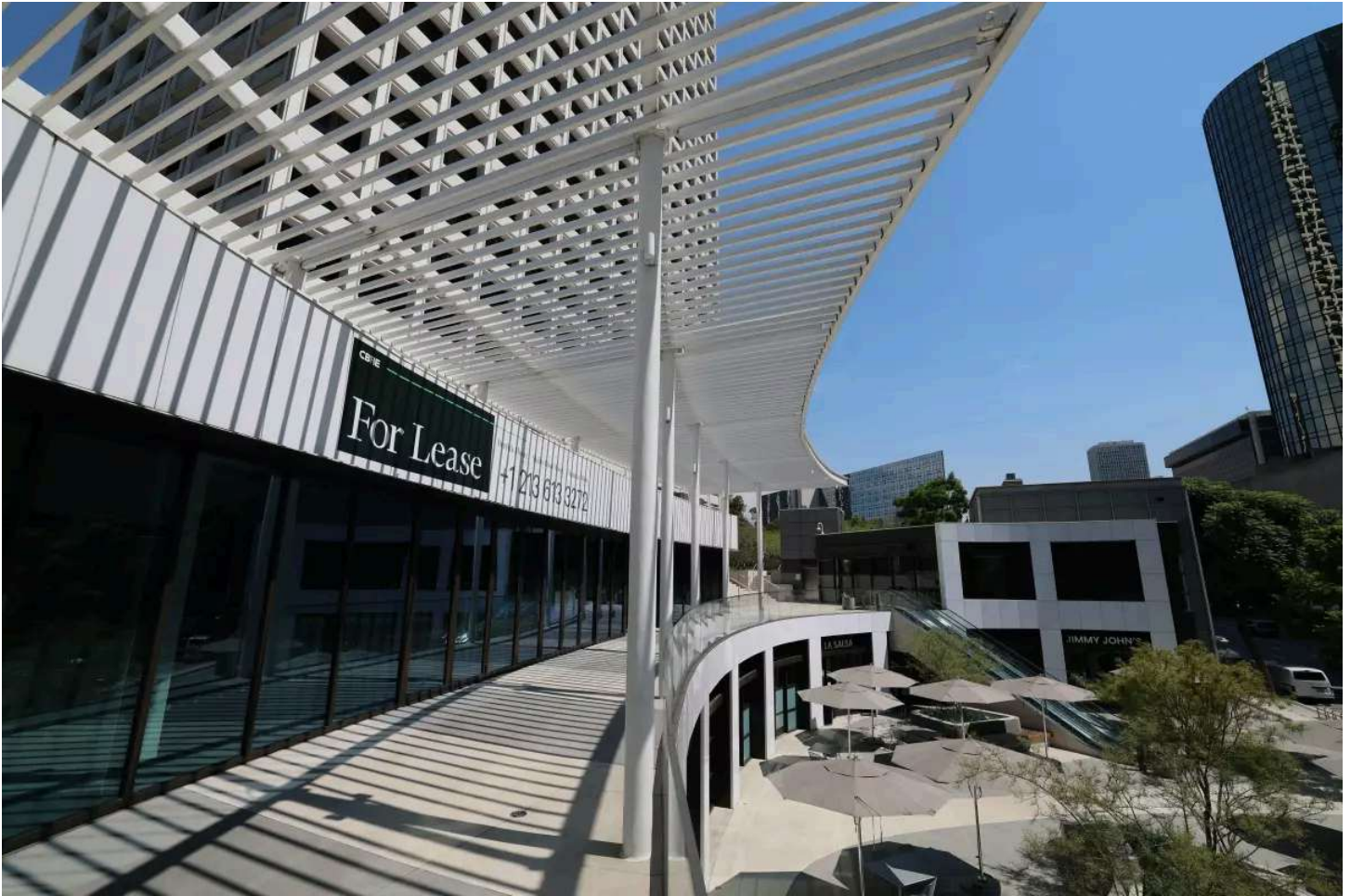


## A second act for empty office space? How skyscrapers in downtown L.A. could ease the housing crisis



Union Bank Plaza in downtown Los Angeles on Wednesday. (Allen J. Schaben / Los Angeles Times)



**By Roger Vincent**  
Staff Writer | [Follow](#)

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The transformation of a sleek, granite-clad office tower on the edge of the 110 Freeway into deluxe apartments is about to begin, and developer Garrett Lee thinks the nearly 40-year-old building can be competitive with downtown L.A.'s much newer upmarket housing.

