New Beginnings: Approaches to Adaptive Reuse

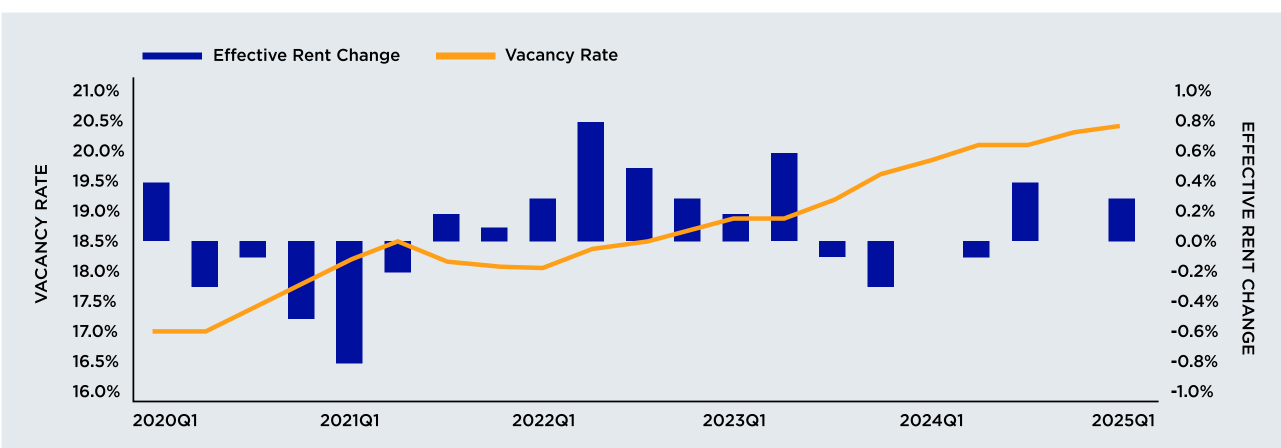
By Ernesto Segura

Adaptive reuse—the practice of repurposing existing buildings for new uses—has long been a significant part of the real estate development world, offering an attractive alternative to new construction. Alternative project delivery can assist in bringing these projects to life.

Real estate market participants have long found creative ways to take properties that have outlived their original uses and reinvent them into new, vibrant (and more profitable) anchors in their communities, and given the scarcity in many localities of housing and related infrastructure, never has adaptive reuse been more relevant to the continuing revitalization of urban and suburban spaces.

Older cities have attempted to steer developers toward adaptive reuse for decades; however, nationwide data reveal some shorter-term trends driving the expansion of adaptive reuse projects. For example, shifting post-pandemic demand for commercial real estate has forced the real estate market to become more creative in handling vacant office space. Office leasing activity was strong in Q1 2025 with a 15% increase year over year, yet occupancy losses continued to linger despite the increasing leasing activity. Net absorption fell to -8.1 million square feet in Q1 2025 as the national office vacancy rate established yet another record high during the first quarter, reaching 20.5% and climbing 60 basis points year over year according to Moody's, a ratings agency.

U.S. Office Vacancy Rate



Source: Moody's Analytics, Inc.

Facing these occupancy headwinds, office owners have "doubled down" on using adaptive reuse of vacant offices. According to CBRE, by the end of 2025, upwards of 23.3 million square feet of office space is on track for conversion to other uses (12.8 million) or demolition (10.5 million) this year, compared to only 12.7 million square feet of expected new office supply. This inversion of adaptive reuse (excluding demolition) exceeding new office supply is a post-pandemic trend that continues to accelerate even as the pandemic recedes into the background. By 2027 CBRE estimates over 60 million square feet of office space will be adapted to new uses, with around 76% of those conversions going from office to multifamily.

