

ULI NEXT Romandie Conference “Crossed Perspectives – Conversion of offices into housing”

October 17, 2023

The conference "Regards croisés - Reconversions de bureaux en logements" organised by Urban Land Institute (ULI) NEXT Romandie was held on 17th October 2023 at the premises of @MLL Legal in Geneva. The event was fully in line with the ULI's philosophy, aiming to **connect** the key players in the urban planning and real estate sectors in French-speaking Switzerland around a topical issue, to **inspire** participants by raising their awareness of the challenges and potential of conversion projects for the community, and to **lead** toward greater synergies between a wide range of players. The speakers covered the **legal aspects** of conversions, the **market outlook**, the **profitability potential** and the **technical and operational aspects** through a case study.

Legal aspects – Jacques Johner, MLL Legal

Since 2015 for the Canton of Geneva and 2018 for the Canton of Vaud, cantonal legislation has contained rules intended to encourage the change of use of commercial space into housing, mainly by providing the absence of State control over the rent or the sale price of premises converted into housing, while admitting simplified authorization procedures.

However, these rules are part of a broader legal framework including numerous provisions which restrict the possibilities of conversion, in particular due to the allocation of the premises concerned, respectively the building in which they are located, the position of the premises in the building and/or the personality of the land owner, in the case of the acquisition of real estates by persons living abroad (in regards to the 'LFAIE'). Other rules, in particular those applicable to building regulations, energy efficiency and heritage protection, are likely to complicate the conversion process and thus significantly impact the project cost. Indeed, in certain cases, the owner, if he wants to carry out his project, will be required to bring certain parts of the building work up to standard.

Market outlook – Julien Scarpa, CBRE Switzerland

The office-to-residential conversions topic has been in vogue for several years. At first glance the equation is simple: on one side there is an oversupply office space while on the other side there is an increasing housing shortage. However, these operations remain rare and limited with many hurdles: inadequate zoning, technical complexity due to the specific structure of the office building, prohibitive cost of transformation and/or acquisition, etc. However, beyond the mere financial aspect of the operation, office-to-residential conversions are beneficial for the built environment:

- Answer to the housing shortage, although insufficient ;
- Answer to the rising office obsolescence, accelerated since the pandemic crisis ;
- Answer to urban sprawl: “rebuilding the city within the city” ;
- Answer to the environmental impact of real estate: the carbon footprint for rehabilitated housing is 50% lower than the construction of new housing.

Even though the office market in Switzerland and in Geneva only offer rare opportunities for reconversions, these seem to be gaining ground in other countries. For example in France, it is

estimated that around 2% of new housing created each year is due to office conversions. In the US, given the recent surge in office vacancy since Covid-19 and the increased obsolescence, large-scale reconversions are gradually being carried out – particularly on empty office towers in central business districts (CBD).

Profitability potential – François-Xavier Favre, Wuest Partner)

There are no general rules governing the economic profitability of a scenario involving the conversion of office space into housing. We need to approach the problem by analyzing the main components of a DCF (discounted cash flow) valuation. In fact, simply analyzing the rent differential between offices and residential units is not enough; other factors need to be taken into account, such as:

- Structural vacancy;
- Operation and maintenance costs;
- Transformation costs;
- The discount rate before and after transformation.

Once these different factors have been analyzed from both the perspective of an office building and a residential building, we can see that in some cases, even with a small rent differential between the two uses, the scenario can be profitable thanks to the positive effect on the value of the other parameters.

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The purely financial approach is discussed here, but it is clear that the technical aspect plays a crucial role. The complexity of the transformation will have a strong impact on the cost of the work and therefore on the profitability of the project. The quality of the space created also needs to be taken into account, especially since office spaces do not have the same market characteristics as housing (external surfaces of balconies, brightness, depth of rooms, etc.).

Such a transformation scenario therefore requires a detailed, case-by-case analysis, considering all the financial, technical and legal aspects of the region. A combination with an elevation and/or heavy energy renovation may prove to be a very good combination. Only the scenario of conversion to rental housing is analyzed here, but conversion to condominium lots (PPE) may also prove to be more attractive from an economic point of view, provided the law permits such conversion.

Technical and operational aspects – Alexandre Monney, SwissRoc

Swissroc Group carried out an operation to convert offices into housing in Geneva at Petit-Saconnex. This transformation takes on a particular character since it involves former offices forming part of a predominantly residential condominium dating from the 1960s and 70s. In addition, the purpose of the operation consisted of the conversion into housing of the acquired office PPE lots, which were themselves resold into residential PPE lots to different buyers. Finally, the existing structure of the building was adapted so that the reconversion of these lots was relatively uncomplicated technically and less costly.

Swissroc Group has carried out an offices-to-residential conversion in Geneva at Petit-Saconnex. This operation was of a special nature, as it involved former offices forming part of a predominantly residential condominium ('PPE') dating from the 1960s-70s. In addition, the purpose of the operation was to convert the acquired office condominium into residential units, which were in turn resold as residential condominium lots to different buyers. Finally, the existing structure of the building was adapted to make the conversion of these lots relatively uncomplicated technically and less costly.

Challenges related to the conditions of the forward sale agreement were to ensure that the change of use from office to apartment would not be subject to the 'LDTR' (State control over rents/prices) and that it would allow for split sales ('vente à la découpe'), that the occupied office space can quickly be vacated, and that sufficient parking spaces could be obtained. From an operational point of view, the main challenges were to anticipate all the work and technical aspects, particularly in this case on the common areas of an occupied and inhabited building (scaffolding, common areas, acoustic and energy aspects, etc.). In addition, close cooperation with the co-owners was essential to the smooth running of the project.

In a nutshell, the conversion project was profitable but required a considerable commitment of time and resources.