

5/16/23, 1:19 PM

What a Top Boston Properties Exec Thinks About All Those Office Conversions



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Owen Thomas Says Repurposing Real Estate Is 'A Very Big Trend'

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CoStar News

May 8, 2023 | 5:24 P.M.

Owen Thomas, the head of one of the country's largest office landlords, is among the first to admit there is plenty of aging, soon-to-be-obsolete office space in the United States. So the Boston Properties CEO is betting that converting that real estate into another use will take center stage as the market enters its next phase.

On a recent call with analysts, the executive said the record number of older properties scattered across top markets such as New York, San Francisco, Boston and Washington, D.C., have created an opening for developers such as Boston Properties to acquire buildings on the cheap and repurpose them into better and more profitable uses. Not only does it help revitalize neighborhoods, he said, but it creates an opportunity to dabble in more residential construction that otherwise might not have existed.

"It's a very big trend that will unfold slowly," Thomas said. "Virtually everyone benefits from it. There's too much obsolete office stock, and something needs to happen with it. Number two, there is a shortage of housing in all the cities where we operate."

Thomas, who has held the top job at Boston Properties for the past decade, has spent most of his time positioning the developer to focus on the highest end of the office market, a niche he said would be "critical for our long-term success" as other landlords struggle against dwindling demand, a challenging financing climate and worsening economic concerns.

While the company has made it clear that it would only pursue acquisitions or deals related to premier office space, it has already snapped up a couple of lower-tier office properties with plans to convert them to residential uses. It recently paid \$17 million to acquire a 50% interest in a joint venture that owns the buildings at [13100](#) and [13150 Worldgate Drive](#) in Herndon, Virginia, where it plans to redevelop the sites into multifamily.

The deal, as the Boston Properties executive said, is an illustrative example of what the company thinks could happen in cities where the buildings have little value as an office anymore, and the land is far more valuable given its chance to redevelop into residential.

"We just made an example of us reusing a parking garage and taking a site that's currently an empty office building and converting it into something more productive," Thomas said of the Worldgate Drive acquisition.

## Encouraging Conversions

Boston Properties isn't alone in adopting that strategy. From New York to Seattle, city officials are easing rules to foster conversions to reduce vacant office space and potentially address worsening housing shortages.

Between 2016 and 2022, about 260 offices across the country were converted to other uses, according to a report from the real estate firm CBRE. While relatively small compared to the total number of office buildings, that figure is on track to climb this year as landlords — especially those for older properties with fewer amenities — contend with office demand that remains well short of a full recovery.

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Apartments have been the most common reuse for outdated office buildings. Since 2016, more than 90 office properties have been converted to housing across the United States' largest metropolitan areas, according to CBRE. Those projects have collectively changed the space into more than 14,000 rental units.

It doesn't come without challenges, however, Thomas warned.

To pursue office conversions, properties have to be empty, a rarity given that most office buildings across the country have at least one tenant. What's more, the architecture of a building dictates how much work must be done and the financials have to pencil out.

"Most office buildings today are not appraised or valued at a level where a conversion is economic," the CEO said. "But I think these forces will work themselves out over time. If you take a very small percentage of the 733 million square feet of office space in our markets and say it's converted, that's very material. And in terms of Boston Properties, we don't have any assets that are conversion candidates themselves."

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