

# ● DTLA, Adapting & Evolving

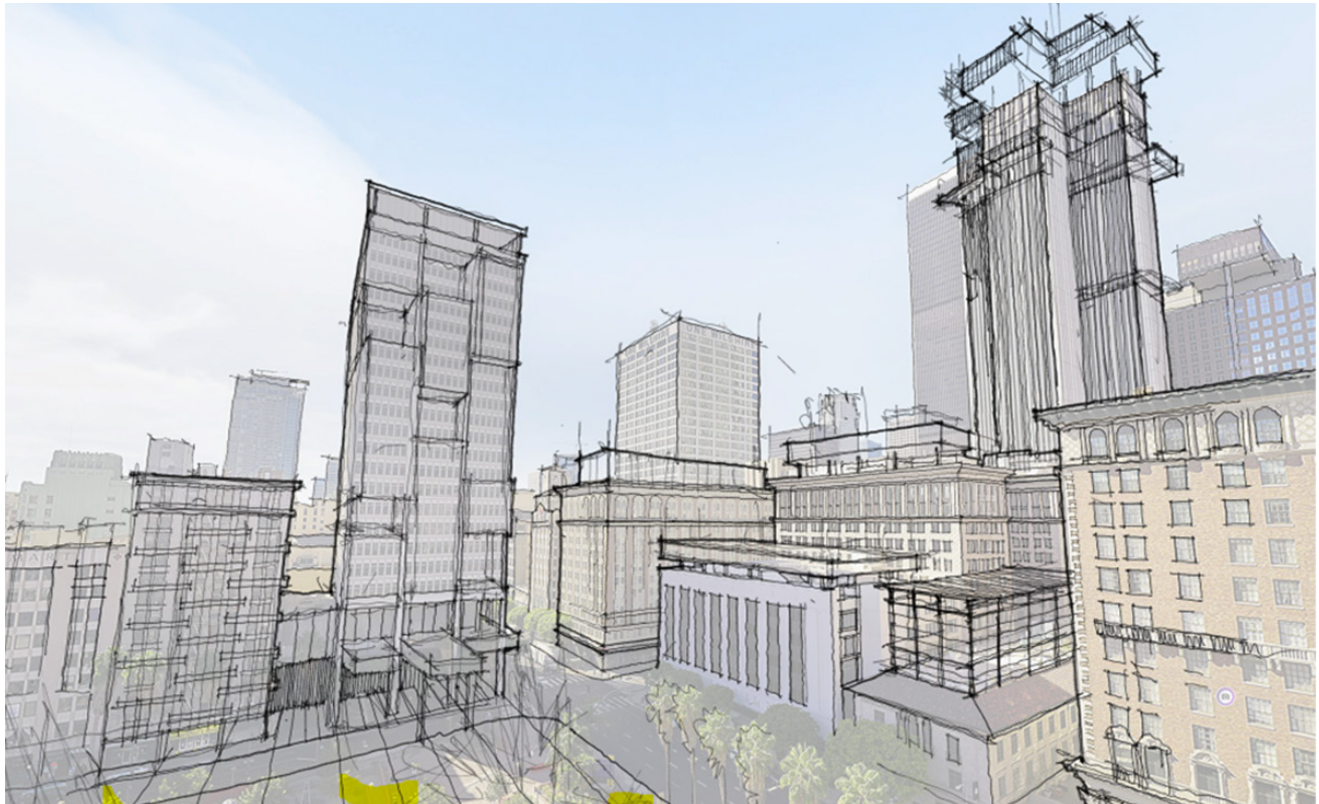


ILLUSTRATION BY JOHN ERIC CHUNG

Central Business Districts across the country are facing vital questions about their future, largely driven by shifts in office work sparked by the pandemic, leading to a reduction in demand for office space and the number of office workers in our downtowns. DTLA is no exception.

One strategy for addressing the potential long-term impacts of these trends is the conversion of office buildings to residential or other uses – commonly referred to as “adaptive reuse.” While that is a technical term referring to a change in zoning classification, the phrase also captures the spirit of the practice as well – adapting and reusing. As such, we want to look at both the specific factors involved with adaptive reuse and also the broader implications of converting and repurposing buildings, spaces, and places, and what that means for reimagining districts like DTLA.

