

FLATIRON NOMAD

Flatiron/NoMad Office-to-Residential Conversion Study

Final Report

March 2025

HR&A
Gensler



01

Executive Summary

Executive Summary

This study answers the following questions about office-to-residential conversions in the Flatiron/NoMad Business Improvement District:



What are the economic and physical drivers of feasibility?



Which + how many buildings in the district are likely best suited to conversions?



What are implications of public policies and initiatives for conversions?



What are the implications for the district?

Flatiron/NoMad BID

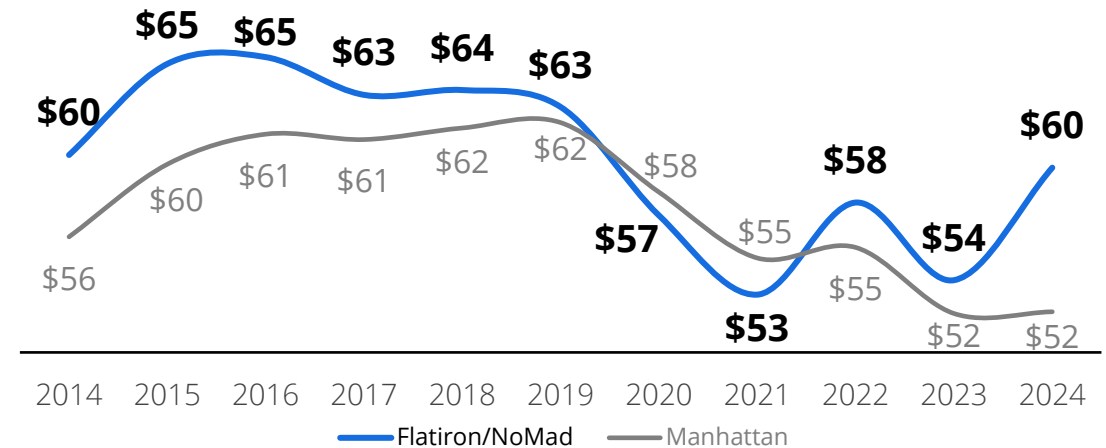


Executive Summary

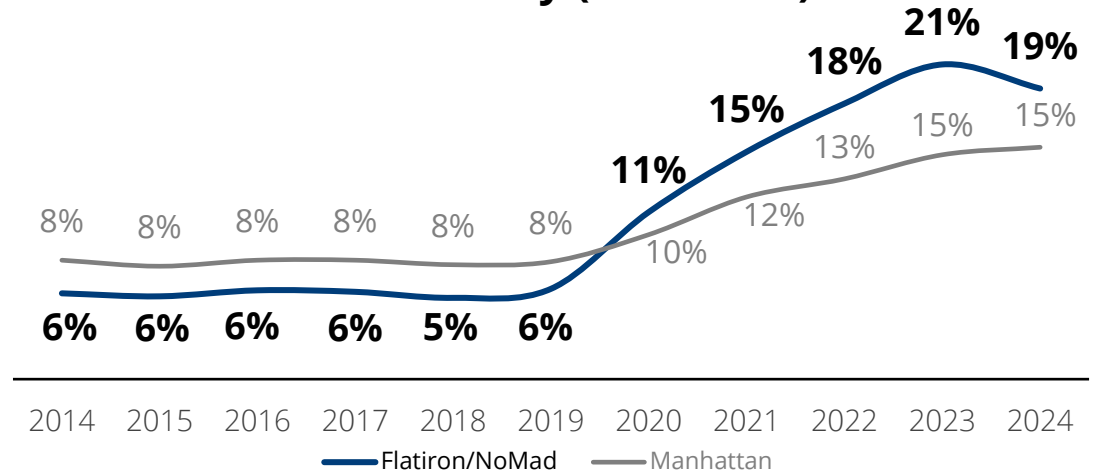
As a desirable neighborhood with a strong brand, Flatiron/NoMad's office market does not appear to be deeply distressed.