A mock-up of an apartment assembled in the L.A. Care tower on 7th Street reveals high ceilings, tall windows and sweeping views of the city that speak to the appeal of urban living.

It could also be a harbinger of what's to become of other fancy office towers.

With downtown's office rental market mired in high vacancies and falling values, stakeholders are clamoring for more city support to convert high-rises to housing that would help address the city's persistent housing shortage.

Among the suggested targets for conversion are elite Financial District towers that commanded top rents before offices were shut down by COVID-19 pandemic stay-at-home orders, leaving many buildings more than one-third vacant.



Mockup of an apartment inside a 1980s office tower at 1055 W. 7th St. in Los Angeles that is going to be converted to housing. (Eddie Shih / E22 Studios)



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Failure to make at least some of them into housing could be financially catastrophic for taxpayers, according to a new study commissioned by the Central City Assn. of Los Angeles, a downtown business advocacy group that says the city should consider giving developers financial incentives to convert their buildings.

Office values have fallen dramatically in recent sales, and many owners are seeking public reappraisals of their buildings in hope of reducing their property taxes. When assessed values of buildings are reduced, so are the taxes collected by the county and shared with the city, school districts and other public entities.

“Declining assessed values are likely to translate into significant losses in General Fund revenue” for the city, according to the [report by BAE Urban Economics](#), a Berkeley real estate consulting firm.

Efforts to create a second act for underused office towers that were the height of corporate prestige a generation ago are part of a larger drama playing out in a financial center that has lost much of its shine in the years since the pandemic started.

Restaurants and shops have struggled with the departure of many workers while homelessness and a sense that sidewalks aren’t safe have risen and helped lead to the departure of some office tenants.

Downtown L.A. has 54 office buildings that are at immediate risk of devaluation and could result in nearly \$70 billion in lost value over the next 10 years, the report said, creating a potential loss of \$353 million in property tax revenues.

Buildings potentially would have more value as apartments or condominiums and could make a dent in expected tax losses. Converting just 10 big office buildings to housing would boost their combined assessed property value over a decade by \$12 billion, adding \$46 million in tax revenue and creating more than 3,800 residential units, the report said.

Meanwhile, demand for housing in downtown L.A. has held steady even as the need for offices has waned. Occupancy in apartments has remained about 90% for more than a year, slightly higher than the level before the pandemic. And unlike most neighborhoods in Los Angeles County, downtown has seen a monumental [housing construction boom](#) in recent years.

In the last decade, 22% of the new housing in the city has been built downtown, where city planning policies encourage dense development, according to the DTLA Alliance business improvement district.

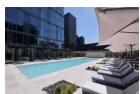
To be sure, downtown will retain its identity as a white-collar business center even as its housing component grows. At 56.5 million square feet, downtown is one of the largest office markets in the country and is an important economic engine for the city, said Nella McOsker, president of the Central City Assn.

Business leaders in the association will continue to support efforts to refill office buildings with workers, she said, even as they encourage the conversion of some buildings to housing.



People walk by the 777 Tower on South Figueroa Street in downtown Los Angeles on Wednesday. (Allen J. Schaben / Los Angeles Times)

“We’re not giving up on folks coming into the office in large numbers,” McOsker said, “but we need to always evolve.”



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The BAE Urban Economics report does not identify the 10 buildings used to calculate the financial effects of converting them to housing, but previous discussions of prime candidates have included some of the most prominent towers on the city skyline that were built in the latter part of the 20th century.

Among them are 777 Tower and Union Bank Plaza, both on Figueroa Street, and Gas Company Tower at the foot of Bunker Hill near Pershing Square.

