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VANTAGE POINT

RETHINKING SPACE:

THE RISE OF OFFICE-TO-RESIDENTIAL CONVERSIONS IN NEW YORK CITY

SEPTEMBER 2025

Better never settles

CONVERSIONS ON THE RISE

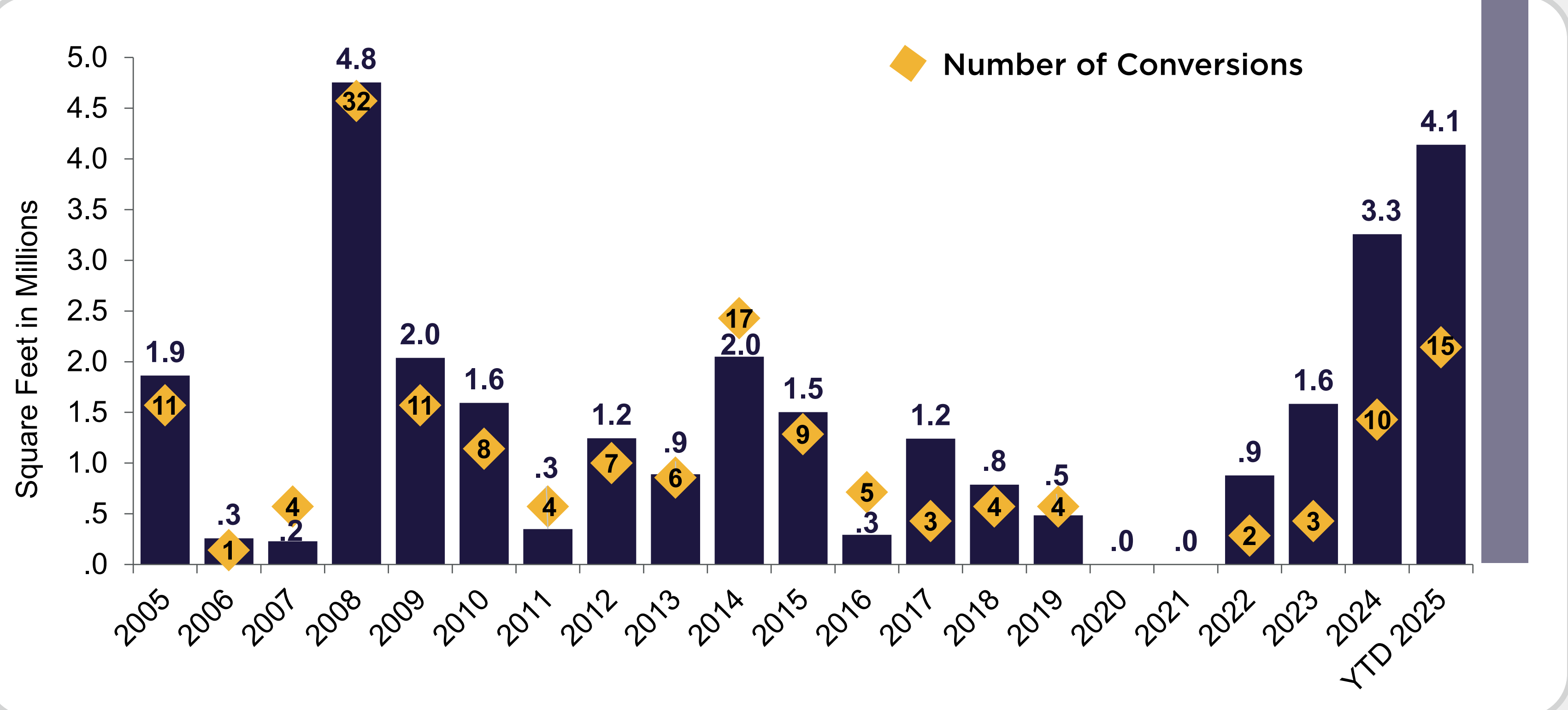
Residential conversions have emerged as one of the most notable shifts in New York City's real estate landscape since the onset of the pandemic. As older office buildings have struggled to attract tenants in today's hybrid work environment, with overall vacancy rates still hovering above 20.0%, owners are increasingly looking to residential reuse as a viable path forward.

