax for 10 years.	Between 2000 and 2020, the conversion of 8.2 million square feet of office space across 40 buildings contributed to a 54% increase in the population of Center City, Philadelphia.
Tax Increment Financing	Financing and Funding	Dallas, TX	Tax increment from development within TIF District provides grants to conversions with 10% affordable units at 80% AMI.	Since 1999, a total of 3,300 units have been created, including 345 units designated as affordable.
Historic Preservation Tax Credit	Financing and Funding	Ohio	Provides a historic preservation tax credit of up to 25% of qualified rehabilitation expenses, up to \$5 million.	With 31 rounds of funding, tax credits have been approved for 673 projects, rehabilitating over 917 historic buildings in 91 Ohio communities. The program is expected to leverage more than \$9.84 billion in private development funding and federal tax credits through the rehabilitation projects.
Expedited Approval Process	Process	Los Angeles, CA	Expedited approval process and relaxed zoning and code requirements compared to new construction.	Between 1998 and 2008, a total of 7,300 new units were created.
Exemption from Development Fees	Process	Portland, OR	Exempts conversions from paying system development charges (SDCs) and lowers seismic improvement standards.	<i>See footnote.⁴</i>

⁴ Impact to be determined as the program was implemented in March 2023.

Case Study 1: Dallas

Dallas, TX | Downtown Connection Tax Increment Financing District

Context: In the 1950s and 1960s, downtown Dallas was a thriving business, retail, and entertainment hub. Highway construction and suburban sprawl led to suburban decentralization, causing a decline in downtown vibrancy. The office tower boom in the late 1970s and 1980s resulted in overbuilding and increased vacancy rates, which came to a head during the 1980s market crash.

The establishment of the City Center Tax Increment Financing (TIF) program in 1996 attracted out-of-market investors and sparked downtown investment. Initial TIF investments facilitated the conversion of several vacant office buildings into apartments. The introduction of the Downtown Connection TIF in 2005 marked a significant turning point, bringing increased investment to downtown. The Downtown Connection TIF played a pivotal role by providing enhanced funding for building conversions, leading to a surge in residential development and an increase in the population, activity, and vibrancy of downtown Dallas.

Implementation: TIF serves as a strategic tool for encouraging economic development and private investment in areas requiring revitalization. TIF involves designating a district to receive funds generated through the incremental real estate tax revenue from increased property values above the baseline total property value in the year the TIF was implemented. As redevelopment progresses, property values within the TIF district typically increase, contributing to the growth of property tax revenues. Bonds may be issued based on the anticipated future tax revenues generated.

Impact: As of 2022, the Downtown Connection TIF District has funded the construction of 1,893 units, with 342 units (18%) designated as affordable housing.

Lessons Learned:

- TIF serves not only as a funding source to support the conversion of a building but also as a tool that can catalyze the revitalization of the entire district, transforming an underutilized business district into a dynamic mixed-use district.
- The adaptability of the TIF tool lies in its ability to enable the issuance of bonds based on the anticipated future tax revenues derived from increased property values.
- Adaptive reuse projects that are a part of downtown revitalization initiatives should be viewed as integral to the broader community, emphasizing the importance of involvement and collaboration.

PROJECT EXAMPLE

Dallas, TX | Downtown Connection Tax Increment Financing District Mercantile Place, Dallas, TX



Mercantile Place, located in downtown Dallas, is a rental apartment community comprising four distinct buildings and totaling 704 apartments. Two of these buildings—one of which was an historic structure—underwent conversion from office spaces. The third building involved the renovation of a historic structure that was previously converted from office space, while the fourth is a newly constructed 15-story apartment building. Despite being situated on three separate blocks, these buildings share amenities and parking facilities.

The city of Dallas played a crucial role by issuing TIF bonds, providing upfront funding, and ensuring bond guarantees for potential deficits. The project's success was realized through a strategic public-private financing partnership, leveraging TIF, city, and federal funds.

