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Perspectives

## Repurposing Commercial Real Estate Impacts Urban Renewal

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Urban communities in the United States have been declining in recent years — not in terms of population, but cultural and economic prosperity. The deterioration of housing and public infrastructure is perhaps the main driving force behind this trend. Old buildings from generations past sit unoccupied, taking up precious space that could serve a better purpose.

Real estate firms could purchase these abandoned lots, tear down the buildings, and start their projects from scratch. However, this idea is neither cost-effective nor environmentally friendly. Instead, they can repurpose these existing commercial buildings, and contribute to a more swift and sustainable urban renewal. This process is known as “adaptive reuse.”

## What Is Adaptive Reuse?

Adaptive reuse is the real-estate strategy of repurposing an old building for an entirely new function. Rather than demolishing the whole thing, builders can keep the infrastructure intact and overhaul the interior. Old buildings can retain their sturdy frames and adopt a new important role, such as an apartment complex, school, arts center, or museum.

As you might expect, abandoned commercial buildings have the greatest adaptive reuse potential. American cities [are full of abandoned office spaces](#) in prime downtown locations that could assist with urban revitalization. [1] Moreover, the federal government owns [more than 45,000 unoccupied buildings](#) throughout the country that real estate developers could put to better use. [2]

These numbers do not account for the countless abandoned factory buildings, warehouses, parking garages, schools, hospitals, malls, churches, and more without property owners. They are taking up space waiting for someone to give them a new lease on life. Many opportunities for adaptive reuse in CRE have yet to be explored.

## Market Trends Driving Adaptive Reuse

It is essential to understand why repurposing old architecture has become such a popular alternative to demolishing old buildings. What market trends are driving the growth of adaptive reuse? Here are some of the key developments accelerating the renewal of CRE in urban areas.

### Property Technology

Technological advancements in the CRE sector have changed how properties are bought, sold, and managed. Property technology has brought [new levels of efficiency and accessibility](#) to the market, allowing people to pursue more unorthodox investments like abandoned commercial properties. [3]

Application programming interfaces powered by artificial intelligence provide previously unavailable insights to real estate investors. You can observe local market conditions, changing consumer preferences, and the performance of specific properties. It also helps you avoid risk and fraud, which makes run-down buildings safer investments.

Property technology is all about increasing market visibility and promoting informed decision making. Monitoring the CRE landscape is simpler than ever, so professionals are more likely to find and invest in those potentially lucrative unoccupied urban properties.

### Need for Affordable Housing

The pressing need for affordable housing has also driven adaptive reuse into the spotlight. The United States faces a [shortage of 7 million homes](#), primarily in urban areas. [4] Rather than letting abandoned buildings rot until they get demolished, professionals can repurpose them into multi-family housing centers.


The adaptive reuse pipeline has already [grown to 122,000 units](#) in 2023 — up from 77,000 in 2022. Most of these units are office-to-apartment and hotel-to-apartment conversions in major metropolitan centers such as Los Angeles, New York City, and Chicago. [5]

### Coworking Spaces

COVID-19 caused hybrid and remote work to boom in popularity, and it looks like these work options are here to stay. Businesses are increasingly hiring remote employees to rebuild their workforces, which has resulted in impressive job growth. Remote work was a key contributor to the [addition of 2.5 million employees](#) from 2021 to 2022. [6]

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Work-from-home rates for American households peaked at 37% in early 2021 and [have dropped to 26%](#) in 2023, but the positive effects have taken hold. [7] Businesses that rebuilt their workforces through the remote or hybrid model now face a growing need for commercial building space.

When a region experiences remote and hybrid job growth, businesses require more office and retail spaces. This sudden increase in demand has [driven up rental rates](#) and property values, forcing enterprises to pursue alternatives — namely coworking spaces in which multiple tenants split the rent and have shorter leases. [8]

This market trend has resulted in [an increase in upcycled office spaces](#) to accommodate growing businesses. Investors are rushing to purchase underutilized urban buildings and renovating them into coworking properties. [9]

### Shifting Toward Sustainability

Growing emphasis on sustainable living is the final significant trend behind the growth of CRE adaptive reuse. Sustainable living refers to a few key factors, including energy efficiency, conserving natural resources, repurposing household items, and minimizing waste. A recent survey found [two-thirds of renters want to live](#) in energy-efficient homes. [10]

Upcycling a building is more eco-friendly than demolition because it requires fewer raw materials, repurposes existing architecture, and creates far less waste. These projects are also perfect opportunities for property managers to add sustainable features to the old infrastructure. Adaptive reuse will continue to gain momentum as urban centers shift toward sustainable building practices.

