

# Turning New York Offices Into Homes Finally Works. Now There's a Rent-Freeze Catch.

Mayoral candidate Zohran Mamdani's policies could hurt a promising source of new housing supply

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HUGE BUILDING ON 25 WATER STREET IN NEW YORK'S FINANCIAL DISTRICT HAS BEEN CONVERTED FOR RESIDENTIAL USE.

Turning Manhattan's unloved offices into apartments is becoming a profitable venture.

That potentially unlocks a new source of supply for New York City's crunched housing market. It also presents more opportunities for the private-equity firms and family offices who typically invest in these projects.

A possible hitch: last week's mayoral primary victory by Democratic candidate Zohran Mamdani, who wants to freeze rents on the city's roughly one million rent-stabilized apartments.

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In theory, that shouldn't affect office conversions because these are new units coming to market. But the conversions typically take advantage of a tax incentive that gives them a 90% property tax exemption for up to 35 years.

To qualify, 25% of the apartments in a conversion have to be rent-stabilized. But rent increases on those apartments are decided by the city's Rent Guidelines Board, according to New York City's Housing Preservation and Development department. So the units could be hit by a freeze.

Of course, the mayoral election is still a way off, so lots can happen in terms of the political outcome. And developers could try to win a carve-out from Mamdani, if he is elected.

Around 16% of New York City's office stock is empty, versus 1.4% of its apartments. And turning those old workplaces into homes is starting to make more financial sense.

A big reason is that owners of distressed offices are getting more realistic about what these buildings are worth. Some buildings can now be picked up for 20 or 30 cents on the dollar compared with their peak valuations.

Such discounts are what make the math work on conversions. These projects cut the amount of leasable space in a building by 25% because residential tenants don't pay rent for communal areas such as corridors, lobbies and elevators the way office occupiers do. This eats into the amount of space that will eventually generate income for the landlord.

To compensate for the loss, office values need to be about 50% below those of apartments. The discount averaged 24% in 2024.

By the first quarter of this year, tired Class B and C office towers in Manhattan were 56% cheaper a square foot than a multifamily apartment building, according to data from real-estate analytics firm Colliers. Surging apartment rents also help the projects to pencil out.

New York City has a high share of offices that are ideal candidates for a conversion—19.5% of the total stock compared with an average of 4.6% nationally, based on Yardi's Conversion Feasibility Index. This is because a lot of the city's office stock is aging but well-located close to transit hubs.

Office redevelopments are delicate to pull off. The conversion work itself can cost as much as buying the building, especially if major structural work is needed.

Whole facades might need to be ripped off, as was the case with a recent conversion at 25 Water Street in the Financial District. Builders have had to cut atriums into offices with large floor plates to make sure enough light reaches inner apartments.

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Developers also need to carefully configure the layout of apartments to maximize rents. “It’s a bit like a Rubik’s Cube to find the right mix of units per floor,” says Scott Rechler, chief executive of RXR Realty. His company is currently converting an old office at 5 Times Square.

An attraction of conversions is that they can be done much faster than building from scratch: 18 months on average compared with three years or more for a new build.

This lowers the risk that external shocks, like supply-chain snarls or roundups of undocumented workers, will push up construction costs and hurt returns. It’s also the quickest way to get badly needed supply onto the market.

Here’s how rent freezes could complicate things. Developers can currently pick up old offices in Midtown Manhattan for around \$300 a square foot, and spend another \$450 a square foot or so on the conversion, architecture fees and permits.

Then, top-notch conversions can sell for upward of \$1,000 a square foot, according to Richard Coles, founder of real-estate investment manager Vanbarton Group.

A rent freeze on 25% of the units would make it much harder to flip converted apartment buildings to investors at that price.

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