Adapting to social and economic change is what great cities do, and the history of Downtown LA is a succession of such shifts – from the early 20th Century when Downtown Los Angeles was simply Los Angeles, a city unto itself with Victorian mansions on Bunker Hill, movie palaces and department stores on Broadway, and the “Wall Street of the West” on Spring; through the fallow post-war period of suburbanization and the redevelopment of Bunker Hill with office towers and cultural institutions; to the 21st century revitalization that brought a booming residential population along with dining, nightlife and tourism. So, as we consider the current wave of change impacting the office sector and the central business district, it should be within that broader historical context of on-going evolution.



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## Adaptive Reuse & the Downtown Renaissance



Adaptive reuse is in DTLA's DNA, having played a key role in the evolution of Downtown from a traditional business district into a dynamic 24/7 destination over the past two decades. This reinvention did not happen by accident. Along with strategic investments, such as Staples Center, it was fueled by the 1999 Adaptive Reuse Ordinance, championed by key local stakeholders such as Carol Schatz, President & CEO of the Central City Association. The new ordinance kick-started a residential development boom in Downtown by encouraging the conversion of vacant or underutilized commercial buildings to residential lofts via tax incentives, relaxed development requirements, and streamlined processes.

Revitalizing and repopulating these vintage properties made the area more vibrant and appealing, attracting Angelenos seeking a more urban lifestyle. These new residents brought a new energy and spirit to Downtown, creating a vibrant community and distinct culture that transformed the character of the neighborhood and led to a wave of new commercial opportunities as well.

New restaurants, retailers, and art galleries were attracted by the growing residential population, and Downtown quickly became a nightlife hotspot. In addition to the new residents, office workers who previously had rarely left their building, were going out for lunch, staying after work, and engaging with the area in a way they had never done before.

The lesson for today is that adaptive reuse can serve as a catalyst to further growth and change. It is not just about changing a building from one use to another. It is about the spirit of adaptability and reinvention.



# The Case for Adaptive Reuse Today



The idea of converting office space to residential is particularly appealing today for its potential to address two of Los Angeles’ most critical issues at once: (1) reducing the stock of underutilized office space and (2) increasing the inventory of much needed housing.

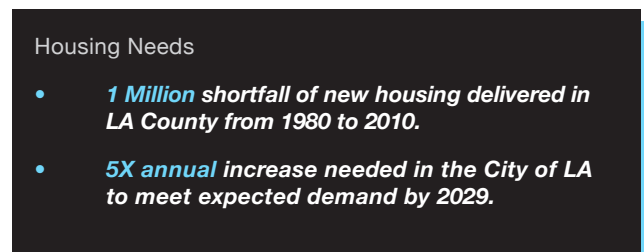
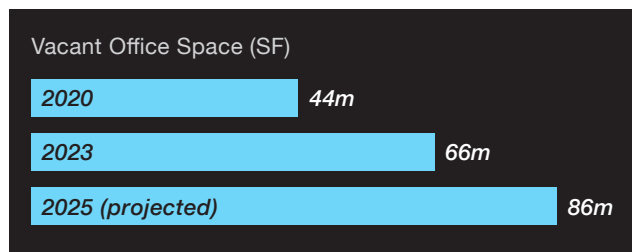
## OFFICE

There are currently almost 65 million square feet of vacant office space in LA County, a 41% increase since the start of 2020. Over the next two years, another 14.5 million square feet are expected to become vacant, pushing the County-wide vacancy rate from just under 10% in 2018 to almost 18% by 2024<sup>1</sup>.

## RESIDENTIAL

From 1980 to 2010, one million fewer homes were built across LA County than were needed<sup>2</sup>. Looking forward, the City of Los Angeles must increase annual production of new housing from 8,800 per year to 57,000 per year, just to meet expected demand by 2029<sup>3</sup>.

1: CoStar / 2: Legislative Analyst’s Office / 3: Regional Housing Needs Assessment, 2021-2029



# Converting Office Space

As compelling an opportunity as converting office space into residential units may be – it is of course easier said than done and involves a complex set of considerations that determine the physical and financial feasibility of any given project. Broadly speaking, these factors fall into the following three categories:

