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National Office Report

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Cities Push for Office Conversions

- Record-high office vacancies are creating opportunities for building owners to repurpose vacant spaces and for cities to address persistent housing shortages.
- The average national vacancy rate remained high in May at 19.4%, up 160 basis points from the previous year, according to Yardi Matrix. Currently, over 149 million total square feet of office space have been proposed for conversion, 125 million since the start of 2022. The number of conversion proposals has increased every year this decade, and 2024 saw 48 million square feet proposed. Yet there is no one-size-fits-all solution for converting a vacant office, with methods varying by market and project. Yardi's revamped Conversion Feasibility Index (CFI) scores buildings based on a variety of factors, with a Tier I building being a top candidate for conversion and Tier II possessing strong potential but possibly requiring some adjustments.
- Manhattan has one of the lowest vacancy rates in the nation, and unused space quickly becomes a target for adaptive reuse given the market's dense nature. Currently, 23 million square feet of the city's office space have been proposed for conversion. According to the CFI, 19.5% of Manhattan's office stock are Tier I candidates for conversion, while 34.6% are Tier II. To expedite conversions, the city established the Office Conversion Accelerator program, which provides a single point of contact in city government to assist owners with zoning and permitting. Conversion started last month on a GFP Real Estate property at 222 Broadway, built in 1961, to turn 770,416 square feet of office space into 798 apartments and commercial space, with an anticipated completion date of May 2027.
- San Francisco has one of the nation's highest vacancy rates at 28.4%, with office attendance averaging 43%, according to Kastle's Back to Work Barometer. Despite ranking among the top markets in Yardi's CFI—with 9.2% of office space rated as Tier I and 25.1% as Tier II—only about 1 million square feet of office spaces are currently proposed for conversion. San Francisco is looking to increase this number with its Commercial to Residential Adaptive Reuse Program, which includes tax waivers and eliminates certain fees. Additionally, the city recently approved the creation of a downtown revitalization financing district, which aims to incentivize conversions by reinvesting the increase in property tax revenue generated to help offset development costs. One such project underway is the New Humboldt Residences at 785 Market St., which is being transformed into 120 housing units.

