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SAMPLE REPORT

# Market Insights: Cracking the Conversion Code

## Cracking the Conversion Code

National office vacancy rates have nearly doubled since the onset of the pandemic which has accelerated the obsolescence risk of lower-quality assets. Over the same time, housing affordability has garnered increased attention, with effective rents growing █████ cumulatively, across top markets. Meanwhile, the cost of home ownership is at one of its most expensive points vs. income in decades, resulting in people renting for longer and politicians wanting to appeal to this base. Cities are exploring a variety of avenues to address housing costs, with office-to-residential conversion programs serving as one potential solution. Conversions have the potential to bolster housing stock, make vacant areas more desirable, and help re-invigorate the tax basis. This report acknowledges the headwinds that face adaptive reuse as a widespread solution to office vacancy and housing affordability. However, it analyzes the impact to office and apartment fundamentals thus far and seeks to identify office-to-resi conversion propensity across U.S. markets to help determine where this strategy could gain the most traction. While this report's numerical analysis emphasizes the conversion of existing office assets to residential use, demolition and redevelopment is likely to be prominent across certain markets, resulting in higher potential reuse of obsolete office stock than pure conversion data might suggest.

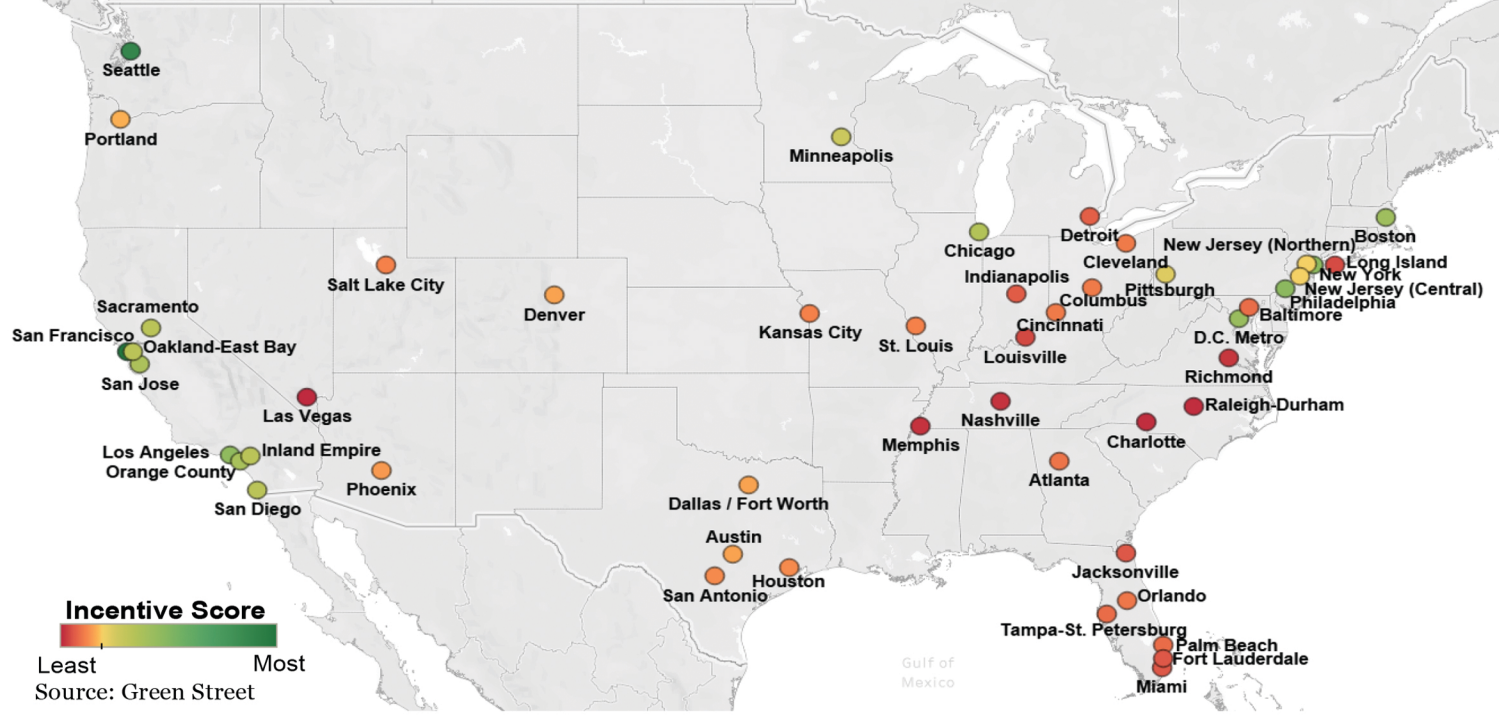
## Incentives & Propensity for Conversion

Green Street created an office-to-residential conversion propensity model for the top 50 markets by analyzing the dynamics that make adaptive reuse feasible. The purpose of the propensity score is to examine how likely each market is to see office-to-residential conversions, with the expectation that many of these markets will continue to be best-suited for conversion projects over the next 5-10 years. Markets scoring at the higher end of this propensity index are also likely to be good candidates for office demolition and subsequent ground-up residential development (e.g., Orange County and Oakland-East Bay). Listed below are the six components driving the overall propensity score in order of highest to lowest impact on the final output.

