

Will San Diego see more office buildings converted to residential?

By Phillip Molnar

The new owner of 180 Broadway in downtown San Diego announced a \$140 million plan last week to convert the office building into a residential and hotel property.

Many analysts noted the difficult task of converting buildings into residential following the pandemic, and it was not a trend that took off. It seemed like an obvious solution to housing woes but didn't work out financially for most developers.

However, it doesn't seem like there is a change coming to work-from-home trends and downtown vacancy rates are some of the highest they have ever been. The office tower, 180 Broadway, only had a handful of tenants despite millions in renovations.

Some trends, such as companies offloading office space as they reconsider office needs, don't seem to be going away. Illumnia paid roughly \$54 million last year to get out of its UTC campus.

Q: Will San Diego see more office buildings converted to residential?

Austin Neudecker, Weave Growth

YES: San Diego needs residential units. Developers are building increasingly large housing projects yet still lag demand. Meanwhile, office vacancies are near record highs. Office conversions can be challenging but the city would benefit from more permanent residents in urban centers like downtown. The alternative of continued suburban expansion causes substantially more environmental impact. Mixed or flexible-use buildings could be the future.

Chris Van Gorder, Scripps Health

YES: As we all know, San Diego needs more housing and rather than leaving empty office buildings empty, some could be converted to housing if supported by the city. The ideal scenario for a downtown is to have housing and work close by. What is not healthy are buildings left empty and not maintained. Perhaps some could be used for temporary homeless housing while longer-term solutions are being considered.

Jamie Moraga, Franklin Revere

YES: While we may see a few more convert, we are unlikely to see a significant number. Developers and investors will need to see reduced costs, demonstrated success, and a return on investment. Repurposed spaces could be even more expensive than new construction because utilities, telecom and infrastructure differ between an office building and a building with multi-family residential units. While it could be a great way to repurpose vacant office buildings and retail space, private industry will decide what conversion projects are feasible and profitable.

Norm Miller, University of San Diego

YES: 180 Broadway has large windows that allow for conversion to residential as natural light is the essential amenity. Many office buildings have large floor plans with insufficient natural light to feasibly convert. Plumbing is another challenge as you move from single central bathrooms to distributed plumbing, especially with insufficient floor-to-ceiling depth for modern residential. On average, 10 to 15 percent of high-rise office property might be feasibly converted, and the rest will need to be torn down or retrofitted at great expense.

David Ely, San Diego State University

YES: Additional office space is likely to be converted to residential use. Changing patterns of work means less office space is needed and a critical housing shortage still exists. So developers will explore repurposing unneeded office space for housing. Conversions can be too expensive to make sense. Housing occupants want windows and modern features, which may be infeasible to incorporate into plans or prohibitively expensive. Conversions will happen, but they will be limited.

Ray Major, SANDAG

YES: In the coming years, downtown San Diego could see vacancy rates exceed 40 percent as new construction continues to pop up and as businesses downsize as their leases expire. Less-than-premium buildings will be saddled with increasing vacancy rates, leaving property owners to reevaluate how those buildings are used. Even with all the difficulties associated with conversions of office buildings to residential units, the high demand for housing coupled with the low demand for office space in the region will entice owners to reinvent their properties.

Caroline Freund, UC San Diego School of Global Policy and Strategy

YES: There is excess demand for housing and an excess supply of office space, so turning offices into apartments is a no-brainer. The main challenge is that it is extremely costly to change layouts to include things like individual bathrooms and kitchens and comply with the multitude of housing regulations. But it is even more costly to hold idle property, so additional conversions are inevitable.

Haney Hong, San Diego County Taxpayers Assoc.

YES: A large chunk of commercial real estate is sitting vacant, and these vacancies are becoming so rampant that commercial real estate firms are defaulting on their mortgages since they don't have enough rent revenue. Residential housing, on the other hand, is in short supply, and home builders need the places to develop. Seems commercial real estate firms might want to shed their ownership to home builders. Matches made in heaven.

Kelly Cunningham, San Diego Institute for Economic Research

YES: Difficult to see a downside for the logical and readily apparent solution of San Diego's oversupply of office space and undersupply of housing is converting the buildings to residential uses. So long as buildings are converted into intrinsically appealing properties, infrastructure and transportation access will largely be established as well. The bonus of already being located in

office areas is some residents will be able to access work without adding to congestion traveling for work.

Lynn Reaser, economist

NO: Demand for housing remains strong, but conversion of office to residential is unlikely to become widespread. The structural modifications may be too large to be financially viable. These include adding windows, creating separate entrances, and reconfiguring internal spaces. Plumbing, heating, and cooling systems need to be modified. Asbestos makes it impossible for older buildings, as the 101 Ash Street property demonstrated.

Phil Blair, Manpower

YES: Hopefully. Converting empty office space into residential will be a win-win. Fewer empty office towers (with no tenants in sight) and a big demand for residential. The challenges are many. Including low ceilings, no balconies, room for outdoor amenities like pools, and especially layouts that all rooms to have window/view access. Residents will have to adjust their expectations for these amenities and the price/rent will have to be enticing.

Gary London, London Moeder Advisors

YES: We have entered a new era of permanently increased vacancies in commercial assets. Resulting lower valuations will trigger economically sensible solutions which will involve conversions to new uses (although some will stay the course, while others will be demolished). Residential conversions will dominate, but hotel and retail are also candidates. I expect that there will be dynamic imagineering of how to refill our existing built environment. Many buildings can be feasibly converted, and going forward they will be.

Alan Gin, University of San Diego

YES: The workplace has changed with remote work, and it is unlikely that things will go back to where they were before the pandemic. That means less need for office space in the future, which leaves owners of office buildings with limited choices. Brick-and-mortar retailing will remain under pressure, so residential is going to be the only area of real estate where there will be significant demand in the future. Conversions have been difficult in the past, but may improve in the future with experience.

Bob Rauch, R.A. Rauch & Associates

YES: Remote working has reduced the demand for office space. Today's new construction will likely be built to accommodate hybrid workforces. The sector will likely consider adaptive reuse if they can't wait for an improved office market, likely three years away. Converting office buildings into hotel or residential ones comes with challenges including floor plates, building code constraints, the cost of plumbing, and overall redesign, however, it might be better to convert than to demolish.