

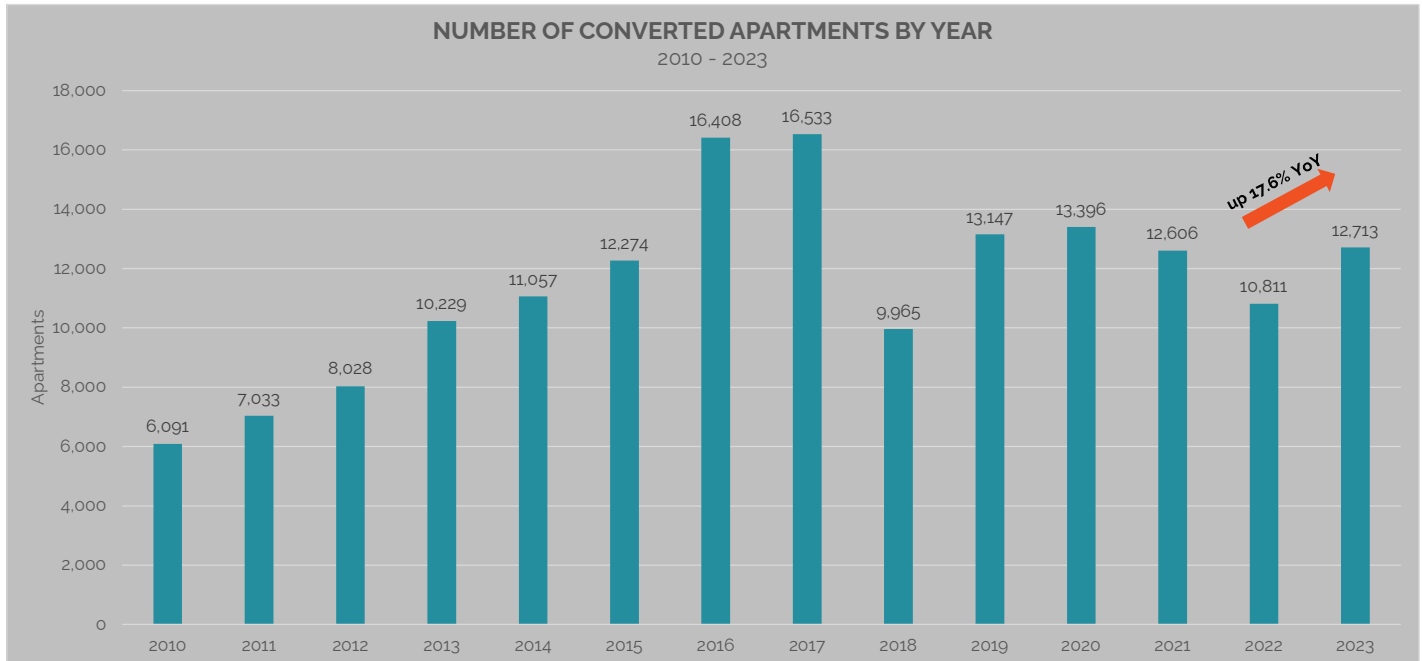


ADAPTIVE REUSE HOTEL CONVERSIONS OUTPACED OFFICE CONVERSIONS

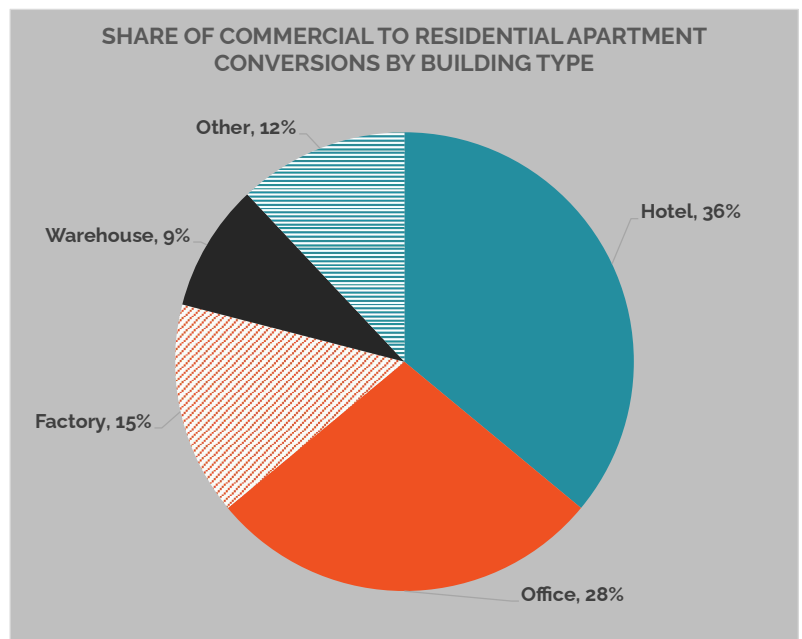
From the TKG Archives: Revisiting Adaptive Reuse Developments

April 2025

While still below the 15-year peak in 2017, conversions are on the rise and closer in line with pre-pandemic levels than in the previous year. However, despite persistently high office vacancy rates and stagnant office building values, hotel-to-apartment conversions are now more common than office-to-apartment conversions.



There are various types of commercial buildings that are adapted into housing. Historically office to housing conversions have been the most prominent, but in 2023 hotel conversions accounted for the largest share at 36%. The surge in the share of converted hotel units is in part due to a single project in Manhattan, FOUND