Nationally, the impact of adaptive reuse strategies is growing in other real estate sectors beyond office buildings. The long-term trend of large retail store closures, historically low retail development, and a softening of retail occupancy marked the first quarter of this year. According to CBRE, the overall retail availability rate increased slightly in Q1 to a still relatively low 4.8%, marking the first uptick in five quarters, owing mostly to the abundance of obsolete retail space, which has tripled since 2020. While many retailers often look to repurpose their space rather than change the use, adaptive reuse has continued to grow in helping owners convert aging retail spaces like large shopping malls into more modern office, industrial, or e-commerce sites. While mall conversions remain particularly challenging for a number of reasons, developers and investors do continue to push retail-to-industrial conversions forward, particularly in markets where land availability is limited. A recent report from CBRE found that over 10% of the former retail space in key metros has been repurposed for industrial use, with cities like Chicago, Atlanta, and Dallas leading the way. Growing numbers of examples of retail adaptive reuse result in last-mile fulfillment centers, micro-warehousing, and urban logistics hubs, all of which cater to the modern supply chain.

On a regional level, the popularity of adaptive reuse varies, as does the frequency of its deployment. In the Northeast, adaptive reuse projects are particularly prevalent in cities with rich historical backgrounds, such as Boston and Philadelphia. These projects often involve the conversion of century-old buildings into modern, functional spaces while preserving their architectural heritage. New York is seeing the largest boom in the office conversion sector, with around 10.3 million square feet of office space currently being converted or planned to be converted.

Advantages of Retail-to-Industrial Conversions

PRIME LOCATIONS

Retail near major roadways makes ideal last-mile distribution centers

EXISTING INFRASTRUCTURE

Parking lots, loading docks, and open layouts can be repurposed for industrial use with minimal renovations

ZONING FLEXIBILITY

Local governments are increasingly open to rezoning retail for industrial use

FASTER MARKET ENTRY

Repurposing can significantly reduce time and costs for developers versus ground-up development

Source: Adapted from Coldwell Banker, Inc.

In contrast, the Sun Belt and Midwest are witnessing slower adoption rates across industry sectors, primarily due to the broader availability of land for new construction. Yet large urban markets like Houston, Dallas, Cleveland, and Minneapolis increase office conversions on par with what we have seen nationally. Some larger cities, such as Chicago, have also looked for unique asset classes to find opportunities with adaptive reuse. For example, Chicago leads the nation in conversions of properties into self-storage facilities. Other cities, like St. Louis, Atlanta, and Detroit, are continuing to embrace adaptive reuse to revitalize their urban centers.

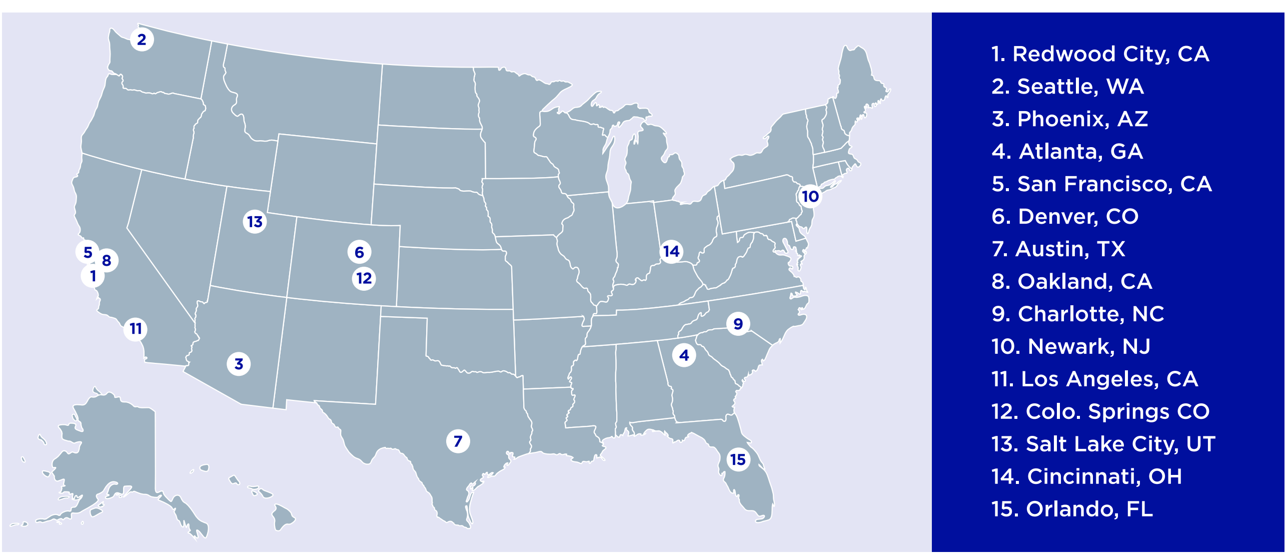
The Mountain West and Pacific Coast have not yet seen the same scale of adaptive reuse projects, as newer development prevails in expanding areas outside city centers. Yet in some mature cities, such as Seattle, Denver, or San Francisco, with an abundance of older building stock and increasingly critical affordable housing issues, office-to-multifamily conversions are seen by some as a tool to address these urban concerns. All those cities have within the last two years ramped up programs designed to aid in adaptive reuse. For example, San Francisco has waived certain planning and building code requirements and real estate transfer taxes for downtown conversions that are approved before 2030, Seattle has approved exemptions for commercial-to-residential conversions from certain design development standards and from housing affordability requirements, and Denver launched an adaptive reuse pilot program to enhance speed and efficiency for conversions approved by the city.