While zoning restrictions and financial challenges limited the feasibility of such projects in prior years, recent policy changes and a renewed focus on housing supply have paved the way for accelerated activity. The past two years, in particular, have seen a surge in both conversion proposals and construction starts, marking a clear departure from the slow pace that characterized the pre-Covid era.

8.8 MSF

of proposed conversions across 25 properties.

MANHATTAN HISTORICAL CONVERSIONS



20 Buildings

Since 2024, 20 Manhattan office sales involved properties slated for, or already undergoing, residential conversion.

MARKET DRIVERS

POST-PANDEMIC SURGE

The scale of office-to-residential conversion activity since the pandemic highlights just how dramatically the landscape has shifted. From 2004 through 2022, office-to-residential conversion starts averaged less than 1.2 million square feet (msf) annually, with only one year (2008) breaking above 4.0 msf. By contrast, the post-COVID era since 2023 has ushered in a sustained upswing. Conversion starts reached 1.6 msf in 2023 and more than doubled to 3.3 msf in 2024. Already in 2025, 4.1 msf of conversions have commenced through August—surpassing the entirety of 2024 in only eight months.

Underlying this momentum is a market still grappling with historically elevated vacancy rates. Manhattan office vacancy peaked at 23.8% in June 2024, and while it has since eased slightly to 22.3% as of August 2025, the vacancy rate remains more than double the pre-pandemic five-year quarterly average of 9.4%. These conditions have amplified owner motivation to reposition underperforming assets, making residential reuse an increasingly compelling strategy. At the same time, conversions help to partially relieve the city's persistent housing shortage, further reinforcing their market and policy appeal.

19.3%

Since 2004, Downtown's office inventory has contracted by 19.3% through residential conversions—far more than Midtown (-2.5%) or Midtown South (-4.7%).

FINANCIAL FACTORS

Financial dynamics have also shifted in favor of conversions. Office investment values have undergone a post-COVID reset, with the average price per square foot of Manhattan office sales falling from a peak of $1,037 in 2019 to $567 in 2025—a 45.3% decline. This drop has narrowed the gap with development site pricing, which averages $426 per buildable square foot in 2025. As valuations converge, both existing owners and opportunistic buyers are better able to underwrite conversions as the higher and better use of obsolete office properties.

THE ROLE OF POLICY

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Policy has played an equally critical role in enabling this transition. The Office Conversion Accelerator Program, launched in 2023, helped reduce administrative hurdles, while the 2024 enactment of the 467-m tax incentive proved transformational by making more projects financially viable. Most recently, the City of Yes zoning reforms, lifting of the FAR cap, and approval of the Midtown South Mixed-Use Plan have broadened eligibility, expanding the universe of viable candidates for conversion.

Looking ahead, the scale of the pipeline underscores the durability of this trend. An additional 8.8 msf of projects are now proposed—just slightly less than the volume of conversion starts since 2023. As elevated office vacancies intersect with supportive policy and housing demand, conversions are positioned to remain a central feature of New York's evolving real estate landscape.

CONVERSIONS ANNOUNCED PER YEAR

- 2023: 7
- 2024: 18
- YTD 2025: 19

2023

August 2023
Office Conversion Accelerator Program Launched

Established a dedicated interagency group to streamline and expedite approval processes for qualifying office-to-residential projects.

2024

April 2024
Enactment of 467-m Tax Incentive

Introduced up to 35 years of property tax relief for conversions that include at least 25% affordable units, improving financial feasibility.

December 2024
"City of Yes" Passed

Expanded conversion eligibility to most commercial buildings built before 1991, raised allowable density, and eliminated parking requirements.