## Benefits of Adaptive Reuse

But the question still stands — how does adaptive reuse directly benefit the surrounding communities? How can these overhauls of old architecture accelerate urban renewal? Explore the main benefits of urban adaptive reuse.

### 1. Reduces Urban Pollution

For starters, adaptive reuse is an eco-friendlier alternative to complete building demolition. Demolition alone [accounts for 90% of construction waste](#) and emits numerous pollutants into the atmosphere. Cities have substandard air quality to begin with, so frequent demolitions would be hazardous to the local population's health. [11]



*Photo by Mike Dudin on Unsplash*

Additionally, older architecture [contains potentially hazardous building materials](#) that would release volatile organic compounds and heavy metals during demolition and disposal. These harmful substances would mostly end up in nearby landfills, polluting the air and groundwater. [12]

Adaptive reuse avoids these problems by removing harmful substances such as lead, asbestos, and mercury from the building before the repurposing stage. All the safe materials that get left behind adopt a new function.

By reducing pollution from construction, adaptive reuse improves the quality of life for residents and makes cities more inviting for newcomers. Urban pollution is one of the [main contributors to human health problems](#) and environmental hazards. Repurposing old real estate will be key in addressing these issues and helping cities reach their full potential. [13]

## 2. Saves Time, Money, and Materials

Adaptive reuse is also much more time and cost effective than full-scale demolition. As real estate professionals know, the construction industry lacks the resources and manpower to build new community centers from scratch. City contractors are behind schedule and stretching their budgets due to [significant supply chain backlogs](#) and a decline in skilled workers. [14]

As contractors struggle with these backlogs, abandoned buildings provide materials on-site [that help circumvent stoppages](#) and improve project efficiency. [15] They still have to order some materials, but they can always take from some of the leftover metal, wood, and stone that is still in good condition.

Repurposing old commercial buildings can be challenging, but it is still easier than building a new structure from square one. In fact, older architecture [consists of stronger materials](#) that provide the perfect foundation for adaptive reuse projects. [16] Urban communities can greatly benefit from the strength and stability of repurposed commercial buildings.

## 3. Balances Urban Renewal and Expansion

There is a huge difference between urban renewal and urban expansion. Repurposing CRE can accelerate the former, but it moderates the latter. It balances the two phenomena, making the lives of real estate developers, city planners, construction workers, material suppliers, and residents easier.



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Slowing down urban expansion is crucial for urban renewal. Many American cities saw a brief population decline during COVID-19, but they are [expanding rapidly once again](#), especially in the south and southwest. [17] In this economic climate, it is simply impossible to build new affordable housing options and cultural centers that can keep pace with the population.

Adaptive reuse enables these growing cities to revitalize vacant architecture, reduce displacement, create a new sense of community in declining neighborhoods, and lay the groundwork for future expansion simultaneously. For cities to grow and prosper, professionals must first address existing infrastructural weaknesses. Repurposing CRE turns those weaknesses into strengths.

## How Adaptive Reuse Affects Property Values

Adaptive reuse projects are known to have high appraisal values because of the history of the buildings and surrounding neighborhoods. Location is always the most important factor in estimating CRE value, and adaptive reuse projects are no exception. The [average appraisal value is \\$187.5 million](#), according to one study from the Massachusetts Institution of Technology. [18]

There also seems to be higher demand and tenant commitment for these buildings. According to the same MIT study, the average occupancy is 92.7% for repurposed offices and multi-family properties. Vacancy rates typically [hover between 5%–6%](#) for most rental properties, which puts adaptive reuse buildings around the national average. [19] (Again, we are instructed not to link to the same source more than once).

Adaptive reuse has clearly been shown to increase property values from the new utilities, amenities, and occupancy rates. By extension, these buildings also increase property tax revenues for local governments. Investors and government officials share a financial interest in revitalizing these run-down properties.

## Repurposed CRE Success Stories

It is easy to rave about the hypothetical benefits of adaptive reuse for commercial properties, but what about some real-world examples? You can find many success stories of repurposed CRE improving urban communities nationwide.

