From boardrooms to bedrooms

Joe Nathanson//March 29, 2024//

Across the country, downtown office markets are struggling. The rapid adoption of remote work in the early months of 2020 as the impacts of the COVID-19 pandemic took hold has had a lingering effect.

Four years later, many still work remotely while others have hybrid office routines, requiring them to report to the office only on certain days. Either arrangement reduces the demand for space, whether occupying a desk or gathering in a conference room. The obvious result is an increase in office vacancy rates in many major metropolitan markets. According to Moody Analytics, the national office vacancy rate reached a record high of 19.6 percent, a rate not attained since their recordkeeping began in 1979. A separate report by the national commercial real estate firm Cushman & Wakefield reported on Baltimore City’s overall office vacancy rate of 22.4 percent.

While these high vacancy rates are extremely problematic for the owners and developers of commercial office space as well as their lenders, there are other ripple effects that negatively impact others in the community.

Without office workers coming to their downtown locations, the surrounding businesses — the restaurants and coffee shops serving patrons at lunchtime, the pubs to visit afterhours, even the hair salons, drycleaners and other personal services — feel the absence of these workers on a regular basis, perhaps even more intensely.

Furthermore, loss of demand for downtown office space will lead to reductions in real property assessments and declining municipal revenue from this important source.

For all of these reasons, those with investments in commercial property as well as public officials have a keen interest in turning things around. One strategy that many localities are looking into involves the conversion of vacant commercial property into residential uses.

As it turns out, Baltimore is already among the leaders in conversions of office space to living quarters. According to a mid-2023 report issued by RentCafe, which tracks trends in the rental housing market, a total of 120,000 apartment units nationally were in the pipeline as the result of adaptive reuse of other types of property. While office space is the dominant type of use poised for conversion, other uses including hotels, factory buildings, and health care facilities are also being converted into dwelling units.

This same report listed Baltimore as one of the leading locations for residential conversions in 2022. Using figures for only office-to-residential reuse, Los Angeles led with a total of 692 converted apartments completed that year. Alexandria, Virginia, with 435 units was second, while Baltimore with 395 units ranked third. Cleveland with 354 units and Lakewood, CO in the Denver market with 218 units rounded out the top five localities to have converted residential units added to their housing stock.

If you were to count conversions from all sources, Los Angeles led the way with 1,292 units and Kissimmee, Florida, in the Orlando market was second with 648 units, presumably including many former hotel properties.

A notable Baltimore example of office space conversion to residential use can be found at 22 Light St. in the heart of the city's traditional downtown. I remember going to 22 Light St. in my early days in Baltimore to attend meetings at the United Way, which once housed its offices in the building. If you were to go past the building today, you would note its sturdy construction, having been built as part of the recovery from the Great Baltimore Fire of 1904.

Today the building is residential, with a total of 40 apartments, 36 affordable housing units and four market rate units. The ground floor, which back in the day featured the Baltimore Oriole Café, now has a 7-11 store. This new downtown housing is the result of a $20-million development, including federal Low Income Housing Tax Credit financing, by Osprey Property Company, a local developer specializing in provision of affordable housing.

The repurposing of 22 Light St. also exemplifies the challenges involved in such conversions. According to the Evidence Matters report issued by U.S. Department of Housing and Urban Development in Fall 2023, "Inside the building the developer demolished the original bathrooms at the center of each floor and removed the old office walls to accommodate modern apartments. … the developer used an old elevator shaft in the middle of the building to run ductwork, wires, and cables to each floor." Even more significant structural changes were made in order to allow natural light into each apartment.

The successful completion of 22 Light St. fits in with the strategic plan of the Downtown Partnership of Baltimore, a guiding principle of which is that "a diverse economy and population are fundamental to a thriving city and that finding new uses for underused buildings is an important component of the area's revitalization."

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