- Flatiron/NoMad **office rents** are only 5% lower rent in 2024 than in 2019, a stronger rebound than the 16% decrease across Manhattan.
- Office vacancy** in the BID (19%) exceeds Manhattan's (15%) – but vacancy may in part be driven by recent renovations still leasing up.
- The BID experienced negative **absorption** of 5 million square feet of office space, or -14%, from 2020-2023, compared to -4% borough-wide. **Absorption in the district was positive in 2024.**

Office Gross Rent (2014-2024)



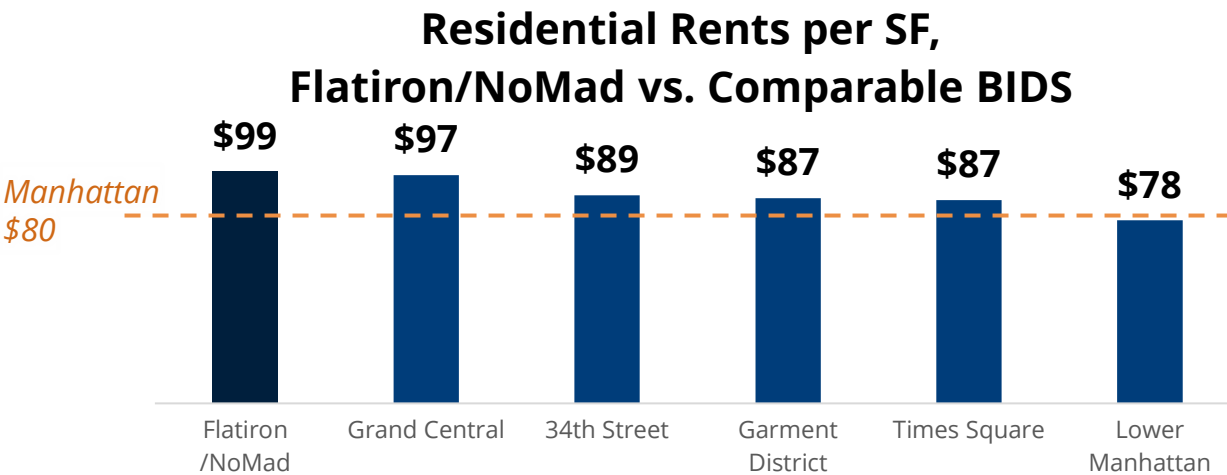
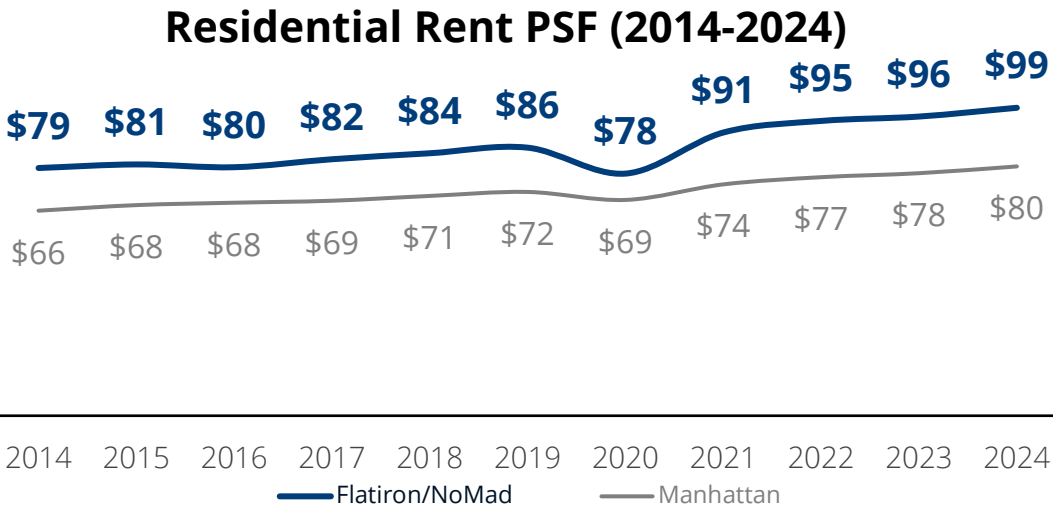
Office Vacancy (2014-2024)



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Flatiron/NoMad's residential market is one of the strongest in Manhattan.