The list of conversion candidates is confidential because publicizing them might “put a scarlet letter around their neck” when most are “actually very good office buildings,” said John Adams, a managing principal at Gensler. The architecture firm selected potential candidates for conversion, which have recently faced financial straits and low occupancy.

[The Gas Company Tower was sold to Los Angeles County last year](#) for about \$200 million, a steep drop from its \$632-million valuation in 2020. The 777 Tower traded a year ago for \$120 million, a 70% drop from its 2013 sale price, according to real estate data provider CoStar.

Union Bank Plaza, a 40-story tower completed in 1967, is an attractive candidate in part because it has a retail complex at the base that would be a good amenity for residents as well as office tenants, Adams said.

The 55-story 777 Tower, completed in 1991, was designed by architect César Pelli, who designed some of the world’s tallest buildings including the Petronas Towers in Kuala Lumpur, Malaysia. Part of its appeal is that it has separate banks of elevators for different tiers of floors, Adams said, which could make it easier to convert some floors to housing while others remain offices. With renovations, residents could have a separate lobby entrance from office workers.

Many early 20th century office buildings downtown have already been converted to apartments and hotels, but housing advocates are now eyeing the newer generation of towers that dominated the office market in the last three decades.

Among them are ripe candidates to become residences, mostly built from the 1970s to 1990s, Adams said.

Their “slick glass-and-marble aesthetic” is visually appealing, he said, and they were built in a way that the outer skins can be modified to include balconies and operable windows.

“These towers are hackable,” Adams said.

The city is close to adopting a new building code that will make it easier for developers to get approvals to convert offices built after 1975. A previous code for conversions that focused on buildings erected before that year, when construction standards were less stringent, led to a boom in office, apartment, condo and hotel conversions starting in the early 2000s.



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Newer buildings such as the L.A. Care tower are “night and day” more attractive to convert to housing than the midcentury buildings Lee’s company, Jamison Properties, has converted in the past, he said.

Downtown’s Class A buildings have more modern systems such as elevators and electrical service, and may require fewer upgrades to meet seismic standards than older structures. The city recently determined that Jamison Properties did not need to perform a structural retrofit of the L.A. Care tower at 1055 W. 7th St., Lee said.

Los Angeles County officials, meanwhile, have declared that Gas Company Tower is seismically safe, but are reviewing bids to perform more than \$230 million worth of proactive upgrades “to ensure that the building performs optimally in the decades ahead,” [a representative said](#).



A mock-up of an apartment inside a 1980s office tower at 1055 W. 7th St. in Los Angeles that is going to be converted to housing. (Eddie Shih / E22 Studios)

The highest hurdle for private landlords considering turning an office building into apartments or condos is typically financial; it often costs more to acquire and convert a building than can be justified by expected rents.

City leaders should consider offering financial incentives such as those found in other cities to bridge the gap to profitability, the report said, citing programs in other central business districts.

New York, Washington and Boston have property tax abatement programs, for example. San Francisco offers transfer tax exemptions, and Chicago uses tax-increment financing to encourage some redevelopments. In Canada, Calgary offers direct grants.

The Central City Assn. wants the city to consider financial incentives for conversions, even though it is experiencing budget shortfalls, McOsker said. As of May, the city faced a [nearly \\$1-billion budget shortfall](#).

McOsker suggested that the city form a team to focus on conversions and perhaps do it at a scale “well outside of downtown Los Angeles.”

Helping turn unused offices into housing is important to city officials, said Rachel Freeman, deputy mayor of business and economic development.

“We have a deep need for more housing at all levels of affordability,” she said. “Adaptive reuse has the potential to be a tool to help achieve our goals towards housing production and also the revitalization of our core urban centers.”

Zoning and building codes should be “more supportive” of the process, she said, adding that the mayor’s office also is open to the idea of financial incentives for builders.

For the vibrancy of downtown and other core business centers also facing falling office values, Freeman said, “there is a cost to doing nothing.”

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**Roger Vincent**

Roger Vincent covers commercial real estate for the Los Angeles Times.