## DESIGN AND ENGINEERING

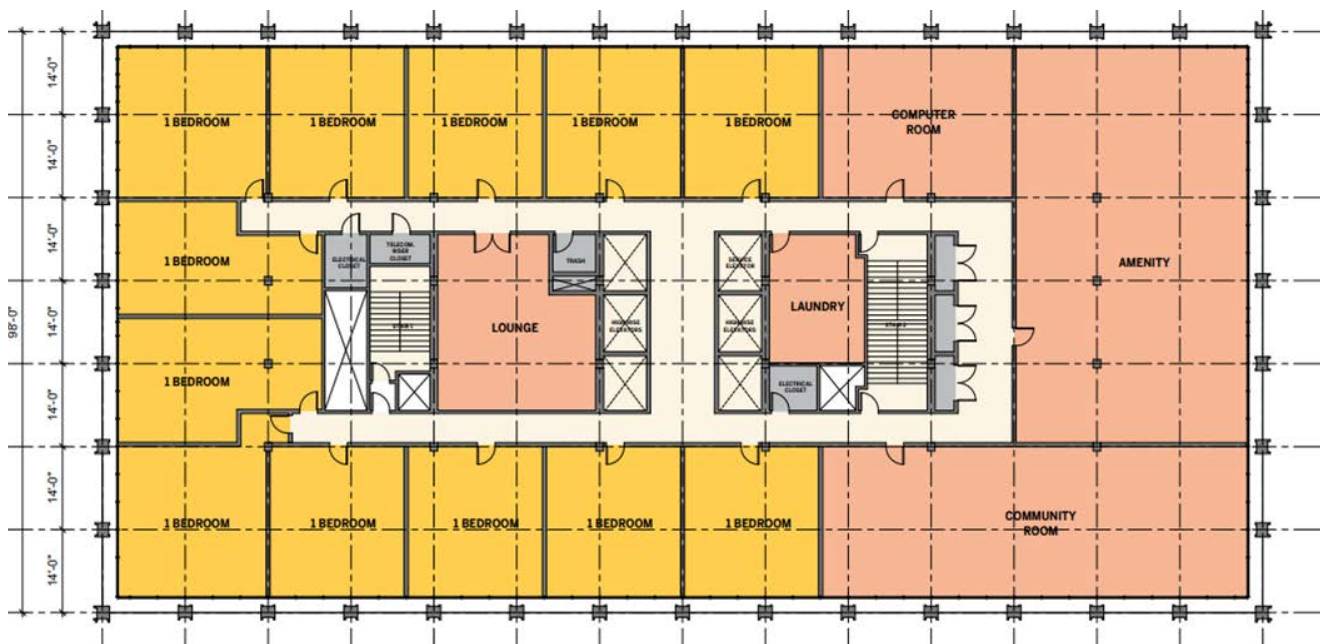
- **Floor Plates:** Modern office buildings often have large floor plates, which can be challenging to reconfigure for residential units which require natural light.
- **Windows:** Residential units typically require operable windows, which many contemporary office buildings do not have.
- **Building Systems:** Office building systems including HVAC, plumbing, and security are centrally operated, whereas residential units are managed individually.

## REGULATION

- **Zoning:** City zoning codes may not allow for residential uses in commercial districts.
- **Building Codes:** Commercial and residential uses are subject to different health and safety requirements.
- **Policies:** Cities can encourage and facilitate adaptive reuse by enacting policies that eliminate obstacles, reduce requirements, and streamline the process.

## FINANCIAL

- **Conversion Cost:** The cost of conversion can range widely and be difficult to project due to uncertainties associated with issues identified above.
- **Relative Value:** The financial viability of an adaptive reuse project depends on the potential current and future values under the different uses plus the cost of conversion.
- **Current Occupancy:** Most conversion projects require a building to be vacated, which may entail additional effort, time, and cost.
- **Current Financing:** The debt associated with a property and the ability to carry that debt through conversion is another critical consideration.