2025

May 2025
Lifting of FAR Cap in State Budget

Removed the 12 FAR (floor area ratio) limit in high-density zones, allowing larger-scale residential conversions when affordable housing is included.

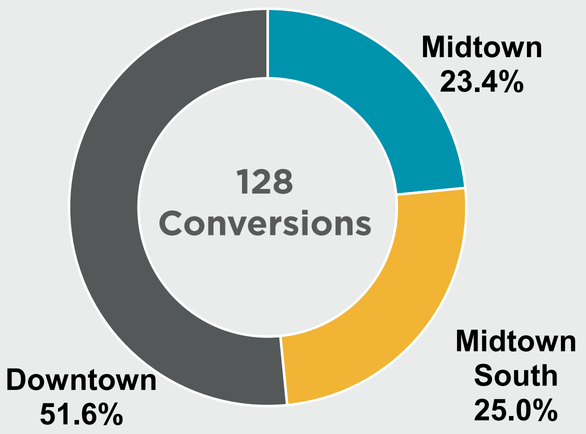
August 2025
Midtown South Mixed-Use Plan Approved

Rezoned ~42 blocks to allow residential use (including conversions) where it was previously restricted.

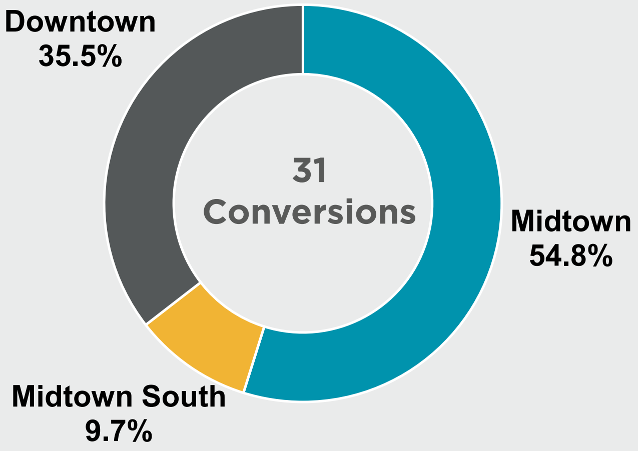
BREAKDOWN BY NUMBER OF BUILDINGS BY MARKET

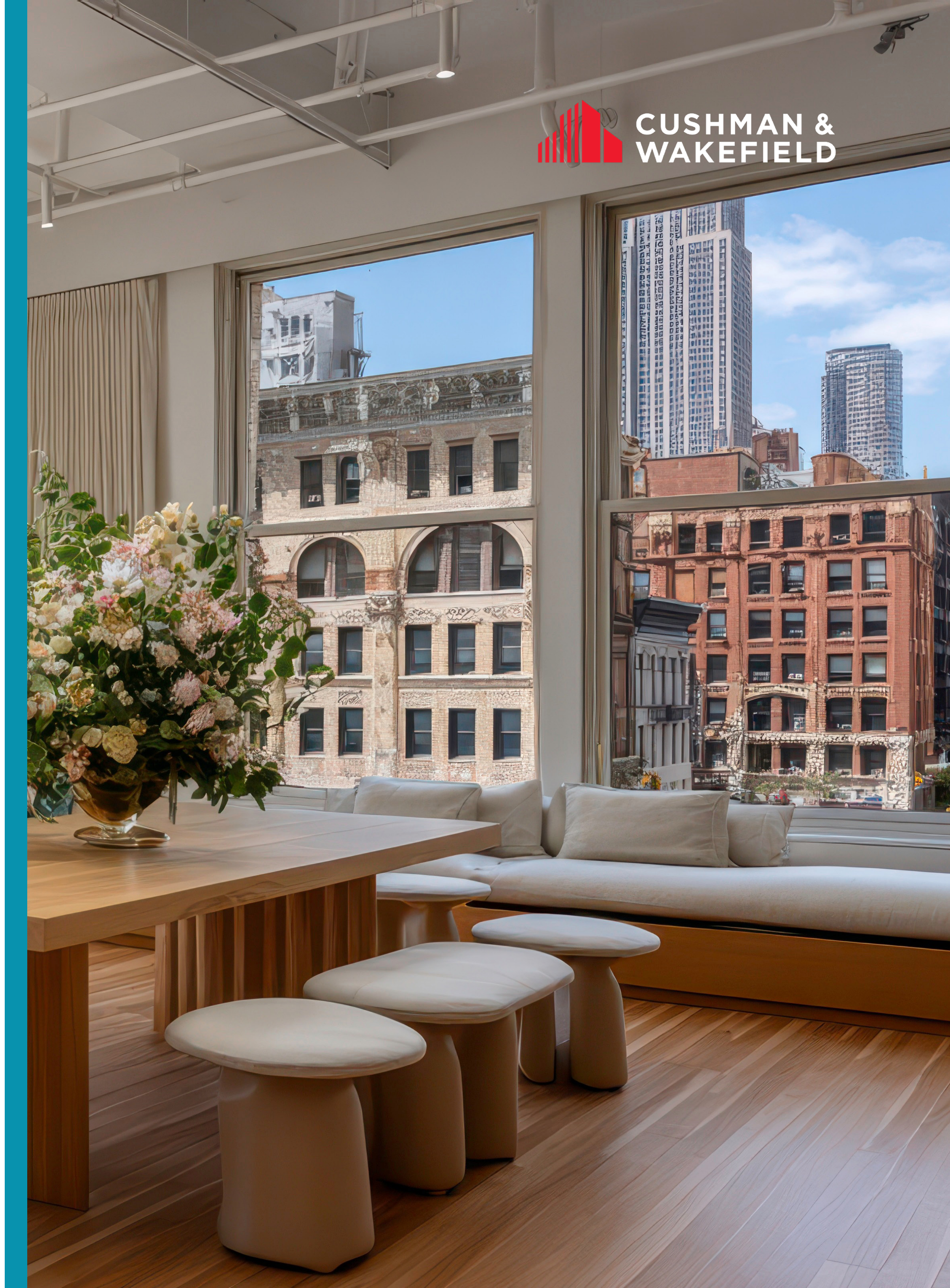
The geographical distribution of residential conversions has shifted substantially since the pandemic. From 2004 to 2019, Downtown dominated activity, comprising more than half (51.6%) of all projects, while Midtown accounted for just 23.4%. Since 2020, however, Midtown has emerged as the new leader, representing 54.8% of all conversions compared to 35.5% Downtown. The pivot reflects both the broader post-pandemic challenges facing aging office stock citywide and the fact that Downtown had already undergone an extensive wave of conversions dating back to the 1990s. At the same time, new policies expanding conversion eligibility in Midtown have widened the pool of potential projects. Looking ahead, the pipeline suggests this momentum will continue. Of the 25 buildings currently proposed for conversion, 48.0% are located in Midtown compared with 40.0% in Downtown.

