



Yardi® Matrix

National Office Report

July 2022



Conversions a Slow, Niche Trend

- After more than two years of volatility and uncertainty in the office market, the sector's long-term future remains unclear. Hybrid and remote work has depressed demand for office space, and it will take years of new job creation to make up the difference. With housing shortages in markets across the country, many were predicting these circumstances would lead to a deluge of conversions of office stock into multifamily housing.
- Conversions of office buildings to apartments, while appearing to be a two-birds-with-one-stone solution, have proven to be difficult because most such projects are not profitable. Logistical challenges in conversions increase the cost of construction and reduce the rentable space. Large floor plates are the most prominent challenge—apartments need natural light, and deep floor plates limit the number of units a building can support. Some developers work around this by placing amenities in the center of a building, but this is likely a solution only for luxury apartments. Other challenges such as utility requirements and ceiling heights further increase the cost of conversion.
- Conversions that are taking place are mostly to high-end units concentrated in East Coast markets where land for new development is scarce. In Manhattan, Macklowe Properties is converting the iconic One Wall Street from more than 1 million square feet of office space to 566 luxury condos. Silverstein Properties and Metro Loft purchased 55 Broad St. for \$180 million with plans to convert the 30-story building into more than 500 units. Washington, D.C., may be the most active conversion market: Post Brothers purchased a 2.5-acre office complex near Dupont Circle for \$228 million with plans to convert the two buildings into apartments. Foulger-Pratt purchased 1425 New York Ave., N.W., for \$56 million and will convert the 13-story building into 255 units. Yet conversions of office towers to apartments are not solely confined to the Eastern seaboard. In Salt Lake City, Hines purchased the 24-story South Temple Tower with plans to turn it into a 255-unit, high-end multifamily building.
- We expect conversions will continue at their current pace and as a niche for patient, creative developers to deliver luxury apartments. Considering the logistical and financial challenges, office conversions that provide much needed workforce housing likely won't happen on a large scale unless there are deep discounts on distressed properties or until the state and local governments provide substantial incentives for unprofitable projects to pencil out—and neither prospect seems likely in the near term.