# The Office Building Reimagined



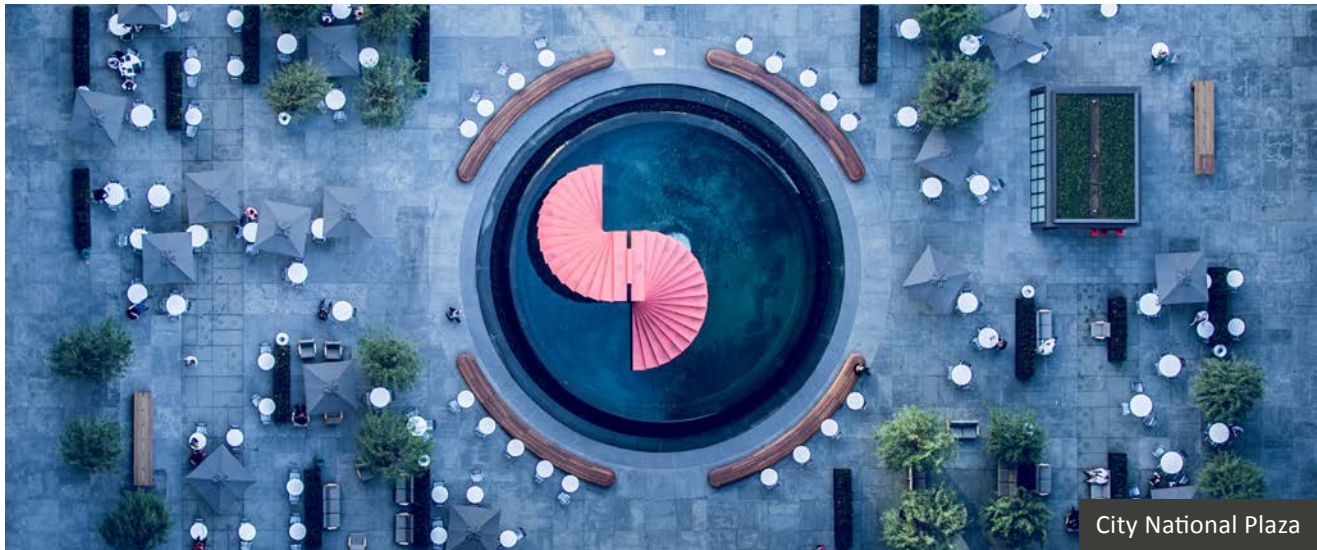
Without changing anything about a building’s use or tenant base, there are many ways that its spaces can be reinvented to support the evolving needs of office tenants. Chief among these are strategies for reconfiguring office spaces for new modes of work and efforts to increase the appeal and utility of the common areas and amenities within a building. Several of DTLA’s leading property owners have already invested in a range of these types of improvements.

Outside of physical improvements, properties are also offering a broader suite of services for tenants, including catering, concierge, and event support, creating a model more akin to a hotel than an office tower. This extends to creating unique activations, spaces and events for workers that build engagement and encourage office visitation.

Another way to reposition these properties is with different commercial uses than those typically found in office buildings. For example, the past several years has seen educational institutions such as USC, ASU, and Cal State LA lease office space for classrooms. A similar approach could apply to other uses such as fitness centers, medical offices, and personal services, which are typically found in more specialized commercial buildings.



# The Business District Reimagined



City National Plaza

If the nature of work is changing and giving office workers more options and flexibility, then central business districts like DTLA need to change too – becoming the place people want to be when they work. While this is a complex and nuanced topic involving a wide range of factors, fundamentally it comes down to thinking differently about what has made DTLA an appealing destination for office tenants in the first place.

For example, access to public transit has always been a key asset for DTLA. As long as face-to-face engagements remain part of doing business, the accessibility offered by DTLA will remain vital. However, rather than thinking of it primarily as a way to move a mass of people in and out in the morning and the evening, it could serve more varied and flexible needs and schedules. The new Regional Connector exemplifies this, providing better access to more places within Downtown and around the region to enable Metro to serve a broader set of passengers.

Similarly, a major appeal of DTLA is its diverse range of retail, food, and beverage options. Although some existing businesses catering narrowly to office workers may need to adjust, offerings with broader appeal will continue to thrive. Moreover, the growing residential population and increasing number of visitors and tourists means more opportunities for a wider array of retailers and service providers to enter the marketplace.

Employers cite the dynamic lifestyle of the urban environment as a major benefit. The density and diversity of activity and amenities within a walkable environment makes Downtown uniquely convenient for residents and workers alike, enabling them to accomplish more in less time and, crucially, without a car. The fullest expression of this concept is found in the community of people who both live and work in DTLA. In our annual survey of DTLA residents, workers, and visitors, the live/work segment consistently reports the highest levels of satisfaction with the area, with 78% saying they love DTLA.

Moreover, while DTLA may not have a wealth of traditional park space, it is home to a network of POPS – Privately Owned Public Spaces – that provide similar utility by both enhancing the public realm and providing people with appealing spaces to work or recreate. Although initially conceived primarily as an amenity to the building’s occupants, many have been reconfigured to create more of an open, active urban campus environment.

