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Underutilized Office + Unaffordable Missing Middle + Live Local = Opportunity

Article
Lowndes
12.17.2025

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How stranded office assets – and the debt behind them – can be re-priced, re-positioned, and reimagined as the next multifamily pipeline.

There is a quiet math problem sitting on balance sheets all over the country – and it is getting louder by the quarter.

Secondary and tertiary office buildings are underperforming. Debt maturities are colliding with higher rates. Refi proceeds no longer pencil. Meanwhile, the housing market is screaming for product that doesn't exist – especially for the "missing middle" workforce that keeps local economies running.

Put differently:
Too much obsolete office. Not enough attainable housing. A statutory framework that finally connects the dots.

That is not a crisis. That is an opportunity – if you know how to look at it.

The Asset Isn't Broken. The Use Is.

Let's start with an uncomfortable truth. Many office assets aren't "bad buildings." They're simply solving yesterday's problem.

Hybrid work is not a cycle – it's a structural reset. Class A trophy space will survive. Everything else is competing for a shrinking pool of tenants who now demand more concessions, shorter terms, and better amenities than the building can economically deliver.

For owners and lenders, this shows up as:

- Persistent vacancy
- Declining NOI
- Capex that no longer produces rent growth
- Loan balances that exceed today's market value

Holding and hoping is no longer a strategy.

Meanwhile, the Missing Middle Is Pricing Everyone Out

At the same time, housing affordability has moved from policy talking point to economic constraint. The gap is most acute in the 80–120% AMI range – teachers, nurses, municipal employees, young professionals. Too "rich" for subsidies. Too "poor" for luxury rents.

This is the missing middle – and it is exactly where demand is deepest and stickiest.

States and municipalities know this. Which is why Florida, in particular, has rewritten the rules.

Live Local Changed the Risk Profile

The Live Local Act didn't just add incentives – it **re-allocated entitlement risk**.

Commercial, office, and industrial sites can now be redeveloped for multifamily by right if affordability thresholds are met. Density and height are no longer limited by the underlying zoning district but by the highest allowances nearby. Approval is administrative, not political.

For underutilized office assets, that means:

- Zoning risk is dramatically reduced
- Time to entitlement compresses
- Land value can be reset based on residential yield, not office NOI

For lenders, special servicers, and note buyers, this matters. The exit is no longer binary (refi or foreclosure). There is a third option: **conversion arbitrage**.

Where Value Is Actually Created

The real upside is not theoretical – it is mechanical.

Office-to-residential conversion works when:

- The basis reflects office distress, not residential replacement cost
- The building geometry cooperates (plate depth, window line, structure)
- Entitlements are clear and predictable

- The capital stack includes incentives, not just leverage

This is where Live Local becomes more than policy. It becomes underwriting.

Add in:

- Property tax exemptions tied to workforce housing
- Local CRA grants and gap funding
- Faster delivery versus ground-up construction

And suddenly a "problem loan" becomes a repositioning story.

A Word to Debt Holders: This Is a Leverage Moment

If you control the paper, you control the timeline – and increasingly, the outcome.

Office loans originated in a different market are now backed by assets that may never stabilize as offices again. But many of those same assets sit on irreplaceable land, in walkable locations, with infrastructure already paid for.

That creates optionality:

- Modify and participate in conversion upside
- Sell the note to a redeveloper who understands adaptive reuse
- Foreclose with a clear redevelopment thesis, not a leasing plan

Ignoring residential reuse is not conservative. It is increasingly speculative.

Sprinkle in a Little Extra Magic: C-PACE

One of the most underutilized tools in conversions is **C-PACE financing**.

Because office-to-residential projects typically involve major mechanical, envelope, and energy upgrades, they are often ideal candidates for C-PACE:

- Long-term, fixed-rate capital
- Non-recourse
- Amortized over 20–30 years

For capital stacks strained by today's interest rates, C-PACE can be the difference between "almost works" and "closed."

It is not a silver bullet – but it is a powerful lubricant in complex redevelopments.

The Big Idea: Obsolescence Is Not the Same as Irrelevance

The market is currently mispricing underutilized office assets as if their only future is more office.

That is the mistake.

The smarter view – for redevelopers and debt holders alike – is to ask:

- What problem does this site solve best today?
- How fast can it be repositioned?
- How much entitlement and political risk can be eliminated upfront?

In many cases, the answer is not more leasing. It is more housing.

Final Thought

Underutilized office.
An unaffordable missing middle.
A Live Local framework that finally aligns incentives.

That equation does not come around often.

Those who treat it as a compliance exercise will miss it.
Those who treat it as a value-creation strategy will define the next cycle.

If you control the asset – or the debt behind it – now is the moment to rethink what “highest and best use” actually means.