2004-2019



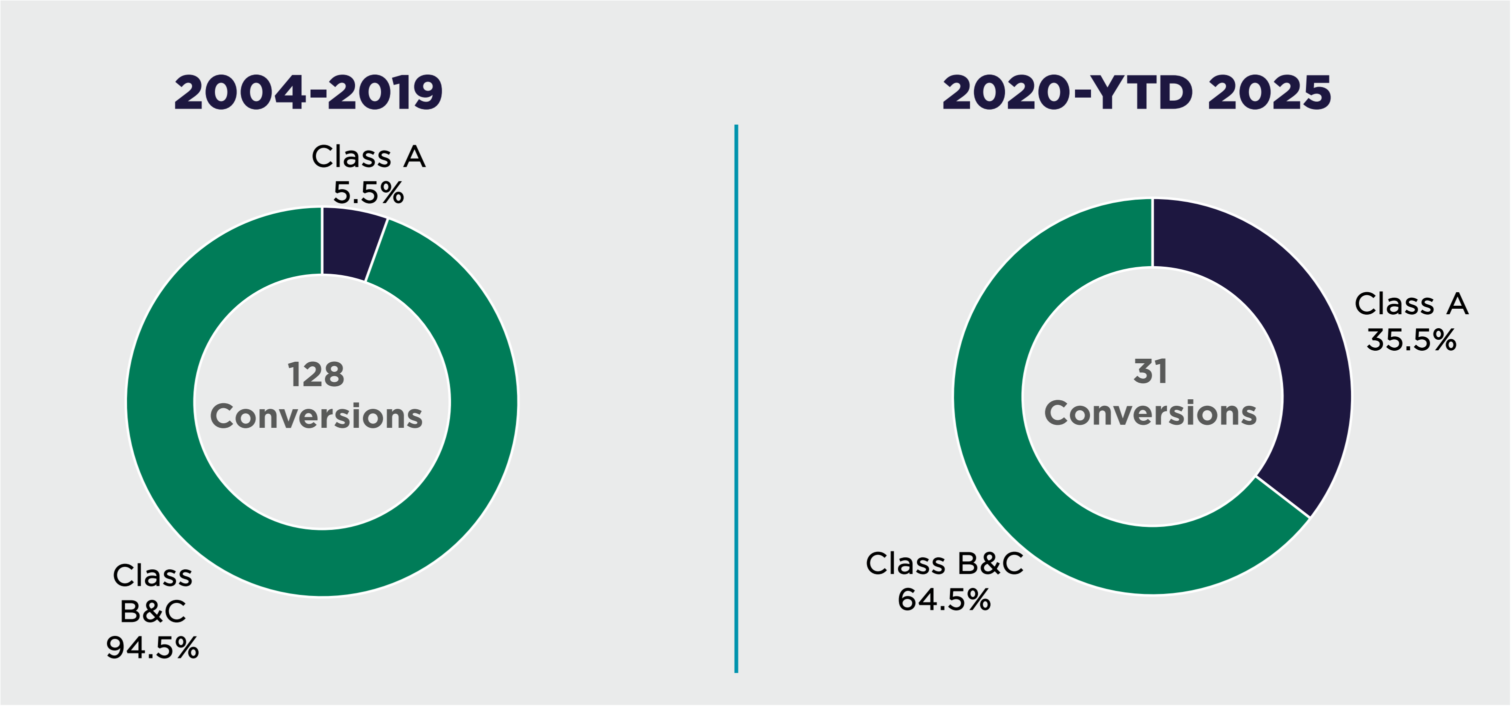
2020-YTD 2025





BREAKDOWN BY NUMBER OF BUILDINGS BY CLASS

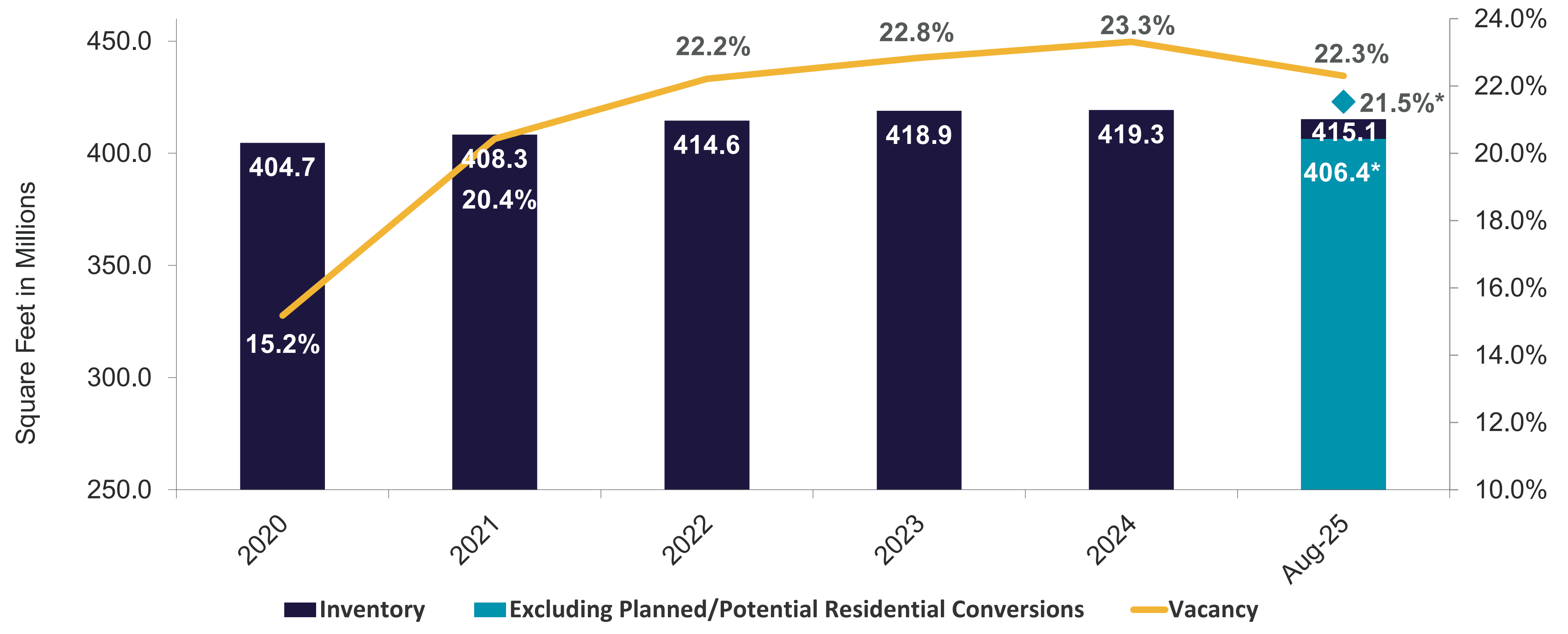
The shift is not only geographic but also structural. Prior to the pandemic, Class B and C conversions represented the majority of projects, accounting for 94.5% of conversions between 2004 and 2019. Since 2020, however, Class A properties have represented a growing share of conversion activity, rising to 35.5%. This reflects a broader impact of post-pandemic trends which have even affected some better-quality buildings that are in less desirable locations or are lacking the amenities of top-tier assets. The pipeline points to a continued shift, with Class A buildings now representing the majority (52.0%) of proposed conversions.



POTENTIAL IMPACT OF PROPOSED CONVERSIONS ON OFFICE VACANCY

MANHATTAN

If all planned and potential office-to-residential conversions advance, Manhattan's office inventory would decline from 415.1 msf as of August 2025 to 406.4 msf. The vacancy rate, currently 22.3%, would ease to 21.5% under the assumption that tenants relocate within the city. While directionally positive, this adjustment underscores the scale of the challenge: conversions can help reduce available supply, but the overall effect is incremental in a market of Manhattan's size.



325,982 SF

The average size of converted buildings has more than doubled, from 157,937 sf (2004-2019) to 325,982 sf since 2020.

* *Excluding all planned and potential residential conversions; resulting vacancy assumes tenants currently occupying space in converted buildings relocate within Manhattan*