- Flatiron/NoMad has higher rents than comparable BIDs, and residential **rental vacancy** is just 3%.



Source: CoStar. In recent years, only condos, not rentals, have been built in the district. However, data on condo sales prices were not available.

*Rents are per rentable (e.g. net) square foot.
Residential rents include non-residential income (e.g. laundry)

Executive Summary

Average residential rents in Flatiron/NoMad are substantially higher than those for office – driving feasibility of many past and ongoing conversions, often without subsidy.

Annual Rents* by Class, Flatiron/NoMad



**Source: CoStar. Rents are per rentable (e.g. net) square foot.
Residential rents include non-residential income (e.g. laundry)*

Current Conversions



50 West 23rd St In progress



Flatiron Building In progress

Past Conversions



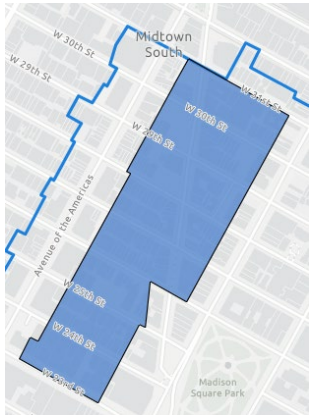
11 West 20th St
1995



1107 Broadway
2013

Executive Summary

The MS/MX rezoning will change the feasibility of conversions in a portion of the district, while other incentives and regulations will have a less significant impact.



MS/MX Rezoning Area

Proposed zoning will now allow residential uses in an area with 84 office buildings – enabling conversions and also incentivizing new construction through significant new density.



467-m conversion incentive

This property tax abatement is **generally not financially accretive** in the district given the difference between market-rate and affordable rents.



Local Law 97

Owners may **pay fines for non-compliance rather than make expensive upgrades**. However, if a building is already undergoing a conversion, the incremental cost of compliance is much smaller.



Historic Districts

The BID's 2 historic districts only govern features that can be seen from the street and are **not a meaningful obstacle to conversion**.

Executive Summary




To analyze physical conversion feasibility, Gensler categorized buildings in the BID as “mid-block,” “corner,” or “high-rise”* and analyzed 9 representative properties.



*One high-rise property, 41 Madison, was analyzed per the BID's request. However, additional high-rise buildings would need to be studied to be considered a typology from which broader physical conversions could be extrapolated. There are only 3 other high-rises in the district, and they are all unlikely to convert given recent renovations.

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Gensler's analysis found efficiency ratios – an important driver of financial feasibility – ranging from 75-80%. This suggests the majority of the buildings in the BID can be converted from a design perspective, but with some level of compromise.

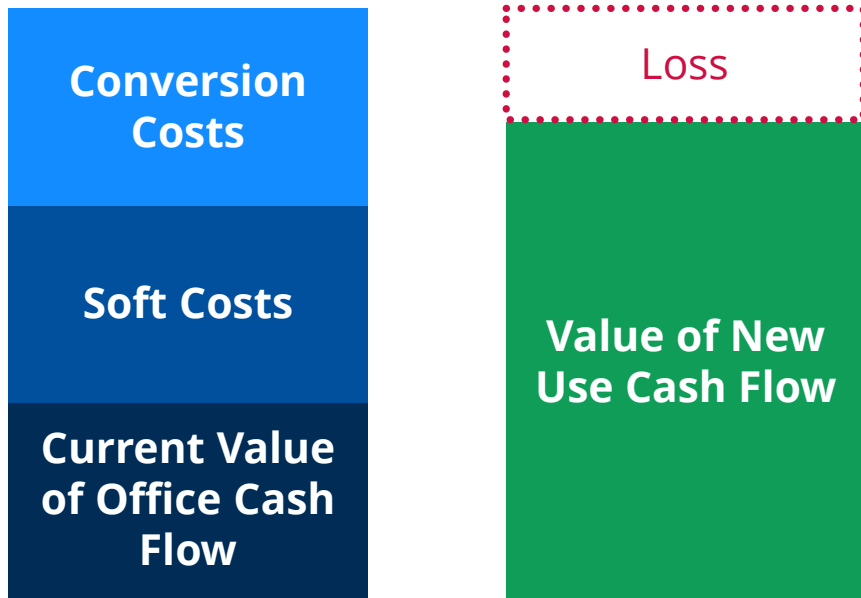
	Typology	Number of Buildings in BID	Average Efficiency*	Efficiency/Planning Flexibility Drivers
	Mid-block 4 properties studied A1 A2 B1 B2	238	75%	Decreased by limited frontage with a substantial floor plate depth.
	Corner 4 properties studied C1 C2 D1 D2	86	76%	Increased due to more limited floor plate depth, larger frontage, and in some cases, additional facades providing natural light.
	High rise 41 Madison studied E1	4	70%	41 Madison's corner location, limited core-to window depth, and 3 facades make it a good candidate for conversion. Requirement for a greater number of elevators, however, results in a substantial core that reduces floor plate efficiency.