- **Office-to-Residential Conversion Incentives:** One third of the model is dedicated to office-to-residential conversion incentives that were systematically tracked across the top 50 markets at the city and state level. Relevant incentives for conversion include tax abatements, zoning changes, historic preservation incentives, monetary incentives, and other programs that help accelerate the permitting and approval processes. A comprehensive list of each market's incentives is available in the Excel download accompanying this report. Markets lacking incentives have seen significantly less office conversion, making this component the largest driver of our conversion propensity model.
- **Office CPPI Decline Since Covid:** Green Street's Commercial Property Price Index (CPPI), a measure of B/B+ quality property values, gives insight on how far values have fallen since the onset of the pandemic. Markets with the largest declines, on average, are likely to have more opportunity for repurposing assets.

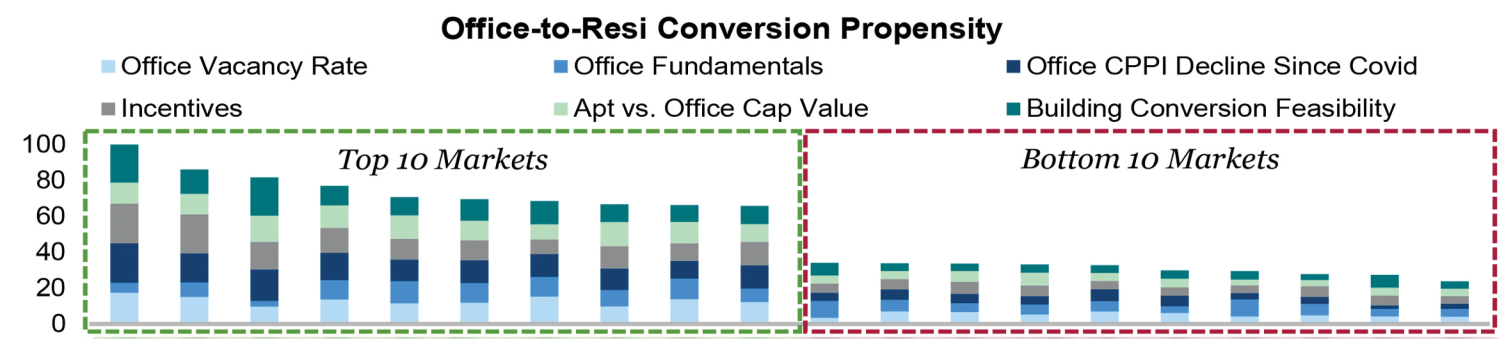
### Exhibit 1: Incentives

**Carrots > Sticks:** The market-level incentive score helps determine which MSAs provide the largest amount of tax, monetary, zoning, historic, and other incentives to promote conversions. Coastal markets tend to provide the most impactful metro- and state-level incentives, largely driven by tax benefits and other monetary incentives.



### Exhibit 2: Conversion Propensity

**Build Baby, Build:** With some of the most impactful conversion incentives, large declines in office values since the pandemic, and older office stock with smaller floorplates, San Francisco, Seattle, New York, Los Angeles, and Chicago offer interesting potential for conversions.



Source: Green Street

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**Apartment-to-Office Conversions: Market** The apartment-to-office conversion market is showing significant growth, driven by the need for flexible office space and the availability of existing apartment stock. This report provides a detailed analysis of the market, including key drivers, challenges, and opportunities. It also includes a list of cities with the highest conversion rates.

**Looking Back: A Tale of Two Cities' Conversions** This report compares the conversion markets in New York and Los Angeles, highlighting the unique challenges and opportunities in each city. It also includes a list of key players in the market.

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**Conversion Impact: Apartment** This report provides a detailed analysis of the impact of apartment conversions on the office market. It includes a list of cities with the highest conversion rates and a comparison of the impact of conversions on office vacancy rates.

**Office-to-Anything Else: Conversions Across Property Types** This report provides a detailed analysis of the conversion market across different property types, including office, residential, and commercial. It includes a list of cities with the highest conversion rates and a comparison of the impact of conversions on office vacancy rates.

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**Exhibit 3: Impact of Conversions on the Office Market**

**Exhibit 4: Conversions' Slice of the Apartment Supply Pie**

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**Conversion Impact: Office** This report provides a detailed analysis of the impact of office conversions on the apartment market. It includes a list of cities with the highest conversion rates and a comparison of the impact of conversions on apartment vacancy rates.

**Conclusion** This report provides a detailed analysis of the conversion market across different property types, including office, residential, and commercial. It includes a list of cities with the highest conversion rates and a comparison of the impact of conversions on office vacancy rates.

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**Exhibit 5: Potential Addition to Apartment Stock**

**Conclusion** This report provides a detailed analysis of the conversion market across different property types, including office, residential, and commercial. It includes a list of cities with the highest conversion rates and a comparison of the impact of conversions on office vacancy rates.

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