POTENTIAL IMPACT OF PROPOSED CONVERSIONS ON OFFICE VACANCY

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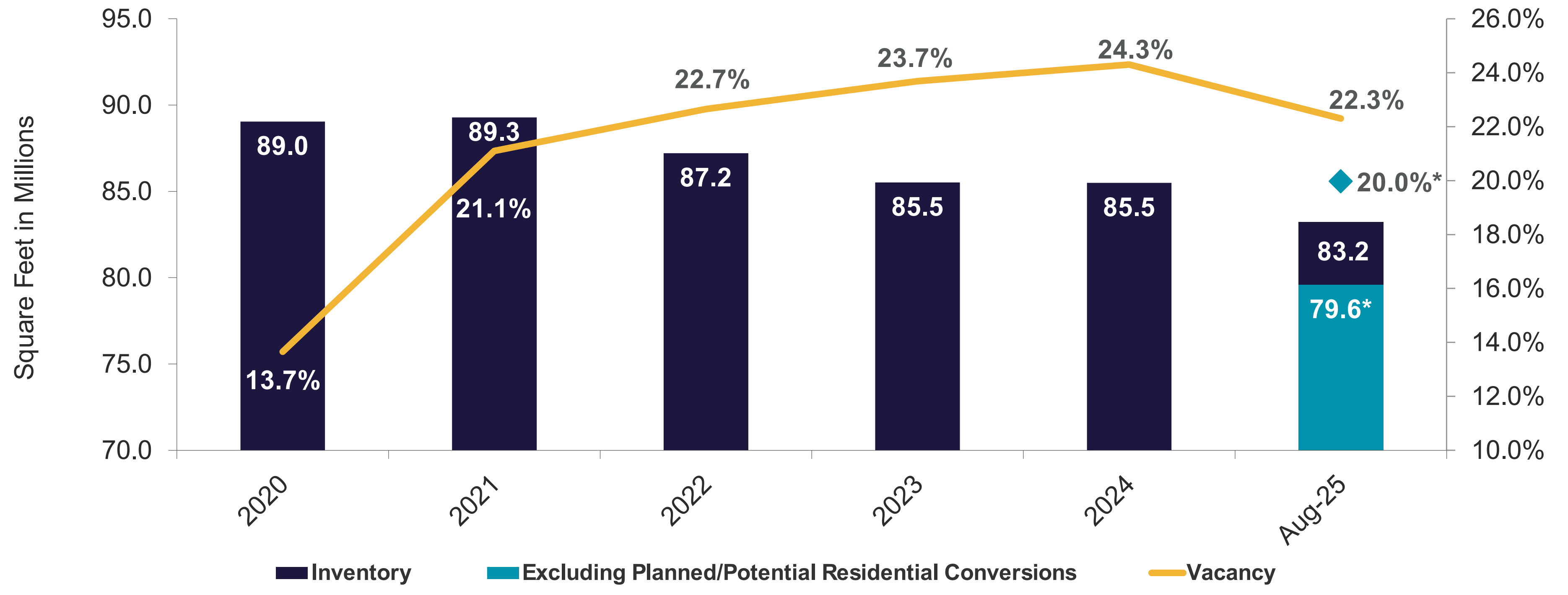
DOWNTOWN

The effect is more pronounced Downtown due to its smaller inventory base and concentration of projects. Should all planned conversions proceed, Downtown inventory would shrink from 83.2 msf to 79.6 msf, lowering vacancy from 22.3% to 20.0%. This 230-basis-point reduction highlights how conversions are likely to play a more visible role in Downtown than in Manhattan overall, furthering the area's long-standing pattern of adaptation through reuse and redevelopment.



