

# Baker McKenzie.

Repurposing real estate is not new.

Maximizing the use of real estate has always been a necessity for businesses to stay competitive and relevant, and repurposing real estate ensures that the value of properties are optimized.

Across all classes of real estate, user behavior, changes in business models and sustainability are driving change. Repurposing real estate is the most cost-effective way to adapt to these changes.

In the first article of our Repurposing Real Estate series, we will look at what repurposing real estate means and explore examples across different classes of real estate assets. In our second article, we will look at construction trends and legal issues, and in our third article, we will look at repurposing real estate through the lens of sustainability.



# What is repurposing, and why is it relevant today?

The global pandemic, geopolitical turbulence and the urgent need to address environmental issues have forced businesses to closely examine how they use real estate. The pandemic alone had a huge impact on the ways that we work, shop and relax. COVID-19 has accelerated the growth of online shopping, has justified hybrid working models and has brought the importance of environmental, social, and governance matters to the attention of investors. Geopolitical issues have affected the supply of materials, disrupted the supply chain, and have increased energy prices in some jurisdictions, such as Germany. Repurposing real estate provides businesses with a cost-effective way to adjust to these changes.

Repurposing real estate is the use of real estate or buildings for a purpose other than what was originally intended. It involves identifying the ways that we can take advantage of real estate by capturing (and recapturing) value through changing its use. It uses less resources and prevents assets from becoming obsolete.

Repurposing may provide an elegant, and ideally affordable and sustainable, bridge between what owners of businesses have and what they need.

# Key observations across real estate sectors

All real estate sectors provide opportunities for repurposing.



## Retail

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With the rise of e-commerce and omni-channel marketing strategies of retailers, retail space is an easy target for repurposing. Landlords and tenants can think critically and flexibly about how their space can be used and how they can attract new retailers or new businesses. With alterations to the space, vacancies in prime locations can attract new retailers. Landlords may offer these spaces for self-storage facilities, gyms, office spaces, healthcare laboratories and clinics, or even churches or religious activities.

"Bricks and mortar" assets may seem outdated; however, this remains key in the retail space as the customer experience becomes central to business survival. A large percentage of customers still prefer to physically try on products before purchasing. For some markets, shopping is a recreational activity. Some retailers have focused on providing a positive in-store experience for shoppers, making retail spaces more interactive or experiential. For example, some malls in the US have set-up selfie stations and organized in-person workshops.

While landlords have been savvy in re-using retail space, where centers may no longer be viable, retail may be converted to mixed-use and even residential properties. Landlords using this approach are recognizing needs in other sectors when re-assessing their portfolios, and they are finding that what may be an outdated or out-of-favor asset may find new life and breathe diversity into a previously monocultured portfolio.



## Logistics

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Logistics has been the obvious winner in terms of increased demand. Changes in the retail sector are accompanied with those in logistics. Addressing "last-mile" logistics have led to increased demand for warehousing. Repurposing existing or unused retail spaces into product storage or distribution centers can be an easy conversion for tenants and a way for landlords to use empty space.

However, last-mile logistics only form part of the picture. The logistics sector, from warehousing to cold storage, is hungry for space. With space at a premium, finding opportunities to repurpose existing properties and diversify portfolios is necessary. Repurposing asset classes into warehousing, or even diversifying existing holdings, can provide neat solutions for businesses looking for space.

There are also a few instances of industrial spaces being converted into mixed-use properties. In Poland, factory buildings in Lodz have been converted into a mixed-use project. Lodz used to be a center of fabric production, but the sewing industry later collapsed due to economic changes and mass production of clothes. The factory buildings have been repurposed into a mixed-use project which includes a shopping center, museums and offices.



## Hotels, resorts and tourism

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A shifting, and at times very uncertain, hotel market means that repurposing is popular in hospitality. Declining business travelers have led to a fall in demand for urban hotels. There are cases in China where obsolete hotel buildings at primary locations have been transformed into office buildings. A resulting shift in the industry means a focus on destination hotels in remote locales. In Italy, demand for hotels used to be concentrated on Rome, Milan, Florence and Venice. Hotel clients are now increasingly interested in resorts in Sardinia, Puglia, Tuscany and Umbria.

While business clientele are travelling less frequently, when they do, they expect more. Digital nomads want more than a desk in a hotel room. Hotel operators are responding by transforming their spaces to include purpose-built co-working spaces, bars and meeting spaces.

There is also an increase in demand in the luxury hotels sector. For example, in Milan, the former headquarters of the Boston Consulting Group has been repurposed into a luxury hotel.

Hotel operators are also using their non-physical brand presence to shift their physical operations, with branded residences now being used as a way to diversify holdings but also as a way to repurpose unpopular hotel space.



## Office

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Hybrid work models are here to stay. In many instances, tenants have given up office space and have repurposed remaining spaces to boost office use by employees. The Chicago office of Baker McKenzie now has a floor for collaborative activities with an open-floor plan, visiting attorney offices on a hoteling arrangement, a gender-neutral bathroom, a shower room, and a sidebar that has complementary snacks and beverages.

Some employers go beyond free food and coffee. For example, one US-based company set up a kids playground in its space and another US-based company built a bowling alley. An employer in Milan created a playground for adults, with facilities for table tennis, billiards, a gym and even a meditation room. In Argentina, a company has a barbecue space on their rooftop, in addition to requiring a "WELL certification" from its landlord, which confirms that the building is designed and built to provide a healthy environment to its occupants. Landlords are also now expected to provide spaces for bikes and fitness facilities and sometimes even change their policies to be pet-friendly. In Germany, an employer set up a fitness center within a very short time frame, as the employer is keen to bring back the employees back to the office.

Landlords and tenants recognize the need for amenities to be superior to those in the home office, and repurposing is part of the journey of returning to the office.

The hybrid work model has made desk-sharing or hoteling arrangements popular. Property users are looking to companies such as Proptech to help with these arrangements. Some apps allow employees to book workstations at the office. In Italy, a multi-tenant building owner has set-up common conference rooms that their tenants may book through an app.



## Residential

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With falling demand in some asset classes such as in commercial real estate, developers are unlocking space and development opportunities by looking at residential conversions. As sustainable cities are on the rise, there is increased emphasis on availability of public transport and proximity to public resources in the residential market.

Repurposing buildings in areas that may have previously been thought of as business districts or office-focused provides a new frontier for developers. In Belgium, factories are being transformed into apartments. In China, factories, offices, hotels and warehouses are being converted into special types of apartments, which are available for leasing but not for sale and are usually subject to some form of rent control. In Poland, high demand and low supply of residential apartments are encouraging developers to adapt unused buildings into residential sites. Similar projects are being pursued in Germany. In Argentina, a rejuvenation of the financial district into new homes is being sought for similar reasons.



## Mixed-use

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Shortened building lifecycles are driving interest in wider ranges of property types. Diversifying the use of a property can be used as a means to insulate properties from value loss. Mixed-use buildings can provide multi-functional spaces that increase flexibility, create experiences, and provide maximum connectivity for their users. Ultimately, investors can create, through repurposing, economically sustainable properties by blending uses that meet the demands and needs of users.

User preference for the upper levels of buildings has led property owners to become creative with the way lower floors of buildings are used. This may involve diversifying the use of those lower levels into retail spaces or into leisure areas.

## Final words

Repurposing provides opportunities to recapture value and maximize the use of space. With high costs and space at a premium, looking at what is old can provide opportunities for businesses to find something new. This is a trend echoing across all facets of real estate. Ultimately, demand will drive innovation and the need to reinvent and stay relevant.



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