



Transforming Retail Spaces into Mixed-Use Residential Properties | May 2024

The real estate investment landscape is undergoing significant evolution, marked by the emergence of innovative solutions. One such solution involves the revitalization of distressed retail spaces into mixed-use residential properties. This approach not only addresses the housing shortage but also breathes new life into vacant or underutilized retail properties.

I recently participated in a Q&A session with [GlobeSt.com](#), where I shared insights into our projects and strategies. Here are some key takeaways from that discussion:

Much of our development takes place in coastal California, where most of the land is already developed. Redevelopment opportunities are essential. Retail sites are attractive because they usually have the necessary scale, utilities in place, and good access from adjacent roads. The impacts of building residential are generally less than the existing retail condition, making approvals more straightforward. We have three projects currently converting retail into housing and mixed-use, with a fourth planned, all in California.

This trend of repurposing retail spaces is not limited to California. It will likely be seen in high-value markets where land is at a premium. While California is a prime example, opportunities exist in other markets, and we plan to explore these further.

The biggest impediments to repurposing retail have to do with dealing with the existing tenancies. These include any Covenants, Conditions, and Restrictions (CCRs) that might exist and reciprocal access agreements that require negotiation with major tenants. This requires a significant level of diligence prior to an acquisition as well as proper budgeting to handle these issues.

When selecting retail properties for redevelopment, we focus on quality locations, reasonable pricing, and local community support. Meeting with elected officials and city government during the diligence phase is essential to garnering community support for our proposed projects.

Navigating the regulatory landscape and community engagement is complex. We consider various issues, including new laws in California that may be helpful but come with constraints, such as affordable housing requirements or the use of union labor. We evaluate all options while designing a project to determine the best course of action.

Adding residential to underperforming retail projects not only creates successful residential units but also improves the retail environment. Retail surrounding new residential developments benefits from built-in customers, and other retail in the community can also improve with the removal of sub-quality competition.

[For more detailed insights, please refer to my interview with \[GlobeSt.com\]\(#\): Reviving Retail: Shopoff's Vision for Converting Distressed Spaces into Thriving Residential Hubs.](#)¹

Disclosures:

¹The reference to future events and general optimism of distressed retail spaces into mixed-use residential properties does not predict the specific performance of this project. Results may vary. Economic downturns or shifts in market demand could adversely affect the project's profitability and the ability to sell or lease the developed space.

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