Study Turtle Bay, in which the old New York Marriot East Side was renovated into a 655-unit student apartment project. Meanwhile, office conversions accounted for 28%, factories 15%, and warehouses 9%. Other building types, which can include schools, houses of worship, medical buildings, and retail spaces, accounted for a combined 12% of conversions in 2023.



Source: RentCafe, Yardi Matrix, Moody's Analytics

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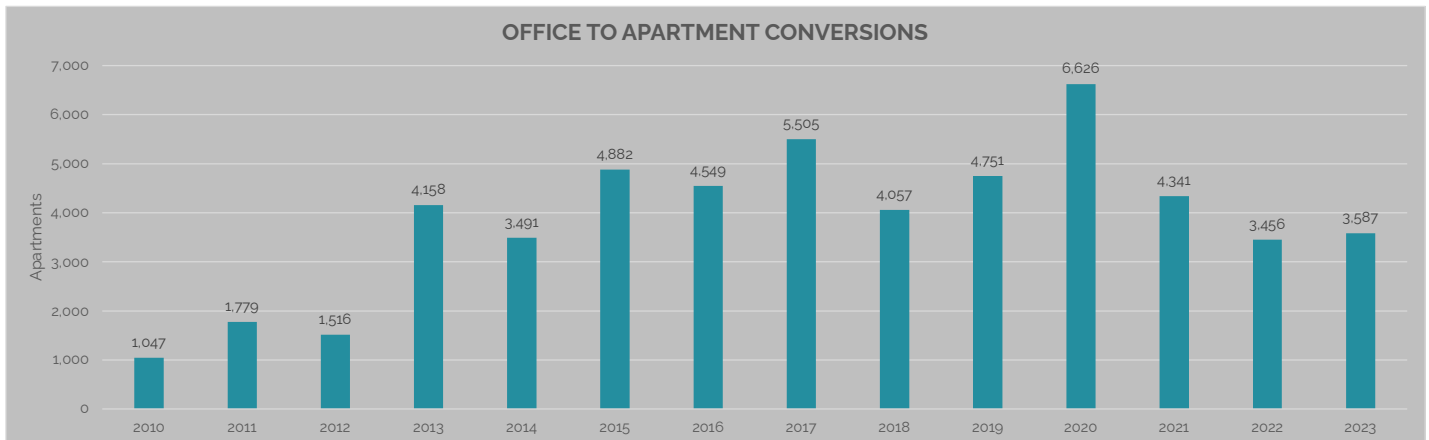
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The suitability and ease of converting various types of commercial buildings to housing vary according to a variety of factors including the existing infrastructure, layout, and location. The table below details the benefits and challenges of the top building types used in adaptive reuse projects.

