Macro Roundup Article

Headline: The Price Is Still Too High for Office-to-Multifamily Conversion

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Summary: We estimate that around 4% of US office buildings—those located in suburban areas or central business districts, built 30 or more years ago, not renovated since 2000, and currently facing vacancy rates above 30%—might be no longer viable as offices. The average transaction price of these offices has declined by 11% since 2019. In the hardest-hit cities, as many as 14-16% of offices may no longer be viable by our definition, and their average transaction prices have already fallen by 15-35% since 2019. Using a discounted cash flow model, we show that current acquisition costs for struggling offices are still too high for conversion to a multifamily building to be financially feasible once we account for the high additional costs of conversion and financing. For the top 5 metropolitan areas that are most affected by remote work, we estimate that office acquisition prices would need to fall almost 50% for conversion to be financially feasible. Because the conversion process is slow and costly, available office space is likely to remain excessive and many buildings are likely to remain underutilized. As a result, we expect new office investment to remain sluggish in the next few years, resulting in a 0.2pp drag on fixed private investment growth.

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Primary Topic: Business Cycle

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