KEEPING IT REAL: EXAMPLES AND APPROACHES

Taking on the task of converting an existing structure into a new use certainly does not come without its difficulties. Beyond the not-so-uncommon considerations of needing to deal with existing debt and financing the conversion, there are a number of other factors to consider in undertaking such a project. For example, existing tenants, remaining time on leases in the building, and move-out processes, among other things, need to be factored into a timeline.

Zoning issues are also often major hurdles to adaptive reuse. Conversions from office to multifamily, which we noted above are increasing across the country, typically require significant effort by developers and their attorneys in analyzing and modifying the zoning for the property to the new use. Along with zoning issues, we often see older building conversions identify issues with building codes that have been updated since the construction of older buildings or that differ in requirements from the existing use to the new use. For example, the floorplate of an

U.S. Real Estate Markets Best Positioned for Office-to-Multifamily Conversions



Source: Urban Institute, "Which Cities Would Benefit Most from Converting Offices into Housing?" June 5, 2024. https://www.urban.org/urban-wire/which-cities-would-benefit-most-converting-offices-housing.

existing building may not work when it comes to proper circulation or access to windows in a reconfigured space. In one recent mall conversion, the developer found that the floor plan of the large box stores was ideal for adapting to an industrial use, but that the ceiling heights were too low. The budget had to be reworked to account for the cost of raising the roof to make the site usable. And as developers in cities with high numbers of historic buildings— like St. Louis, Chicago, New York, or Boston—have found, adaptive reuse of an historic building is often a regulatory slog, dealing with multiple agencies over many years to ensure that all regulatory requirements are met.

Timing and market trends are also critical factors to consider. Usually, adaptive reuse projects take several years to complete, which demands that developers assess the trajectory of the local economy, and many do market studies to determine whether the proposed use will be viable. To address some of these challenges, cities across the nation are creating new incentives designed specifically for property conversions or proactively modifying zoning codes to better fit changing uses in the city. Beyond the examples already cited, cities like Washington, D.C. have created new tax programs designed to facilitate new conversions of buildings. D.C.'s new Office to Anything program offers a 15-year tax freeze to developers who turn offices into other commercial spaces and the Housing in Downtown incentive offers a 20-year tax abatement for office-to-residential conversions.

While some of these municipal efforts may be new, adaptive reuse projects have always required innovative financing and development solutions. Developers have realized the value of organizing teams of professionals that can navigate project finance and land use/construction details in a coordinated fashion, exactly the kind of sophisticated approach that alternative project delivery solutions help in fostering. Given the crucial role that financing plays in these projects—and given how complex the capital stack can be with tax increment financing, tax abatements and tax credits—it is a tremendous advantage to align parties dedicated to design, build, and financing at the commencement of the project.

