Is vacant-office-to-housing the next big thing?

The real estate trend might ease housing shortage, but there is a problem

COVID-19 severely impacted the commercial office real estate market because more workers were simply performing their jobs remotely. In fact, as of September 2021, the National Association of Realtors estimates that over 20.3 million workers worked remotely compared to 8.9 million in 2019.

Consequently, occupancy has fallen by 127 million square feet since the second quarter of 2020 through October 2021. But on the other hand, there are 1 million more occupied apartment units since the second quarter of 2020 as of October 2021.

That begs the question: Is there a trend toward converting vacant office buildings into housing? The answer is yes.

Vacant-office-to-housing conversions

The Research Group of the NAR compiled research that analyzed office-to-housing conversions in 27 markets with the largest decline in occupancy since the pandemic. Here are some highlights:

- The analysis shows that 22 out of 27 metros heavily impacted by the pandemic have market conditions that make office-to-housing conversions feasible.
- In the local markets, apartment rents are higher than office market rents, encouraging office-to-housing conversions, mainly in Class B office buildings.
- NAR estimates that 43,500 housing units can be created if 20% of the vacant square footage is converted into housing with an average size of 1,000 square feet per unit and with 20% common area.

Metro areas or submarkets with the potential to create at least 2,000 housing units from office building conversions are New York (7,484), Chicago (5,688), Los Angeles (4,200), Orange County (3,065), Boston (2,808), Atlanta (2,799), Philadelphia (2,733), Minneapolis (2,081), and Denver (2,009). Seattle rounds out the top 10 (1,709).

But big cities are still losing workers

While the large cities present the most opportunities to convert office buildings into housing units, there is one huge problem. And that is that the big cities are losing workers.

In fact, the largest losers of "nonfarm payroll employment" are the big city markets of New York City, Los Angeles, Chicago, San Francisco, Miami, Philadelphia, Boston, Washington, DC, Houston, and San Diego – each of which has lost over 100,000 jobs since February 2020 as of September 2021.

On the other hand, employment in several secondary markets such as Salt Lake City, Provo, Austin, Ocean City, Ogden, Colorado Springs, Jacksonville, Boise, Spokane, and Myrtle Beach are above pre-pandemic levels.

Metro areas with top payroll jobs gains and job losses as of September 2021 compared to pre-pandemic peak employment (February 2020)

Most net job losses ('000): Sept 2021 vs. Feb 2020	
New York City NY	-490.3
Los Angeles-Long Beach-Anaheim, CA	-428.5
Chicago-Naperville-Elgin, IL-IN-WI	-195.2
San Francisco-Oakland-Hayward, CA	-188.5
Miami-Fort Lauderdale-West Palm Beach, FL	-152.0
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-126.3
Boston-Cambridge-Nashua, MA-NH Metro NECTA	-123.3
Washington-Arlington-Alexandria, DC-VA-MD-WV	-122.2
Houston-The Woodlands-Sugar Land, TX	-115.8
San Diego-Carlsbad, CA	-101.7
Orlando-Kissimmee-Sanford, FL	-95.3
Detroit-Warren-Dearborn, MI	-91.3
New Orleans-Metairie, LA	-81.9
Las Vegas-Henderson-Paradise, NV	-81.2
Minneapolis-St. Paul-Bloomington, MN-WI	-79.2
Atlanta-Sandy Springs-Roswell, GA	-70.9
Bergen-Hudson-Passaic, NJ	-66.8
Philadelphia City, PA	-65.1
San Jose-Sunnyvale-Santa Clara, CA	-57.1
Urban Honolulu, HI	-55.2
Riverside-San Bernardino-Ontario, CA	-55.1
Pittsburgh, PA	-50.0
Cleveland-Elyria, OH	-49.4

Highest net job gains ('000) : Sept 2021 vs. Feb 2020	
Salt Lake City, UT	19.60
Provo-Orem, UT	18.80
Austin-Round Rock, TX	16.70
Ocean City, NJ	15.40
Ogden-Clearfield, UT	12.40
Barnstable Town, MA Metropolitan NECTA	8.90
Salisbury, MD-DE	8.30
Fayetteville-Springdale-Rogers, AR-MO	7.90
St. George, UT	6.80
Elkhart-Goshen, IN	6.70
Coeur d'Alene, ID	6.20
Baltimore City MD	6.00
Idaho Falls, ID	5.50
Colorado Springs, CO	5.20
Lakeland-Winter Haven, FL	4.80
Jacksonville, FL	4.10
Logan, UT-ID	4.10
Daphne-Fairhope-Foley, AL	3.80
Tyler, TX	3.60
Boise City, ID	3.30
Rapid City, SD	3.30
Spokane-Spokane Valley, WA	3.20
Pocatello, ID	3.10
Myrtle Beach-Conway-North Myrtle Beach, SC-NC	2.60
Kansas City, MO	2.10

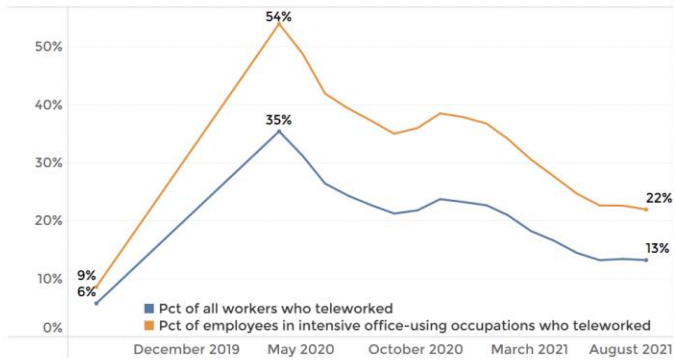
Source: US Bureau of Labor Statistics

Because workers want remote work

What is leading the exodus from the larger cities? Well, much of it has to do with the fact that more and more workers are working remotely.

Yes, it's true that the number of workers doing their jobs remotely has declined, but the percentage is still double what it was pre-pandemic. Sure, that decline may be leveling off. But then again, maybe not

Percent of employed 16 years old and over who teleworked as of September 2021



Source: Bureau of Labor Statistics COVID Supplement and 2019 American Community Survey. Office-using occupations are management, professional and related occupations and office administrative support workers.