*The ratio of net saleable or leasable area over the total gross floorplate area. An ideal efficiency ratio, typical of new construction, is ~83%.

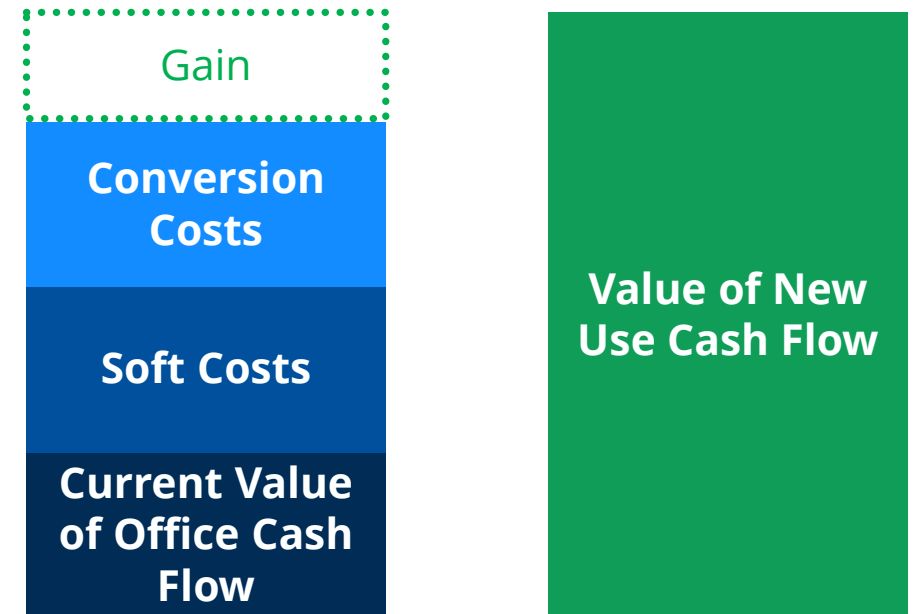
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Our analysis assumes that **office buildings face two paths forward**: remain as office space or convert to residential. Conversions only happen when **the cost of conversion plus the existing office value is less than the future value of a residential building.***

Remain as Office if...



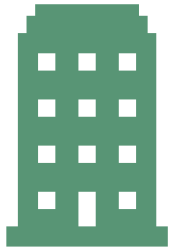
Convert if...



