

Assessment Essentials

Office-to-Residential Conversion

Cushman & Wakefield's analysis of the U.S. office market estimates as much as a quarter of current office inventory is functionally obsolete. This means that over the next decade, nearly half of all inventory will require some level of repositioning or repurposing, including upgrades, to stay competitive. In this context, it's not surprising that interest in conversions of some of this stock to alternative uses is high.

In general, feasibility for office conversions varies widely depending on location, market demand and other factors such as the physical makeup of the building itself, as well as costs, incentives, and anticipated return on investment. Industry estimates vary on how much obsolete or near-obsolete inventory has the potential for conversion. Our experience and research suggest the opportunity is most likely 10%-15%.

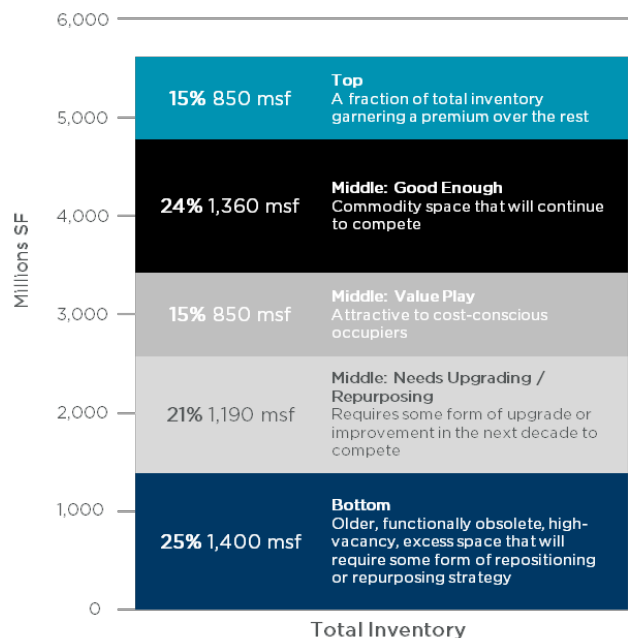
In this brief guide, we outline some of the essential conversion considerations and steps.

1. Market & Demand Analysis

Estimating demand for an alternative product type down to the submarket and address level is where any initial feasibility work begins.

This kind of advisory service typically requires specialists in real estate market leasing, capital markets and market research—professionals who can conduct a focused analysis on large sets of real estate market data (including some proprietary data), and who can also provide real-time market insights as well as insights to market forecasts.

“Over the next decade, 46% of U.S. Office inventory will require upgrades, at a minimum, if not some form of repositioning or repurposing strategy.”



Source: Cushman & Wakefield Research, [Obsolescence Equals Opportunity](#)

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2. Initial Conversion Feasibility Study

Beyond the market assessment, a host of physical and neighborhood characteristics should be scored.

- Important physical attributes for this initial scoring include mechanical, electrical, and plumbing (MEP) building systems, the building's size and form (e.g., the depth of floor plates and location of building core), and the building envelope.
- Key neighborhood characteristics include proximity to amenities such as dining and entertainment, retail (including health clubs), public transportation, parks and greenspace, among others. The area walkability score is another important factor to assess.

This initial study can be completed at a modest cost in as little as two weeks. The score provides investors and developers with general guidance on the complexity of a potential conversion.

3. Detailed Due Diligence

With an initial favorable feasibility score, detailed due diligence is the next step. This scope of work is typically performed by consultants such as project management professionals and design teams who provide the following:



Review of existing schematics—e.g., structural, MEP, and conveyance systems



Review of potential unit mix and unit layouts (in the case of multifamily)



I.d. of zoning restrictions and required modifications



Review of the building façade



I.d. of potential government incentives, grants, and tax abatements



Review of parking

Aggregating this information, the consulting team can then develop a preliminary cost estimate in about 6-10 weeks, including financial modeling and a proforma. The cost basis will vary widely by market and by asset. For example, markets prone to seismic activity like Southern California have unique retrofit cost implications that other markets typically don't.

With the completed due diligence, a potential buyer, investor or developer should be able to make an informed "Go or No-Go" decision on a potential conversion.

Have a Conversion Opportunity? [Learn more](#) about how we can help you assess the potential through preliminary scoring and due diligence services.