Benefits and Challenges of Each Type of Adaptive Reuse Project

Type	Benefits	Challenges
Hotel	Existing infrastructure suited for living, such as private bathrooms, common areas, and individual rooms. Hotels are often located in desirable areas and designed for occupancy, making conversion relatively straightforward.	Room sizes may need to be adjusted, and zoning laws may require changes.
Office	Large, open floor plates that can be divided into residential units, high ceilings, and urban locations with access to amenities and transportation.	Requires significant structural changes for plumbing; change of use may trigger a required seismic retrofit; floor plan design challenges, especially related to natural light
Warehouse	Large, open spaces allow for flexible design and modern, loft-style apartments. High ceilings and industrial aesthetics can be appealing. Often located in urban areas.	Significant renovations needed for insulation, plumbing, and heating/cooling systems. May require structural reinforcements and additional amenities.
Factory	Similar to warehouses, factories offer large, open spaces and high ceilings, allowing for creative and flexible residential designs.	Often located in industrial zones, which may not be desirable for residential living. Requires extensive renovations for basic amenities, zoning changes, and potential environmental remediation.

The continued move toward remote and hybrid work models coupled with the fact that as office leases expire many tenants move to smaller spaces in newer, often more amenitized buildings, leaves an opportunity for developers to capitalize on the shifting commercial landscape and repurpose older commercial spaces. In Q1 2024, the national office vacancy rate hit a record high of 19.8%; some of the highest vacancies are in Detroit, San Francisco, Houston, Denver, and Seattle. The table below details the number of offices converted to apartments each year since 2010. Office conversions peaked in 2020 during the height of the pandemic and currently sit 3,587 apartments.



Source: RentCafe, Yardi Matrix, Moody's Analytics

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Meanwhile, the table below details the top cities with the most converted apartments from offices in 2023.

Top Cities with Most Converted Apartments from Offices in 2023

City	Converted Apartments
Peachtree Corners, GA	295
Milwaukee, WI	216
Indianapolis, IN	216
Alexandria, VA	212
Cleveland, OH	202
Rochester, NY	189
Birmingham, AL	177
Chicago, IL	176
Lansing, MI	172
Richmond, VA	168

Looking ahead, there are 151,000 apartments currently in the adaptive reuse pipeline. Offices comprise the largest share of the pipeline, accounting for more than 58,000 future apartments (38%). The next two largest categories following office conversions are repurposed hotels (22.5%) and factory conversions (11.8%). The table below details the top 20 cities for future apartment conversions with Los Angeles, Manhattan, and Chicago leading the way.

Top 20 Cities for Future Apartment Conversions

City	Future Apartments
1. Los Angeles, CA	5,881
2. Manhattan, NY	4,363
3. Chicago, IL	4,149
4. Philadelphia, PA	4,148
5. Washington, D.C.	3,342
6. Dallas, TX	2,939
7. Cleveland, OH	2,799
8. Baltimore, MD	2,732
9. Detroit, MI	2,377
10. Kansas City, MO	2,343

City	Future Apartments
11. Cincinnati, OH	2,302
12. Buffalo, NY	2,129
13. Atlanta, GA	2,049
14. Kissimmee, FL	1,888
15. Houston, TX	1,845
16. Denver, CO	1,837
17. Jacksonville, FL	1,799
18. Milwaukee, WI	1,798
19. Birmingham, AL	1,698
20. Charlotte, NC	1,593

Source: RentCafe, Yardi Matrix, Moody's Analytics

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