

THE WALL STREET JOURNAL.

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Chicago to Convert Famous Business District Office Buildings to Apartments

City plans to provide tens of millions of dollars in subsidies to revitalize the LaSalle Street corridor



Chicago's LaSalle Street is best known as the historic home of the Chicago Board of Trade and most of the city's largest banks and law firms.

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Oct. 4, 2022 8:00 am ET

Chicago is offering financial help to developers willing to convert aging office towers into residential buildings, a new program that could become a test case for other cities looking to promote these office conversions.

City officials said last week they would provide tens of millions of dollars in subsidies to revitalize the LaSalle Street corridor whose landmark office buildings made up the thriving center of Chicago business for decades. Since the pandemic, though, the strip's mostly vacant streets and towers have come to symbolize the slow pace that employees have been returning to office buildings.

Chicago is hoping to create 1,000 apartment units in the initial phase of the program, at least one-third of them affordable to people with low or moderate incomes, and projects could begin as early as next year.

"We must do everything we can to bring this corridor back," Chicago Mayor Lori Lightfoot said last week.

Other state and local governments are looking at converting offices to residential units as office usage rate in many cities is still less than half what it was before Covid-19 hit.

California Gov. Gavin Newsom last week signed legislation to accelerate zoning and permit approvals for conversions of properties such as office parks and strip malls into housing. A task force formed by New York City Mayor Eric Adams is studying subsidies, zoning changes and building code modifications that would accelerate such investments. "We're taking a look at everything," said Dan Garodnick, chair of the City Planning Commission and the head of the task force.

Members of Congress have introduced legislation to provide tax credits for conversion projects. Modeled on historic preservation tax credits, the benefits would be available to buildings that were 25 years or older and are "underutilized in part due to Covid," said David Downey, president of the International Downtown Association, a business group that is supporting the bill.

These programs reflect a recognition that the healthiest downtown areas emerging from the pandemic are those with a mix of housing, offices and retail, while the most troubled are the ones primarily all-office.

While developers have been converting obsolete downtown office and loft buildings for decades, these projects present challenges that prevent them from proceeding on a large scale.

Most business districts lack grocery stores, dry cleaners and other services that people want in residential areas. Many office buildings, especially those built after World War II with floors bigger than football fields, can't be carved up

into apartments with windows, bathrooms and kitchens without prohibitive costs. Projects also typically require changes in city zoning and building codes.

Still, conversion projects have begun to look more appealing to developers because the pandemic and the new workplace patterns triggered a sharp drop in office-building prices.

In cities like Washington, D.C., office buildings that sold for about \$500 a square foot before the pandemic are now selling for \$200 a square foot, according to Michael Pestronk, chief executive and co-founder of Post Brothers. His company has completed four office conversion projects and is looking for others in other cities including Philadelphia and Washington, D.C.

Developers planning conversions along Chicago's LaSalle corridor will benefit from the lower office prices. Three buildings are for sale and around a half dozen others are either delinquent on their mortgages or in foreclosure, according to data firm CoStar Inc.

"There is a very unique opportunity to get well-priced assets for redevelopment," said Chicago Deputy Mayor Samir Mayekar.

LaSalle Street, which has appeared in movies such "Ferris Bueller's Day Off" and "The Untouchables," is best known as the historic home of the Chicago Board of Trade and most of the city's largest banks and law firms. The corridor started going into decline even before the pandemic when some of its largest tenants migrated to newer buildings along the Chicago River.

The district has been hit hard by the weak return-to-office push, slow leasing and the preference of many office tenants these days for modern buildings with lots of amenities. The corridor has nearly 5 million square feet of vacant commercial space, more than any part of the central business district, city officials said.

Office conversion is part of Chicago's broader revitalization plan for LaSalle Street that also includes repurposing building lobbies for culture and entertainment and attracting groceries, restaurants and other residential-oriented retail.

To pay for the transformation, the city is offering a mix of federal and state tax credits and subsidies. Projects will be eligible for a Tax Increment Financing program that until recently was primarily used for infrastructure and other public improvements, not private development.

Mayor Lightfoot said that only projects that meet the city's affordable-housing goals qualify.

"This is not a story of corporate welfare," Mr. Mayekar said.