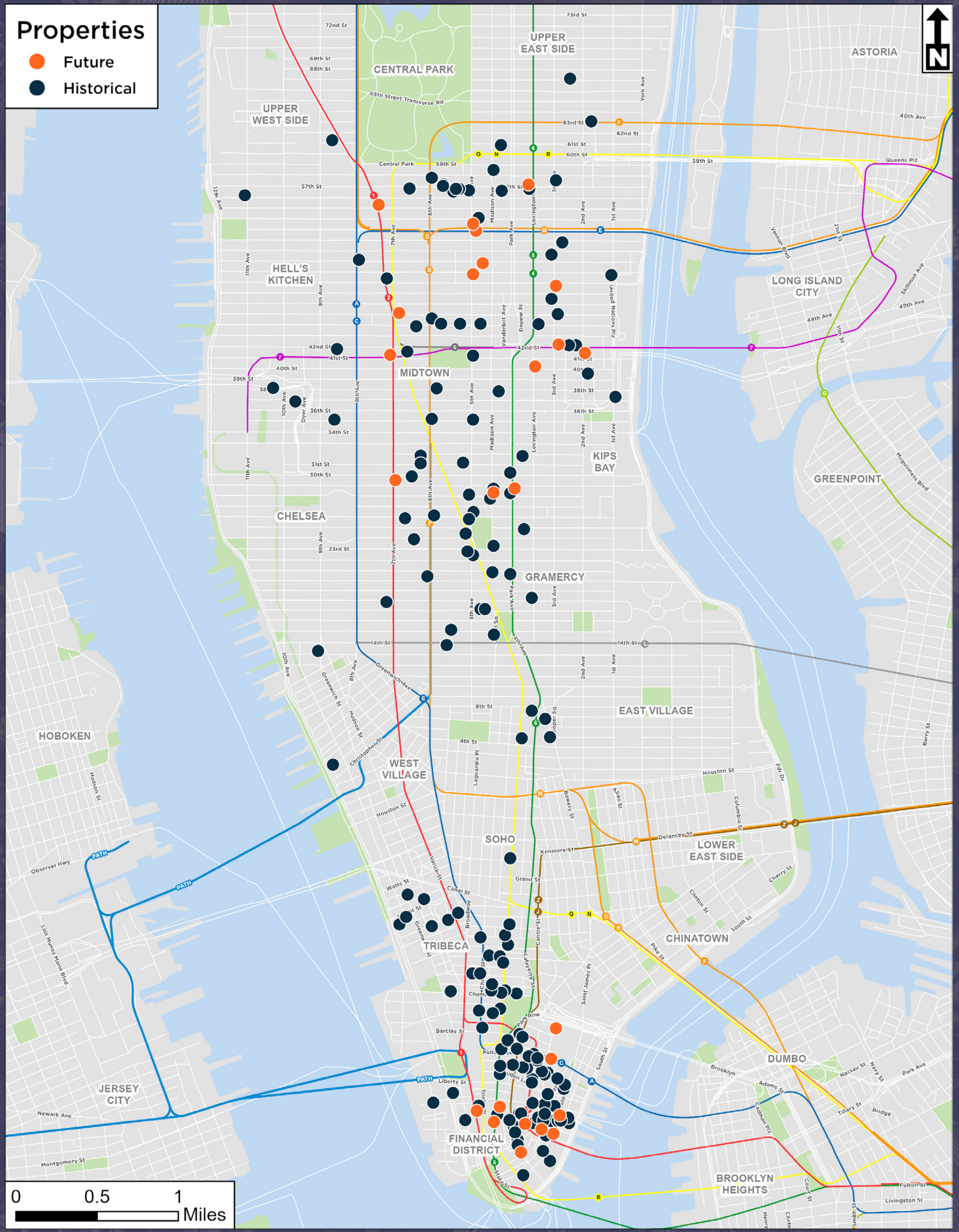
** Excluding all planned and potential residential conversions; resulting vacancy assumes tenants currently occupying space in converted buildings relocate within Downtown*

1.1 MSF

At 1.1 msf and delivering 1,320 residential units, 25 Water Street is the largest office-to-residential conversion in U.S. History.

Source: The New York Times

MAP OF CONVERSIONS



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CONCLUSION

The surge in office-to-residential conversions underscores how profoundly New York City's real estate landscape has shifted since the pandemic. While conversions alone will not resolve the city's elevated office vacancy, they have emerged as a meaningful pressure valve by removing obsolete supply, repositioning challenged assets, and serving to address the city's housing shortage. Backed by supportive policy and sustained demand for housing, conversions will continue to play an important role in recalibrating the city's office market in the years ahead.

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