*Individual owner decision making will be driven by this and many other building-specific factors

Executive Summary

Key factors that will vary by building and influence conversion feasibility include:



Physical Characteristics

- Efficiency ratio*
- Quality of apartment layouts



Hard Cost Variables

- Mechanical upgrades
- Structural upgrades
- Curtain wall changes



Revenue Drivers

- Current office rents/vacancy
- Expected residential rents/vacancy
- Time to vacate, construct, lease up



Ownership

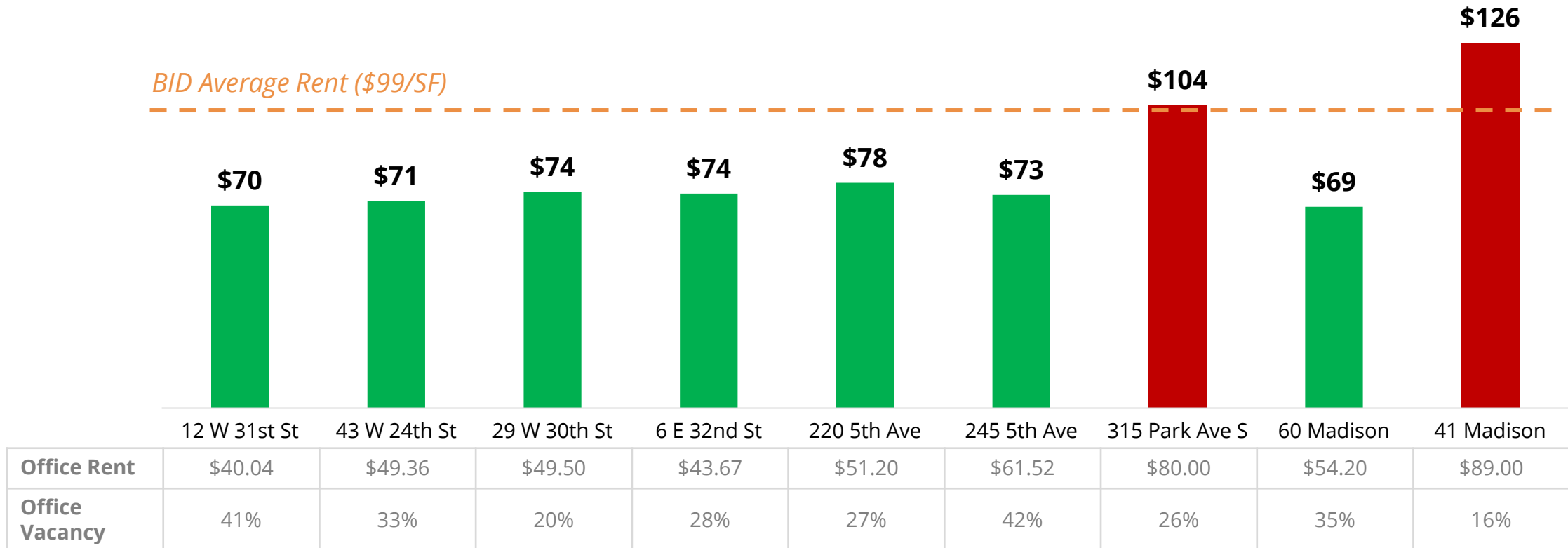
- Whether developer has to acquire
- Debt on building
- Desire to own/operate new asset class
- Owner capacity

*The ratio of net saleable or leasable area over the total gross floorplate area.

Executive Summary

Break-even residential rents vary by building and are driven by existing office rents, vacancy, and building efficiency. Only 315 Park Ave South and 41 Madison require above-market residential rents because they are the best-performing office buildings.

Minimum Break-Even Residential Rents per SF by Building



Executive Summary

Extrapolating findings from the 9 buildings across the entire office inventory by typology results in 57% of office square footage profiling as having a high feasibility of conversion.

Office Inventory, by Feasibility of Conversion

All Buildings, Debt not Incorporated

	Buildings	Total SF	% BID Office SF	Potential Resi. Units
Very High	52	6.7M	19%	7,430
High	194	13.3M	38%	14,500
Medium	44	2.5M	7%	2,730
Low	38	12.5M	36%	9,190
Total	328	35M	100%	33,850

