The Transforming Office Cameron Williams, DIRECTOR OF RESEARCH, SVN INTERNATIONAL CORP.

RETHINKING VACANT DOWNTOWN OFFICES: A CREATIVE APPROACH TO REPURPOSING SPACE.

Downtown office vacancies continue to climb, with a significant portion of the workforce operating remotely. The trend away from traditional office usage is reflected in a projection that office conversion projects are expected to more than double, driven by incentives from state and local governments. This shift comes as the conventional five-day office workweek is rendered obsolete, prompting a search for alternative uses for empty office spaces. While the White House has proposed a \$35 billion initiative to transform these underutilized spaces into residential housing, aiming to create over 170,000 units, the question remains whether this approach is viable. Beyond residential conversion, innovative uses for this space are being considered, from multifamily housing to vertical farming and medical/life science facilities, as we rethink how best to utilize the evolving urban fabric.

Multifamily

ADVANTAGES

Since 2016, 110 office-to-multifamily conversions have been completed, creating nearly 20,000 housing units, with an estimated 21,000 more units from current projects.

Approximately 60 million square feet of office space across 40 U.S. markets are planned for conversion, equating to 1.4% of the total U.S.

office inventory. The annual average of office conversions is predicted to more than double with an estimated 100 projects planned, driven by state and local government incentives. Major cities like New York and Chicago have passed zoning code changes to facilitate office conversions into affordable and/or zero-emissions housing.

Agricultural (Vertical Farming) ADVANTAGES

The global vertical farming industry is projected to grow from \$3.1 billion in 2021 to \$9.7 billion by 2026, showcasing a robust expansion of this innovative agricultural sector.

Vertical farming offers an efficient use of space, with the technology allowing for a significant increase in yield—up to 350 times more plants per unit area compared to traditional farming, along with a 95% reduction in water usage.

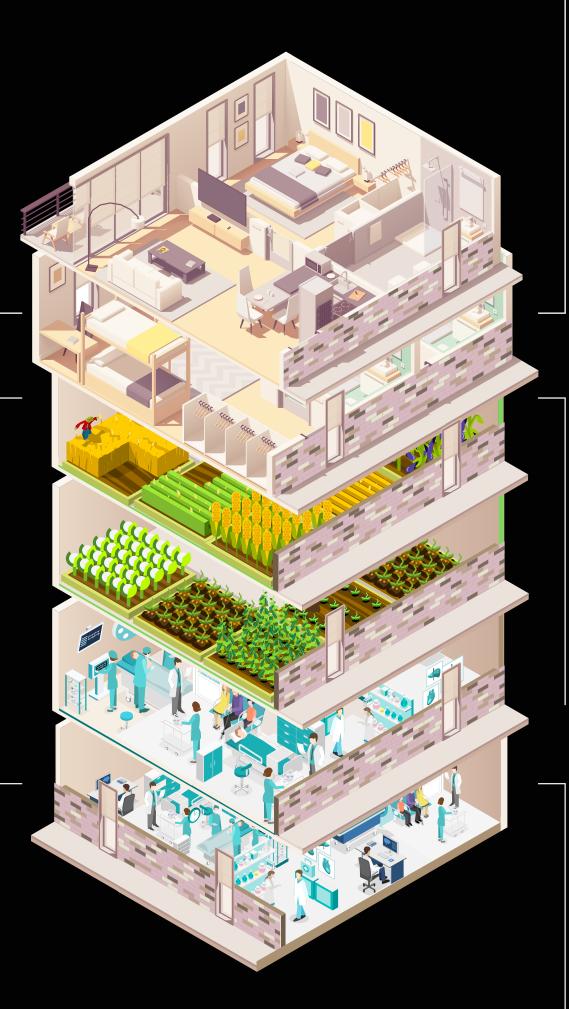
Taking over space in population centers and controlled growing conditions mean year-round fresh produce with minimal transporting.

Medical/ Life science ADVANTAGES

Asking rents for lab space nationwide hit a record-high average of \$65 per square foot across the top 13 life science markets, double that traditional office space rent averages.

With medical and lab space there is often a highly specialized work environment and or the direct seeing of patients, so the threat of remote/hybrid work is largely removed.

If feasibility requirements are met a conversion typically takes under 2 years, significantly faster than the three-to-five-year timespan of a ground up development.



CHALLENGES

Less than 1% of office space in the largest U.S. cities is considered suitable for residential conversions.

Only 3,575 apartment units were converted from office space in the last year, less than 1% of all apartments built through new construction.

The average net operating income for office buildings was only marginally less than for multifamily housing by \$0.50 per square foot in 2022, questioning the financial incentive for developers.

CHALLENGES

One of the main challenges for vertical farms is the need for specific modifications to the building, such as improved HVAC and airflow systems and the installation of specialized piping.

Zoning bylaws can be restrictive, with amendments required to allow for urban farming—this is a varied process across cities, adding complexity and potential delays.

The technology for vertical farming is currently limited to certain types of crops, mainly leafy vegetables, and small fruits, which may limit the scope of farming operations in office spaces.

CHALLENGES

Venture capital funding for life sciences startups has also fallen significantly from its pandemic-era peak, declining from \$6.7 billion in the first quarter of 2021 to \$3.6 billion in 2023.

While lab workers require specific work conditions, support employees in marketing and accounting have adopted WFH policies provided by the largest traditional life science occupiers and there has been a 50% reduction in office attendance since 2019.