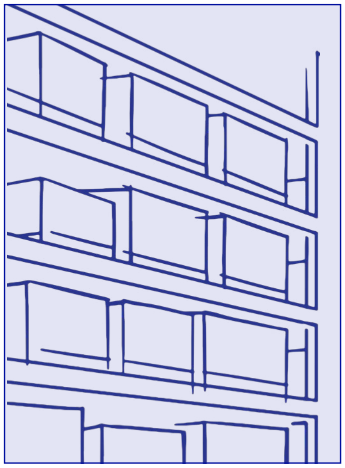
PROJECT TRANSFORMATION

Adaptive reuse projects are emblematic of resilience, creativity, and collaboration, turning challenges into opportunities for communities. Whether navigating financial hurdles, historical preservation complexities, or unexpected ownership changes, these projects highlight the importance of innovative problem-solving and steadfast partnerships. From repurposing historic landmarks to revitalizing struggling commercial spaces, adaptive reuse not only breathes new life into the built environment but also fosters economic growth, environmental sustainability, and community engagement—proving that even the most daunting examples of one property owner's loss can be transformed into someone else's gain.

Ernesto Segura

Ernesto Segura is a partner in Husch Blackwell's St. Louis office and a member of the firm's Real Estate, Development & Construction industry team.

Profiles in Adaptive Reuse: Three Representative Projects from St. Louis*

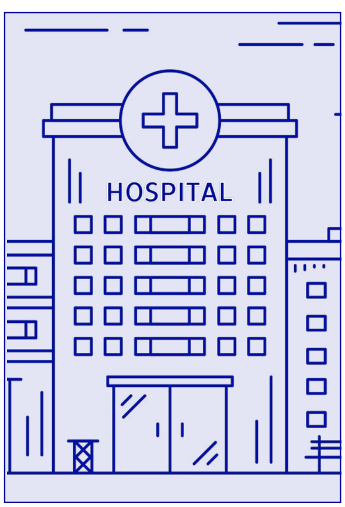


THE VICTOR

The Butler Brothers Building was among the first distribution warehouses in the U.S. Built in 1906, the building encompasses and entire city block, containing over 700,000 square feet of warehouse space that served the St. Louis Garment District. The building had been vacant for decades and was the subject of numerous redevelopment attempts, many of which secured public incentives but could never complete their capital stack. Memphis-based developer Development Services Group transformed the site into The Victor, a mixed-used destination with 385 apartment units, a 385-parking space garage and 16,000 sq. ft. of retail/commercial space. With an estimated total project cost of $119 million, the project featured a creative project financing effort that included private equity/debt, Missouri Historic tax credits, real property tax abatement, and a sales tax exemption on construction via a separate tax abatement program.

ST. LOUIS COUNTY MILLS MALL

This project involved the conversion of a failed shopping mall originally built in 2003 in north St. Louis County that included nearly 1.2 million square feet under roof and around 5,000 parking spaces. Additional to its operational woes, the mall was saddled with nearly $30 million in defaulted bonds issued by a special taxing district as part of its original construction. The defaulted bonds, which were secured with tax assessments on the site, had long scared off potential developers. After an experiment with a youth sports concept that succumbed to the debt load, the property was ultimately sold to Ohio-based Industrial Commercial Properties, who adapted the parcel into industrial space. This involved a second zoning modification and the conversion of existing special taxing districts to a new purpose, but finally, the project came to fruition, turning a large vacant parcel into productive real estate once again.



DELMAR DIVINE

St. Luke's Hospital in St. Louis left its longtime West End neighborhood location in the 1980s, and after a series of healthcare entities occupied the space, it closed permanently in 2013, leaving over 500,000 square feet vacant along Delmar Boulevard. A private businessperson purchased the site and then partnered with Clayco Realty Group to adapt the property into a mixed-use anchor for the neighborhood. The project's capital stack was complex and included New Market Tax Credit allocations, a 15-year, 95% tax abatement, municipal carry-back financing, a HUD-insured loan, Missouri Historic Tax Credits, and multiple bridge loans. The project's first development phase culminated in two sequenced closings with sixteen separate transactions, but the project proceeded, opening in 2022 with apartments, office space and retail. The second phase is underway and is expected to add additional apartments, conversion of the gymnasium into a community meeting space and additional office space.

*Husch Blackwell's Real Estate, Development & Construction team represented parties in each of these projects.