## Full Timeline of a Successful Repurposed CRE Project

A recent CRE upcycling project in Pittsburgh, Pennsylvania, provides an excellent template for successful adaptive reuse. A large abandoned building formerly known as Bowtie High School sat unoccupied for a decade until real estate investor Jesse Wig saw its potential and decided to buy the lot.

Wig got help from another investor named Adam Colucci and a professional developer named Dan Spanovich. Together, the trio bought the old building for just \$100,000 in 2019 and converted it [into a 31-room apartment complex](#) in 18 months. They gutted the inside of the building in early 2020, and construction started shortly thereafter. [20]

The partners pooled \$1.3 million of their own money and got an additional \$2 million loan to complete the \$3.3 million in renovations. They reused many materials from inside the building, including old furniture and hardwood flooring from the auditorium. They also maintained the classroom layout and the large windows to maximize natural light.

The project qualified for Pennsylvania's historic tax credit only if the developers maintained the building's history. This incentive ensured the former high school would retain its exterior facade and much of its interior design. By extension, fewer infrastructural changes led to lower resource consumption and waste accumulation.

Leasing for the new apartments started in October 2021, and the occupancy reached 100% before renovations were even completed. Wig, Colucci, and Spanovich bought another abandoned school right across the street and plan to make it another apartment complex with 33 rooms.

## Upcycling for Residential and Commercial Uses

When adaptive reuse projects have to overhaul the building's original function completely, this process is known as "upcycling." Upcycling is the most common repurposing method because of the extensive changes old buildings often require. Contractors have [utilized a variety of vacancies](#), including old shopping malls, textile mills, and funeral homes. [21]

Perhaps the most high-profile residential upcycling project has been the revival of the old Daily News office in Lower Manhattan. Developers recently converted this abandoned office building into a [1,300-room apartment complex](#) for residents, making a significant dent in New York City's housing crisis. [22]



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Another great example of a successful upcycling project is the abandoned Miami Heart Institute in Florida. This former six-building hospital used to be one of the finest medical establishments in the country, but now it [consists of 111 multi-family developments](#) with luxury accommodations. [23]

Some upcycling projects have commercial and residential uses with high-value amenities. For example, a real estate firm called Jamestown Properties [converted an old Atlanta warehouse](#) into an office, retail, and housing space in one fell swoop, optimizing the expansive floor space to create an important community center. [24]

## Preserving History and Building Culture

Aside from revitalizing urban communities, a secondary goal of repurposing CRE is to preserve buildings with historical significance. Churches and schools that are hundreds of years old can still serve as important cultural centers — they just need an interior makeover.



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These historical preservation projects attempt to leave the exterior facade relatively unchanged while gutting the interior for a new purpose. Vacant school buildings are ideal for this type of renovation because of their size and existing classroom designs. For example, a former high school in Sarasota, Florida, [has become a new museum](#) for local artists to collaborate. [25]

Another great example is the historic boys' trade school in Worcester, Massachusetts. Once one of the largest school buildings in the state, it now serves as a [mixed-income living community](#) called the Voke Lofts that still retains its stone and red brick exterior. [26]

Another term for these types of projects is “facadism.” The buildings are starting to fall apart on the inside, which requires soft demolition. Contractors pull apart the building’s interior piece by piece, replacing the plumbing, flooring, electricity, and other essential components while leaving the face of the building largely untouched.

## Explore the Market for Vacant Commercial Real Estate

Real estate brokers should be salivating at the investment opportunities in vacant commercial buildings. These lots are often in historic neighborhoods or bustling downtown districts, but they lack the expensive price tags of modern buildings in the same areas. You need to hop on the bandwagon now before a competitor finds them first.

Multi-family properties, office spaces, and mixed-use buildings are typically the safest commercial investments to begin with. Instead of looking for highly competitive properties, you can find a diamond in the rough by looking for abandoned buildings. With some renovations, they could serve the same purposes and give you a much greater resale value.

## Combining the Old With the New

Urban renewal does not mean cities must tear down everything from past generations and replace it with new architecture. Vacant commercial buildings can still serve many commercial and residential purposes for urban communities. Combining the old with the new is an ideal way to promote the expansion of cities without losing the qualities that made them great places to live in the first place.

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