



April 22, 2024

<https://nypost.com/2024/04/21/real-estate/why-nyc-office-conversion-projects-are-a-massive-boondoggle/>

Developers want to convert unused offices into housing — here's what's stopping them

By Lois Weiss

It's a problem with an obvious solution. Since there are not enough cheap apartments at the same time many city offices remain empty, it would make sense to convert those fiscally distressed office towers into housing. But it's not so simple.

Conversion projects are hugely complex, expensive, time-consuming and are stymied by both city and state zoning and regulations. And without gobs of government assistance, the numbers don't equate to cheap rentals.

Just look at Slate's now underway conversion of the Hilton New York JFK Airport. Although the area was not conducive to pricey condos or market rents, thanks to a new program with financial and tax breaks, it will have 100% affordable housing with support services, said Ariel Aufgang, AIA, principal of Aufgang Architects, who designed the conversion. Without that government assistance, the Hilton would have sat empty.

At December's announcement, Mayor Eric Adams said: "Advancing this plan to turn a vacant hotel into more than 300 new, affordable homes is a sign that we can think outside of the box and take advantage of the opportunities in front of us."

But thinking is just not enough. Gov. Kathy Hochul has proposed both tax incentives and larger buildings in some nabes. Similarly, Mayor Adams wants to allow offices built before 1990 to convert and permit interspersed living and working. But Albany and City Council legislators must agree and have the changes blessed through the city's Uniform Land Use Review Process (ULURP) that could take nearly a year.

The Real Estate Board of New York must also settle with unions on higher construction salaries.

"The city could change some requirements instantly, but they will say it will take six to nine months," said Jay Neveloff, head of real estate at the law firm Kramer Levin.

Even with streamlined regulations, not all structures are suitable while constructing around an office tenant is "a recipe for disaster," said developer Hal Fetner. "You don't want to do that."

Other issues include snaking water pipes and waste lines from those clustered at the core of office buildings. "If your building is wide open and empty, there is a clear path," explained

Gerard Nocera of Revolution Real Estate. “But if you have tenants with long-term leases, to rework your core with existing tenants is an impossibility.”

Lenders must also approve the change of use as it is contrary to mortgage documents.

For now, most conversions are expected to take place in slender and vacant old buildings and those with tenants just on the lower floors.

Those most well-suited are prewar, Class C properties, explained Woody Heller of Branton Realty, as they have narrow floors or bases with towers stacked like wedding cakes with smaller floors on top.

Meanwhile, full- and half-block buildings, even topped by a tower — such as 750 Third Ave. — become complex architectural puzzles. “We’re teed up to convert the building to residential but need tax support,” said owner SL Green’s Steve Durels. “We have to make structural changes and have a design in the can. It would add hundreds of apartments.”

The city’s most anticipated conversion is of the famed Flatiron Building at 175 Fifth. After its small, triangular floors failed to attract office tenants, it’s now slated for a luxury residential conversion led by Daniel Brodsky, Jeff Gural and the Sorgente Group.

The largest underway is by Gural’s company, GFP Real Estate, along with conversion powerhouse Nathan Berman’s MetroLoft Management, who, with architects CetraRuddy, are transforming the 1.1 million-square-foot 25 Water St. with new windows, amenities, atriums and glass floors on top.

GFP is also buying 222 Broadway for \$150 million for yet another office-to-resi transformation while MetroLoft is planning a residential redo at Pfizer’s former headquarters at 219 E. 42nd St. at Second Avenue.

Downtown, architect Robert Fuller of Gensler, who worked on Vanbarton Group’s 180 and 160 Water St., said, “The biggest challenge was the deep floorplates.” At 160 Water, now known as Peal House, long-empty shafts were cut vertically through the building and five new floors were added on top.

Vanbarton bought that building in 2014 for \$160 million — roughly \$333 per foot — and could afford the costs while targeting just under market rate rents.

“We have a spectacular basis and have been able to do this conversion incredibly efficiently and therefore we are passing along the benefits to the consumers and the demand [for apartments] reflects that,” said Richard Coles of Vanbarton.

Not every developer is so lucky, as some office sellers want what converters say are “unrealistic” prices.

Other buildings expected to take the conversion plunge include 185 Varick St. and 95 Madison Ave.

At 250 Park Ave., on the market through Newmark, lease clauses allow tenants to be booted. Nevertheless, it may simply be torn down and redeveloped to match its neighboring and gigantic new JPMorgan Chase office building.

“It is clearly simpler and faster to rip down and build what you want,” Neveloff said.