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Beyond Vacancy: How Chicago Is Rebuilding Its Downtown from the Inside Out

A Milestone That Changes the Conversation

A vacant Loop office tower became 117 apartments last month, the first completed office-to-housing conversion under Chicago's LaSalle Street Reimagined initiative and the first of its kind in the Loop. The 14-story Rector Building, now the Bellwether, was 121 years old when construction crews finished converting 11 of its floors using a financial package that combined \$28 million in city tax increment financing with \$7.8 million in federal tax credits tied to its historic landmark status. 41 of the units are reserved for households earning around 60% of the area median income (AMI), as downtown Chicago anticipates 806 new apartments through adaptive reuse this year and another 3,921 units moving through the pipeline.

Adaptive reuse means repurposing a building for a use for which it was not originally designed. In Chicago, that most often means converting vacant downtown office towers into apartments, but the strategy also extends to ground floor retail, dining and cultural attractions on former banking floors, building trades education centers, music schools, and affordable housing built within historic church sanctuaries. The question for every developer, investor, owner, lender, and municipality is no longer whether this market is real, but how to position for it.

What Is Driving the Market

Office vacancy set the stage. The COVID-19 pandemic permanently reset expectations about how much space companies need. By the first quarter of 2024, the direct vacancy rate in Chicago's Central Business District had crossed 21%, with Class B buildings at 25.7% and Class C properties at 23.9%.

For a growing share of those buildings, the case for conversion has become stronger than the case for waiting.

Housing demand made the case for change. In 2024, city planning officials noted only 32 completed ARO units in the Loop, while a typical amenity-rich studio rented for more than \$2,000. Affordable units at 79 W. Monroe were targeted at around \$1,000 per month for households earning 60% AMI. For developers with environmental commitments, the sustainability argument for conversion is well established: retaining an existing structure preserves the energy already embodied in its materials and avoids the carbon cost of extracting, manufacturing, and transporting everything required for new construction.

The city made itself a financial partner. Municipal leadership announced \$320 million in tax increment financing over two years for LaSalle Street Reimagined projects, with the LaSalle Street TIF District expected to generate between \$170 million and \$200 million annually until it expires in 2030. Local decision-makers approved \$158 million in tax-exempt housing revenue bonds for two downtown office buildings slated for redevelopment. Those commitments established the public-private framework that made the first wave of conversions financially viable.

Where the Opportunities Are

The LaSalle Street initiative has 6 active projects on the table, putting more than 2 million square feet of dormant office space and 1,765 mixed-income units into play. At 135 S. LaSalle St., the Field Building is being converted into 386 residential units at a total budget of around \$242 million, following local legislative approval of roughly \$98 million in TIF subsidies in fall 2025. The 1928 art-deco tower at 65 E. Wacker Place now offers 252 luxury apartments. River North has emerged as the next active front, with a loft office building at 223 W. Erie St. being converted into 66 apartments targeting spring 2027 occupancy, and a buyer last month paying \$5 million for the vacant property at 225 W. Superior Street for a potential residential conversion. Proximity to public transportation in these neighborhoods reduces parking requirements and project costs.

The Challenges Stakeholders Must Understand

That cost advantage is narrower than many expect: developers put the savings at roughly 10% to 15% below new construction, because older office buildings require complete replacement of mechanical, electrical, and plumbing systems. Building configuration and code compliance add up fast. Elevator cores often need to be reconfigured and new stairs added to meet egress requirements. Buildings constructed in the early twentieth century frequently relied on fire escapes rather than interior stairs, which does not satisfy current residential code. Adding operable windows, which many older office buildings lack entirely, can cost thousands of dollars per unit across hundreds of openings.

Zoning relief is a variable. At 19 S. LaSalle, two zoning variances were secured in June 2026: one to allow alternative compliance from the minimum required on-site open space of 6,246 square feet, and another to reduce the required transparent window area. The building will have no car parking, substituting 105 bike parking spaces instead.

Residential developments that receive approval for an entitlement, city land sale, or financial assistance after October 1, 2021, are subject to the Affordable Requirements Ordinance. Under the ARO, developers of rental projects in the downtown district must set aside 20% of the dwelling units in the project as affordable units at a weighted average of 60% AMI. Across the LaSalle Street corridor, every approved conversion carries a mandate that 30% of newly created units be affordable, reserved for households earning an average of 60% AMI, a condition that exceeds the ARO baseline. The city approved \$158 million in tax-exempt housing revenue bonds for two of those conversions conditioned on reserving a share of units for households earning 30% AMI. Where a project also draws on Low-Income Housing Tax Credits, those credits can be paired with historic preservation tax credits, a combination one affordable housing developer describes as covering roughly one quarter of a project's cost. Under the ARO, all designated affordable units must be maintained as such for 30 years.

Historic preservation is both a constraint and a financing tool. Landmark status restricts what can be altered, but it also unlocks federal historic tax credits. The Bellwether's \$7.8 million in federal tax credits came directly from its landmark designation. In December 2025, the local decision-makers approved landmark status for the YMCA building at 19 S. LaSalle St., where a developer plans to redevelop it into a \$64 million residential building with 150 to 170 apartments. Large Loop projects stack tax-exempt bonds, 4% tax credit equity, TIF, a first mortgage, owner equity, and a deferred developer fee. That complexity extends beyond the Loop: the conversion of the former Humboldt Park United Methodist Church sanctuary into 100% affordable housing in Logan Square required 11 separate funding sources assembled over many years.

Where the Market Is Headed

The country is projected to need 4.3 million additional rental units by 2035, a target that cannot be reached by new construction alone. Among major U.S. cities pursuing office-to-residential conversion, Chicago trails only New York City and Washington, D.C. in volume of adaptive reuse activity. Adaptive reuse has gone from a niche strategy to a defining feature of downtown Chicago's housing delivery. In 2026, converted buildings account for about 44% of all new units coming to market downtown, with 117 already delivered and 823 more under construction.

The Medinah Temple on Wabash Avenue has served as a casino operator's temporary home since 2023, but the operator is expected to move into its permanent facility in early 2027, leaving the owner with roughly a year to identify what comes next for the century-old landmark. A private joint venture

acquired the Thompson Center from the State of Illinois in 2022 and is redeveloping it as the Chicago headquarters for a major technology company, with an official opening planned for 2028.

A senior municipal planning official called the Bellwether “the vanguard for downtown office conversions that are reimagining what it means ... to live, work, and play in the heart of Chicago.” With projects under construction across the Loop and River North and nonprofit developers demonstrating that even the most financing-intensive adaptive reuse projects can get done, Chicago’s adaptive reuse market is set to deepen considerably over the next several years.

Practical Takeaways

Developers should screen building inventories carefully, because physical characteristics including workable floor plates and operable windows determine viability before financing conversations begin.

Investors should treat public subsidy as structural, not optional, and track TIF approvals and bond authorizations as early signals of viable deal flow.

Office building owners should honestly assess whether their assets have a realistic future as offices, because proactive engagement with the city’s adaptive reuse programs is far preferable to a distressed disposition.

Lenders should build expertise in layered capital structures, as large conversion projects routinely close financing only after assembling multiple sources including tax-exempt bonds, tax credit equity, TIF, and a first mortgage.

Contractors should expect earlier involvement, as owners are bringing construction teams in much earlier to evaluate feasibility, establish budgets, and identify scheduling risks before drawings and plans are finalized.

Municipalities should recognize that their incentive tools are what make the economics work, and suburban municipalities watching the Loop’s progress should begin mapping their own office corridors before the problem becomes a crisis.