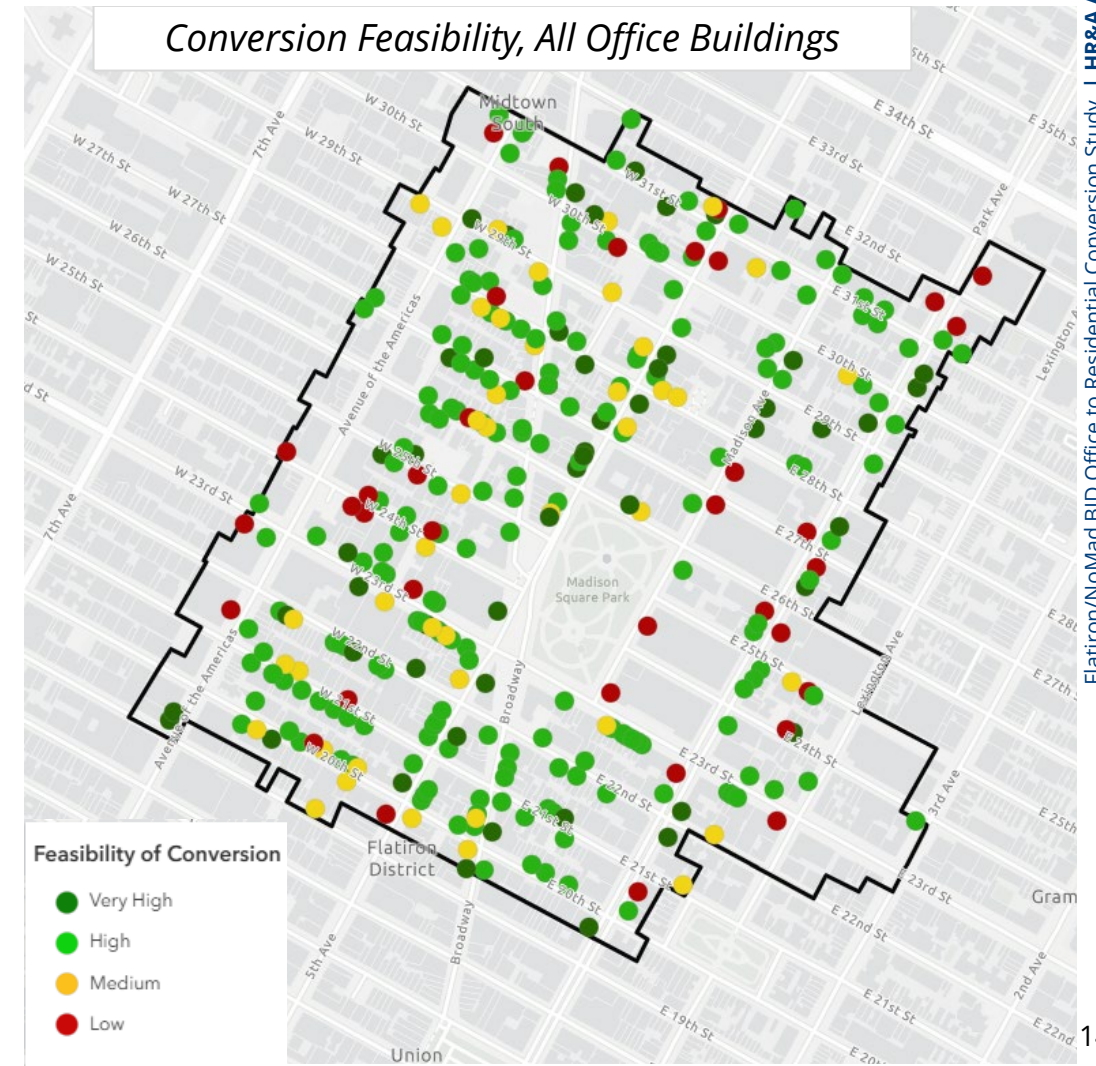
Very High:
\$200+ per SF

High: \$25 -
\$200 per SF

Medium: \$0 -
\$25 per SF

Low: Below \$0
per SF

For buildings for which rent/vacancy data were not available, HR&A imputed BID-average data. Numbers may not add up due to rounding. Assumes office vacancy of 20%; residential vacancy of 3%; 467m is not used; conversion by owner (no acquisition costs). Categories take into account specific buildings for which conversion likelihood is known – e.g., known planned conversions and recently built/renovated properties.