Case Study 2: Ohio

Ohio | Ohio Historic Preservation Tax Credit (OHPTC)

Context: The Ohio Historic Preservation Tax Credit (OHPTC) is a state-level program designed to encourage the rehabilitation and preservation of historic buildings across Ohio. The program was established as part of the state's commitment to safeguarding its cultural heritage and promoting economic development through the revitalization of historic structures. The OHPTC was first introduced in 2005 to provide a financial incentive for property owners and developers to invest in the rehabilitation of historic buildings to foster the preservation of Ohio's architectural and cultural history.

Implementation: The OHPTC provides tax credit of up to 25% of qualified rehabilitation expenses, capped at \$5 million. To qualify for the OHPTC, a property must be listed on the National Register of Historic Places or contribute to a listed historic district. The program incentivizes property owners to engage in qualifying rehabilitation projects on historic buildings, offering tax credits calculated as a percentage of eligible expenses incurred during the rehabilitation process. These expenses cover activities like restoring historic features, improving façades, repairing structural components, and preserving significant interior elements.

Impact: 673 projects, comprising 917 buildings in 91 communities, have been approved for tax credits across 31 rounds of funding.

Lessons Learned:

- Converting a historically designated building can secure extra funding, enhancing financial viability.
- Local zoning may have a streamlined process for historic building conversion that eases regulatory procedures.

PROJECT EXAMPLES

Ohio | Ohio Historic Preservation Tax Credit (OHPTC)

145 South Front St., Columbus, OH



Total Project Cost: \$73,246,230

Total Tax Credit: \$7,252,101

Originally constructed as a state office building, 145 South Front Street in downtown Columbus has sat vacant since 2006, when the Ohio Department of Jobs and Family Services moved out of the property. In 2021, the state of Ohio sold the site to Connect Realty for \$3 million.

The 207,000-square-foot building will be converted to a mixed-use property that will include two levels of indoor parking, a first-floor cafe with a terrace, office space on the first and second floors, and 100 market-rate apartment units on the top four floors.

The project has also received \$12.3 million in Federal Historic Tax Credits.

101, 105, & 107 E. Main St | 108 & 110 N. Washington St., Van Wert, OH



Total Project Cost: \$12,213,000

Total Tax Credit: \$1,200,000

The five properties are part of a larger portfolio of 50 properties owned by the Van Wert County Foundation (VWCF). The foundation created a for-profit arm, Van Wert Forward (VWF), that aims to preserve and restore the historic assets of Van Wert through spurring downtown revitalization and developing mixed-use buildings.

The project will rehabilitate nearly 30,000 square feet of commercial space and construct 13 apartment units.

Besides OHPTC, additional funding sources for the project include the VWCF and local investor capital, federal historic tax credits, and federal and state new market tax credits, as well as grants.

Additionally, the city of Van Wert has granted a tax exemption for improvements made to this phase of the VWF project that covers 90% of the assessed value for a period of 10 years.

PROJECT EXAMPLES

Ohio | Ohio Historic Preservation Tax Credit (OHPTC)

3575 W. 130th St., Cleveland, OH



Total Project Cost: \$24,564,000

Total Tax Credit: \$2,000,000

The Nathaniel Hawthorne Elementary School, built in 1917, served as a public school until its discontinuation in 2013. In 2023, the property was purchased by Sustainable Communities Associates (SCA) for \$45,000 as part of a city and school district initiative to transfer 12 empty schools to private developers.

While the building will undergo renovations, the original historic features, including flooring, floor plan, gym (pictured to the right), auditorium, blackboards, cupboards, and cloakrooms, will remain.

The redevelopment plan involves the construction of 36 apartments within the historic school building, complemented by an additional 57 units to be built elsewhere on the property.

The capital stack included 10 sources of financing for the project, including a \$5.5 million loan from the Cleveland Development Advisors-Community Reinvestment Fund.



As part of the same initiative, Beacon Communities plans to turn **Glenville's Empire School** (pictured below) into **affordable senior apartments**.

