

MAY 2024

The long road to equilibrium: **office conversions** and “functional obsolescence”

Across most of the U.S., concerns of oversupply in the office market historically had to do with “**construction booms**” or the vast development of new buildings, and not enough occupier demand to fill such spaces.

Nowadays, it has less to do with new development, and instead more so with obsolete buildings with chronically high availability, coupled with post-pandemic impacts where the hybrid workplace business model is now the “**new normal**” for most occupiers. The New York City (NYC) office market is not immune.

New York office availability current state

Specifically for Manhattan, there have been three straight quarters of negative office-using job growth and lackluster hiring, as well as continued varying Return to Office policies. This has led to even more excess space available on the market, which has ballooned since the start of the pandemic. As a result, the overall office availability rate closed in at 20.1% for a new post-pandemic peak as of the end of Q1 2024. With a 467.8 million-square-foot office market that we track, this equates to 94.0 million square feet (msf) of current available space.

As we dissect the peak 20.1% overall office availability rate and examine the buildings that make up the 94.0 million square feet of excess space, the question to answer is what would be the **“true availability rate”** if we were to exclude those buildings from our existing inventory that are either conversion candidates or currently obsolete and had little to no leasing activity since the start of the pandemic.

467.8 MSF

Office space tracked by Savills

20.1%

Q1 2024 overall office availability rate

94.0 MSF

Available space on the market as of Q1 2024

Savills conversion tracker and office building obsolescence methodology

Conversion tracker

Through our research, Savills has uncovered 21 buildings totaling 9,200,523 square feet of office space, or 2.0% of currently tracked office space where conversion in most cases to residential has been publicly rumored, planned or is under construction.

These conversion candidates have a total of **5,133,392 square feet** of current available space.

Note, prior to Q1 2024, there were eight buildings totaling 4,924,377 square feet that have already been removed from Savills inventory and are not a part of the current available space.

21

buildings

9,200,523

SF of office conversion candidates

2%

Of tracked office space

5,133,392

Total available SF of conversion candidates

4,924,377

SF already removed from current Savills inventory

Identifying office buildings with chronically high availability and little to no leasing activity

Using our proprietary building obsolescence methodology, Savills identified an additional eight buildings totaling 1,616,117 square feet of office space, or 0.35% of currently tracked office space which can be characterized as “functionally obsolete.”

These eight buildings currently have a total of **1,392,431 square feet** of long-term available space. Removing the total of **6,525,823 square feet** of combined available space would cause the overall Manhattan office availability rate to decrease from 20.1% to **19.2%**, or **90** basis points.

The reduction in the Manhattan office availability rate by market is as follows:

	MANHATTAN	MIDTOWN	MIDTOWN SOUTH	DOWNTOWN
SF removed	6,525,823	3,201,191	272,177	3,052,455
True availability rate	19.2% from 20.1%	16.9% from 17.6%	22.8% from 23.0%	22.8% from 25.2%
Basis points	90 ↓	70 ↓	20 ↓	240 ↓

Finally, removing these buildings from existing inventory would cause the Manhattan office space per office-using worker utilization metric to decrease from **310.2** to **303.1**, which is still considered oversupplied where national metrics are currently **212.3**, compared to global metrics of 10 square meters per worker or **107.6**.

Worth noting – what can help significantly move the needle?

Local government programs to support repurposing of office buildings, and also make them more sustainable and attractive to both businesses and employees

“City of Yes” Plan

In late August 2023 the NYC Mayor and the NYC Department of City Planning (DCP) laid out the City of Yes plan to change decades-old zoning rules to spur housing and economic growth. Part of the plan is to convert vacant office into housing.

New York City Office Conversion Accelerator Program

The Office Conversion Accelerator program was launched by the DCP to expedite complex conversions of office buildings into residential or mixed-use developments.

The program provides a streamlined permitting process, financial incentives, and technical assistance to help developers navigate the complexities. As of May 2024, 64 buildings have enrolled.

Midtown South Mixed-Use Plan (MSMX)

MSMX is a community planning process kicked off by the mayor’s administration to update zoning rules that currently allow only manufacturing and office space.

The plan aims to foster a vibrant 24/7 live-work community across 42 blocks of Midtown South with new homes and good job opportunities.

Where legislation has initially failed at the state level in Albany, the city can act through the land use review process to change zoning citywide and expand flexibility needed for these projects.

Manhattan Commercial Revitalization Program (M-CORE)

M-CORE was launched in mid-May of 2023 by the NYC Economic Development Corporation (NYCEDC) and the NYC Industrial Development Agency to support sustainable and adaptable office environments and high-quality spaces.

Worth noting – what can help significantly move the needle?

(M-CORE continued)

The M-CORE program provides tax benefits (property, sales and mortgage recording tax) to Manhattan office owners to support transformative renovations of aging commercial office buildings – the goal is to make 10 million square feet of such space attractive.

Building eligibility:

- **Location:** Manhattan, south of 59th Street (excluding Hudson Yards and Penn Station Area General Project Plan);
- **Building Age:** constructed prior to 2000;
- **Size:** at least 100,000 gross square feet (gsf); threshold recently lowered from 250,000 gsf
- **Capital Investment:** a minimum of 75% of the project’s assessed value (land + building) for the most recent tax year

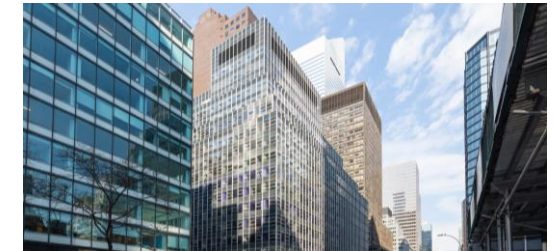
The selection criteria includes project readiness and compliance with applicable local laws and regulations, including Local Law 97 (emission reduction targets); sound plans for significant

renovations that will introduce new layouts, building systems, energy efficiency improvements, health and wellness measures, and sought after amenities by existing and prospective tenants.

In January 2024, the NYCEDC announced the first round of M-CORE recipients (2) to transform underperforming office buildings in Manhattan:



175 Water Street
WSA Waterfront LLC



850 Third Avenue
HPS Investment Partners

Even with local government programs to support the conversion of “functionally obsolete” office buildings or to make existing ones more sustainable and attractive to businesses and employees, the Manhattan market remains over-officed and it will take some time to significantly move the needle. Hence, the road to equilibrium is long, if it even can be reached at all.

Thank you

The Savills logo, consisting of the word "savills" in a lowercase, sans-serif font, is positioned in the top right corner of the slide. The text is dark red and is set against a light yellow rectangular background.

MARISHA CLINTON

Vice President, Research East

+1 212 588 3480
mclinton@savills.us

LESLEY KAMNITZER

Senior Research Manager

+1 212 326 8621
lkamnitzer@savills.us

MATTHEW SCHRECK

Research Manager

+1 212 588 3482
mschreck@savills.us

For more articles and research from Savills industrial experts offering industry-leading advice and analysis, visit our [research and insights hub here](#).

savills.us

© 2024 Savills. All rights reserved. The material in this presentation has been prepared solely for informational purposes and is strictly confidential. Any disclosure, use, copying or circulation of this presentation (or the information contained within it) is strictly prohibited, unless you have obtained Savills' prior written consent. Neither this presentation nor any part of it shall form the basis of, or be relied upon in connection with, any offer or transaction, or act as an inducement to enter into any contract or commitment whatsoever. NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IS GIVEN AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN AND SAVILLS IS UNDER NO OBLIGATION TO SUBSEQUENTLY CORRECT IT IN THE EVENT OF ERRORS.