

Dockwell and Kamelhar in CRE Insight Journal: Office-to-Residential Conversions in New York City

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Haynes Boone Partner [Brett Dockwell](#) and Associate [Joseph Kamelhar](#) authored an article for *CRE Insight Journal* describing some of the obstacles building owners face when considering whether conversion to residential use makes sense.

Read an excerpt below.

5 Times Square, a prototypical New York City high-rise office building, is undergoing a transformation. Constructed in 2002 to serve as Ernst & Young's headquarters, the 38-story tower has suffered from a high vacancy rate since EY's departure in 2022. Rather than attempt to re-fill the building with new office tenants, 5 Times Square is taking advantage of new legislation in New York to convert the office portion of the building into 1,250 residential units.

Until 2024, a transformation on this scale would not have been possible. In 1961, New York State capped the size of residential buildings to 12 times the lot size, or 12 FAR (floor area ratio). The restriction was intended to prevent developers from constructing "vertical slums"—overcrowded, poorly ventilated, and inadequately lit environments for residential tenants. Although intended to protect residential tenants, the cap had an unintended negative impact on the residential housing market by rendering office buildings built after 1961 effectively ineligible for conversion to residential if they did not meet the 12 FAR cap. That would have prevented the conversion of the office portion of 5 Times Square, which is 1,060,000 gross square feet, or more than 39 FAR.

The change in the law was occasioned largely by two factors. First, during and after the COVID-19 pandemic, the demand for office space in New York City plummeted, leading many building owners to consider other uses simply to stay afloat. Second, New York City's long-standing shortage of affordable housing has intensified in recent years, leading to demands for reform.

According to a May 2025 report by CBRE, 10.3 million square feet of conversions are currently underway or planned in New York City. Other large conversion projects in New York City include the 22-story Flatiron Building (60 planned residential units), the former Pfizer headquarters in Midtown East (1,600 planned residential units), and 1011 First Avenue (over 500 planned residential units).

However, office-to-residential conversions are unlikely to have a material impact on New York City's 730 million-square-foot office market, 82 percent of which is in Manhattan. Office-to-residential conversions face significant challenges, including –

- **Challenging Floor Plan Layouts.** Deep floor plates are standard in New York City office buildings, often spanning full city blocks and avenues. This layout optimizes usable office space, but it is not residential friendly. Ensuring sufficient natural light, air, and window dimensions, desirable for residential units, can pose a challenge for conversion.
- **Compliance with Residential Building Codes.** When an office building is converted to residential use, different laws govern. For example, residential buildings must adhere to more

stringent fire safety codes, which includes creating proper fire partitions, installing fire-rated doors, and ensuring multiple accessible emergency exits for each unit. Office buildings, originally designed with commercial egress in mind, often require extensive modifications to satisfy residential criteria.

- **Mechanical, Electrical, and Plumbing Systems Hurdles.** The mechanical, electrical, and plumbing systems tailored to an office environment often need complete overhaul to meet modern residential standards.
- **Pre-Existing Leases.** Conversion generally works best if all commercial office tenants are out of the building. Long-term leases can delay conversion timelines or complicate redevelopment strategies. In many cases, a landlord will have to spend significant money paying tenants to leave to speed up the conversion process or convert only portions of the building.
- **Rising Construction Costs.** Over the past several years, costs for material and labor have significantly increased. Even projects with secured funding may find that rising costs erode anticipated profit margins, forcing developers to either increase their capital reserves or scale back the scope of the project.
- **Loss of square footage.** Office rents are typically calculated based on a “loss factor,” which results in rentable office square footage exceeding usable square footage, often by a significant percentage. Residential rents and sale prices, by contrast, do not employ a loss factor. As a result, converting office space to residential use reduces the amount of income-producing square footage, which is compounded by the fact that office-to-residential conversion projects are generally required to allocate a percentage (sometimes 20%) of units for affordable housing.

To read the full article from *CRE Insight Journal*, click [here](#).