[NYC High-Rise Scare Is Harsh Reality Check for Office-to-Apartment Conversion Boom; After former Pfizer headquarters faced the risk of partial collapse, developers expect costlier safety reviews and insurance]

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Body

A day after structural damage imperiled the largest-ever planned office-to-residential **conversion** in the U.S., investors and lenders said they are reconsidering future commitments to these complex **real-estate** projects.

The developer Michael Pestronk in Philadelphia had just finished pitching investors on a slate of new **real-estate conversion** projects on Tuesday, when he noticed five missed calls.

The high-profile **conversion** project at the former Pfizer headquarters in Midtown Manhattan was at *risk of partial collapse*, he learned. Pestronk, whose company, Post Brothers, is leading one of the nation's largest of this kind of **conversion** in Washington, D.C., cursed to himself as he absorbed the news.

"An incident like this can certainly cut off investors and lenders from conversions," he said.

The past half-decade has been a ***boom** time for office-to-residential conversions*. At the start of this year, about 90,300 units from **office**-**to**-**apartment** conversions were in the pipeline across the U.S., up 28% from a year earlier, according to the apartment-search website RentCafe.

New York City leads the way with 16,358 **office**-**to**-**apartments** in various stages of development, nearly double compared with the year before.

Private developers see conversions as a potential way to cut down on the ballooning costs of building from scratch. Public officials like the win-win: It addresses both their housing shortages and the overhang of empty office space plaguing downtowns.

Now, some lenders are starting to rethink that calculus.

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"It's going to make everyone a little bit more conservative," said Paul Rahimian, chief executive of Parkview Financial, a **real-estate** lender that has financed both office-to-residential and hotel-to-residential projects. "Maybe we do the easy ones, but let's not do the supercomplex ones."

The *Manhattan building is now stable* and hasn't shown any new movement, city officials said Wednesday. The contractor and the city are discussing long-term solutions for the building.

Still, future **conversion** projects could expect to face more-extensive engineering and safety reviews, more-expensive builders' insurance, stricter government incentives and less available debt, said Neil Osnato, founder of Persistence Analytics Group, an infrastructure and risk analytics firm.

"The Pfizer building incident should force developers, investors, lenders, insurers and public officials to reprice office-to-residential **conversion** risk," he said. "The economics of **conversion** may change."

These extra layers of scrutiny and added costs could delay the timeline for new **conversion** projects by months, some **real-estate** executives said.

New York City Mayor Zohran Mamdani said the city is going to make sure all its **conversion** projects are following necessary regulations and safety precautions. The plans and the site at the Midtown **high-rise** will have to be fully compliant with all codes "before any nonemergency work moves forward," he said Wednesday.

The former Pfizer headquarters in New York City on Wednesday. PHOTO: Spencer Platt/Getty Images

Mamdani said he remains committed to continuing conversions in the city, but he added, "I also consider that we have to do so safely and in a way that is fully accountable."

Office-to-residential **conversion** projects can be more complicated than standard ground-up construction, in part because developers are trying to make a building perform a function it was never intended to do.

Sunlight and air need to be brought to pockets of a building that, as an office tower, relied on artificial light. More bathrooms and kitchens need to be added, and weight loads need to be adjusted.

The Pfizer office **conversion** to 1,600 new residences, along with a rooftop pool, fitness center and ground-floor shops, is especially ambitious. MetroLoft, the lead developer, planned to add new floors to the building and make other expansions to the property. Some of that *extra weight* was what caused the steel beams to buckle, Nathan Berman, managing principal and founder of MetroLoft, told The Wall Street Journal on Tuesday.

Almost everyone in the industry is expecting increased regulatory scrutiny on **conversion** projects. Mark Jackson, an attorney who specializes in **conversion** development, is already anticipating a "short-term Pfizer premium" on future builders-insurance contracts.

Asher Luzzatto, a developer converting three Denver office buildings into about 1,100 apartments, said developers should keep conversions simple rather than trying to change the framework significantly.

Asher Luzzatto at a Denver office building he is converting. PHOTO: Theo Stroomer for WSJ

"If the existing architecture doesn't want to be substantially larger, don't force it," Luzzatto said.

Still, some aren't concerned. Ran Eliasaf, the managing partner of Northwind Group, which lent $135 million for the purchase of the old Pfizer property, said his firm will remain "very bullish" on financing office-to-residential conversions. He expects the same of other investors, too.

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Turning old commercial property into housing has been going on for decades, especially in New York. Last year, the Financial District welcomed more than 1,300 apartments from the largest completed office-to-residential **conversion** in U.S. history.

The Pfizer episode has sparked scrutiny over just how big and complex such projects should be.

"People will be more cautious," said Peter Lehrer, a strategic adviser on projects including office-to-residential conversions. "This is a wake-up call."

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