By recontextualizing the assets and advantages that made Downtown LA a premiere destination for office tenants, we see how it can thrive in an era of increased work flexibility. With variety, convenience, and compelling places and experiences, DTLA has already proven to be a place where people will choose to spend their time, working or otherwise.

# Downtown Reimagined

Downtown Los Angeles is at an important inflection point in its trajectory, most immediately due to the catalytic impact of seismic shifts in the nature of office work, but more broadly, and deeply, because of the ways it has grown and changed over the last 20 years, which have laid the foundation for even more dramatic development and progress over the next 20.

Downtown's residential population quadrupled over the last two decades, from under 18,000 in 1999 to over 90,000 today. During that period over 1,000 new restaurants and retail businesses opened, and the number of visitors to Downtown soared to over 22 million annually. Prior to the pandemic, the working population in DTLA grew steadily as well, and more importantly diversified significantly, with major growth in newer creative and technology industries.

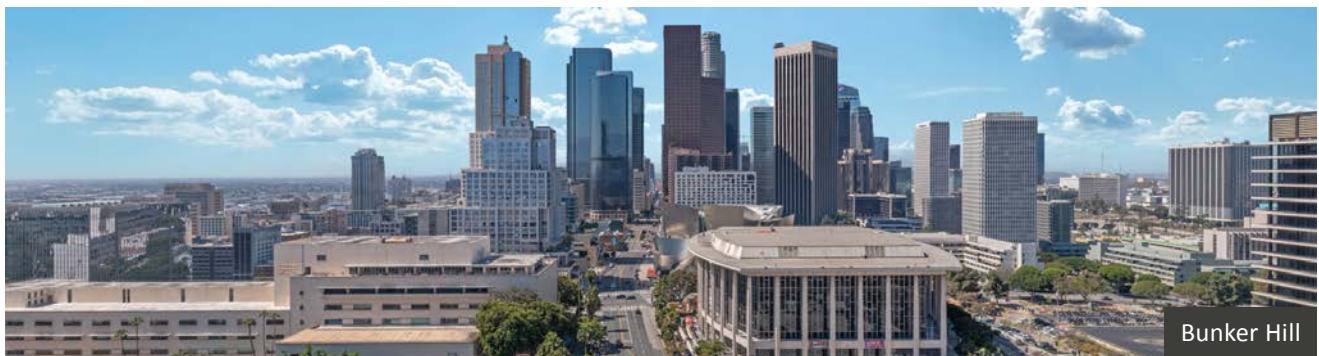
The recently approved DTLA 2040 Community Plan projects the residential population will more than double again over the next two decades to over 200,000. A population of 200,000 would make Downtown the equivalent of an average mid-sized American city unto itself. But because those 200,000 residents are joined by hundreds of thousands of workers and tens of millions of visitors, DTLA is and will remain – unlike your average mid-sized city – a highly influential center of commerce and culture, and a global destination.

So as we reimagine DTLA's future in light of current changes in the office sector – no matter how significant – it should be in that more holistic context. It should also be noted that the dynamic growth of Downtown's residential population, hospitality and tourism sector, arts and culture, dining, nightlife and entertainment scenes will continue to enhance its appeal as a place to work or locate an office as well.

With the completion of Metro's Regional Connector, Downtown is positioned to become an even more essential hub for the Southern California region, but with the kind of local growth and diversification discussed above, it is also on a parallel path to being the quintessential 15-minute city, with everything one needs to live, work, and play in walkable/bikeable proximity.

As the 2028 Olympics – for which Downtown will be the most prominent location – approaches, this vision of DTLA as both regional center and complete city is coming into focus. Because Downtown is the seat of government for the city and county, with a vital civic sector, and because it also boasts some of the most sophisticated investors and developers in the real estate industry, making that vision a reality is well within our grasp. The DTLA 2040 plan is the blueprint, and adaptive reuse, broadly defined as it is here, is one of the key strategies.

Downtown Los Angeles has an illustrious history of adaptation that will serve it well in its next chapter. Whether converting historic buildings into hip lofts, iconic theaters to flagship retailers, or newspaper headquarters into university campuses, DTLA has evolved with the times and come out ahead of the curve – more dynamic, exciting, and appealing than before. The current changes roiling the office sector will be a catalyst for the next cycle of DTLA's transformation, driven by the spirit of reinvention that has fueled its growth through multiple eras and will propel it into the future.





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