Executive Summary

Within MS/MX, 77% of office SF ranks as High or Very High conversion feasibility, a higher share than the BID overall because of fewer buildings with significant recent investment.*

Office Inventory, by Feasibility of Conversion

MS/MX Rezoning Area within BID, Debt not Incorporated

	Buildings	Total SF	% BID Office SF	Potential Resi. Units
Very High	11	0.7M	2%	730
High	49	3.1M	9%	3,330
Medium	12	0.2M	1%	260
Low	12	0.9M	2%	920
Total	84	5M	14%	5,240

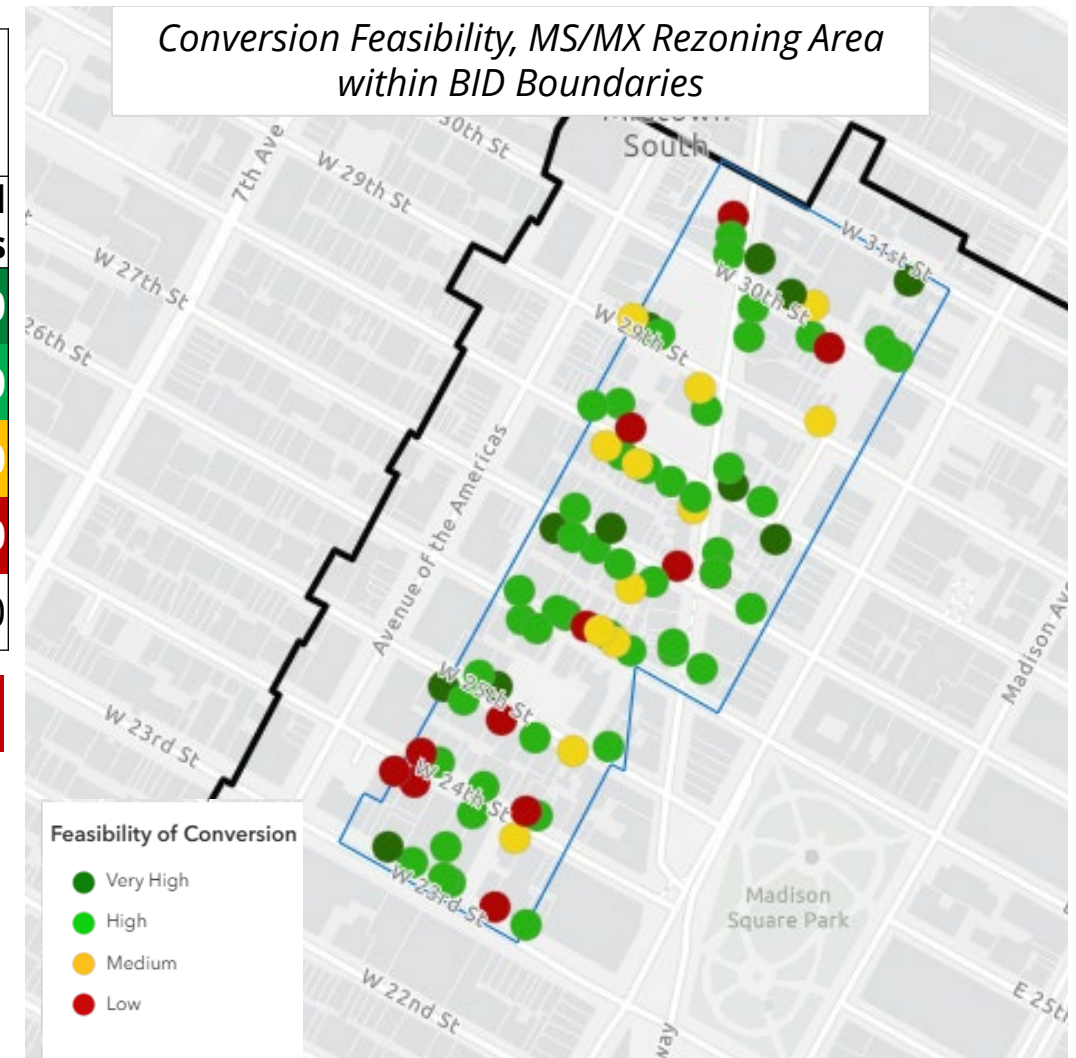
Very High:
\$200+ per SF

High: \$25 -
\$200 per SF

Medium: \$0 -
\$25 per SF

Low: Below \$0
per SF

*24 office buildings (comprising 7.7M SF) in the BID were classified as "Low" feasibility due to significant recent renovations, being recently built (1991 and later), or recently having signed a major lease. Just 0.5M of this 7.7M square feet fall within the MS/MX rezoning area.
Analysis does not compare economics of office conversion to new construction under new zoning. Numbers may not add up due to rounding.



Executive Summary

However, other factors, like existing debt on buildings – for which there is limited data – may reduce conversion feasibility.

- Of 328 office buildings in the BID, there is data on debt for 45.
- Before factoring in debt,* 95% of the square footage of these 45 buildings ranks as High/Very High feasibility; 19% does after debt.**

Feasibility of Conversion, Buildings with Debt Data				
	Pre-Debt Analysis		Post-Debt Analysis	
	Buildings	SF	Buildings	SF
Very High	23	3.9M	0	--
High	20	1.9M	8	1.1M
Medium	0	--	2	0.2M
Low	2	0.3M	35	4.7M

*When a building's outstanding loan balance exceeds the building's value appreciation upon conversion, the property is unlikely to secure a loan needed to convert the building and may be subject to foreclosure.

**Buildings' post-debt categorization was calculated as follows on a PSF basis:

$$NPV\ Delta_{pre-debt} - Debt\ Balance = NPV\ Delta_{post-debt}$$

Numbers may not add up due to rounding.

Executive Summary

While we estimate that 57% of the office SF in the BID has a high feasibility of conversion, benchmarking against other factors and historic trends suggests a conversion rate of 10-20%.

- For the BID buildings for which debt data was available, only **22% of office SF** ranked as High/Very High.
