



Yardi Matrix

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Finding the Right Building for Conversion

- As it has become increasingly clear that remote and hybrid work is here to stay, converting vacant offices to housing stock has drawn interest from building owners and policymakers. Conversion projects have remained somewhat niche, but a new proprietary tool from Yardi Matrix shows there is a pool of potential conversion targets that is larger than most may suspect.
- The Conversion Feasibility Index (CFI) is a new tool developed by Yardi Matrix that uses a weighted scoring system to evaluate building characteristics and determine suitability for conversion. The CFI creates a score for each building using a variety of factors including building age, location, total square footage, building depth, mid-block location, use type, number of stories, floor-plate shape, ceiling height, green-building certifications, walkability and transit accessibility. Building scores are then sorted into three tiers, with a Tier I building being a top candidate for conversion, Tier II possessing strong potential for conversion but possibly requiring some modifications or adjustments, and Tier III being those buildings that will face significant challenges and limitations.
- In all, more than 228.3 million square feet (2.7% of stock) of office space are classified as Tier I and an additional 1.0 billion square feet (12.1%) as Tier II. The majority of conversion candidates are within CBD or urban submarkets, as only 6.0 million square feet of suburban office space are Tier I and 171.1 million are Tier II. Perhaps unsurprisingly, Manhattan has the largest share of its stock rated as candidates, with 16.8% in Tier I and 36.3% in Tier II. No other top market comes close to having as much space rated strongly for conversion, but San Francisco (6.2% Tier I, 19.6% Tier II), Los Angeles (4.4% Tier I, 20.3% Tier II), Chicago (4.1% Tier I, 14.5% Tier II) and Miami (3.7% Tier I, 12.4% Tier II) all have significant amounts of space that could potentially be converted.
- Even though the pool of potential conversions is large, many projects will have a tough time penciling out. Local governments across the country have been ramping up efforts to increase conversions. New York City's Office Conversion Accelerator, which expedites zoning and permitting, has enrolled dozens of buildings so far. Washington, D.C.'s Office-to-Anything Program offers a 15-year tax freeze for eligible projects. Further value destruction could also make more conversions economically feasible. The average sale price of an office is down 40% since 2021, and more than a quarter of all buildings that have sold this year have done so at a discount to their prior sale price.