- 13% of office SF** in Lower Manhattan was converted 1995-2006.*
- Using these benchmarks, conversion of **10-20% of office SF** in Flatiron/NoMad would produce **3,400-6,800 units**.
- Based on historic absorption, these conversions would occur over **20 years**.
- While a slower pace than conversions in Lower Manhattan, Flatiron's office market is much healthier than Lower Manhattan's in the 1990's and early 2000's.

	Lower Manhattan Historic conversions	Flatiron/ NoMad BID Potential future scenario
% of office SF converted	13%	10-20%
Office SF converted	12.9M SF	3.5-7M SF
New residential units	12,865	3,400 – 6,800
Residential units built/year	1,072	280*
Time horizon	12 years (1995-2006)	~20 years**

Benchmark

Avg. units built/year in BID (2015-2024)	280
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Source: NY Citizens Budget Commission, 2022; Costar.

*With pending rezoning, we assume total housing production in the BID will increase, but production in the balance of the district will remain "business as usual."

**Midpoint of new residential unit range (5,100) divided by 280 units/year.

Financial Analysis | Key Takeaways

The strength of the residential market in Flatiron/NoMad makes conversion feasible for many buildings – though we expect only 10-20% of buildings to convert.

Office Performance

Office buildings with market-average performance (e.g., \$60/sf, 20% vacancy) or lower are strong candidates for conversion, while higher-performing buildings face higher opportunity costs.

Residential Performance

The feasibility of conversion will depend on whether the quality of resulting residential units can achieve adequately high residential rents.

Ownership

Building-specific owner circumstances that might prevent conversion – not analyzed in our model – including debt on building, capacity to convert, desire to operate a new asset class, or the need to acquire the asset.

Hard Costs

Individual building characteristics, such as curtain walls, or significant seismic strengthening requirements, can make conversions less feasible.

Implications for BID

Given above factors as well as historic housing deliveries in the BID, 10%-20% of the BID's office inventory could realistically convert over the next 20 years.

