

ARTICLE | Future Cities

Conversions offer potential, but limited, options for obsolete offices

GREATER LOS ANGELES, ORANGE COUNTY & INLAND EMPIRE

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Executive Summary

- There have been 23 office conversions since 2016 in the GLA-OC-IE region, with 9 underway or planned among the office inventory tracked by CBRE. There have been 24 demolitions during that same time, with 34 underway, planned, or proposed.
- Demolition projects tracked since 2016 account for 7.7 million sq. ft. of office space in GLA-OC-IE. Office conversions picked up pace in 2022 with 1.1 million sq. ft. converted that year alone and total 4.5 million sq. ft. since 2016.
- Older and lower quality offices make up most conversions and demolitions.
- Multifamily and industrial property types comprise most office conversions and redevelopments in the region.
- While not all office building lend themselves to conversions, creative scenarios and layouts may make them feasible.

CBRE’s latest national [insight](#) found that conversions may refuel urban economies that continue to suffer from reduced demand for office space, primarily older and obsolete buildings, and this trend is no different in the Greater Los Angeles, Orange County, and Inland Empire region (GLA-OC-IE). Not only do conversions make way for other property types in demand, but they also shed under-used office product that drag on market fundamentals. The current vacancy rate in GLA is 21.3% and 14.4% in OC.

There have been 23 office conversions since 2016 in the GLA-OC-IE region, with 9 underway or planned. There have been 24 demolitions during that same time, with 34 underway, planned, or proposed. Every single office demolished in our data has been redeveloped. These projects do not significantly impact the office sector as they account for just 3.3% of current office inventory, by sq. ft.

Total conversion and demolition percentage share of current office inventory, GLA-OC-IE

3.3%

Total conversion and demolition projects since 2016, GLA-OC-IE

90

FIGURE 1: Office conversions and demolitions by market (sq. ft.) since 2016

Market	Conversion	Demolition	Total
Orange County	227,126	5,759,076	5,986,202
Los Angeles	3,800,459	1,783,766	5,584,225
Ventura	469,401	111,469	580,870
Inland Empire	-	42,621	42,621
GLA-OC-IE Total	4,496,986	7,696,932	12,193,918

Note: Data includes projects that are completed, planned, and underway.

Source: CBRE Research, Q3 2023.

The office redevelopment pipeline reaches 5.5 million sq. ft., following a new high in 2022

Demolition and redevelopment projects* tracked since 2016 account for 7.7 million sq. ft. of office space in GLA-OC-IE. OC leads the region with the most demolition projects with 40 completed, planned, or underway, representing 5.8 million sq. ft. GLA follows with 14 demolition projects representing 1.8 million sq. ft. of office space.

The confluence of economic uncertainty and softened office conditions ushered in a large uptick in demolitions in 2022. Just over 1.0 million sq. ft. office space was demolished in 2022, compared to just 110,000 sq. ft. in 2021. Looking forward, OC accounts for the most demolition projects in the pipeline with approximately 4.8 million sq. ft.

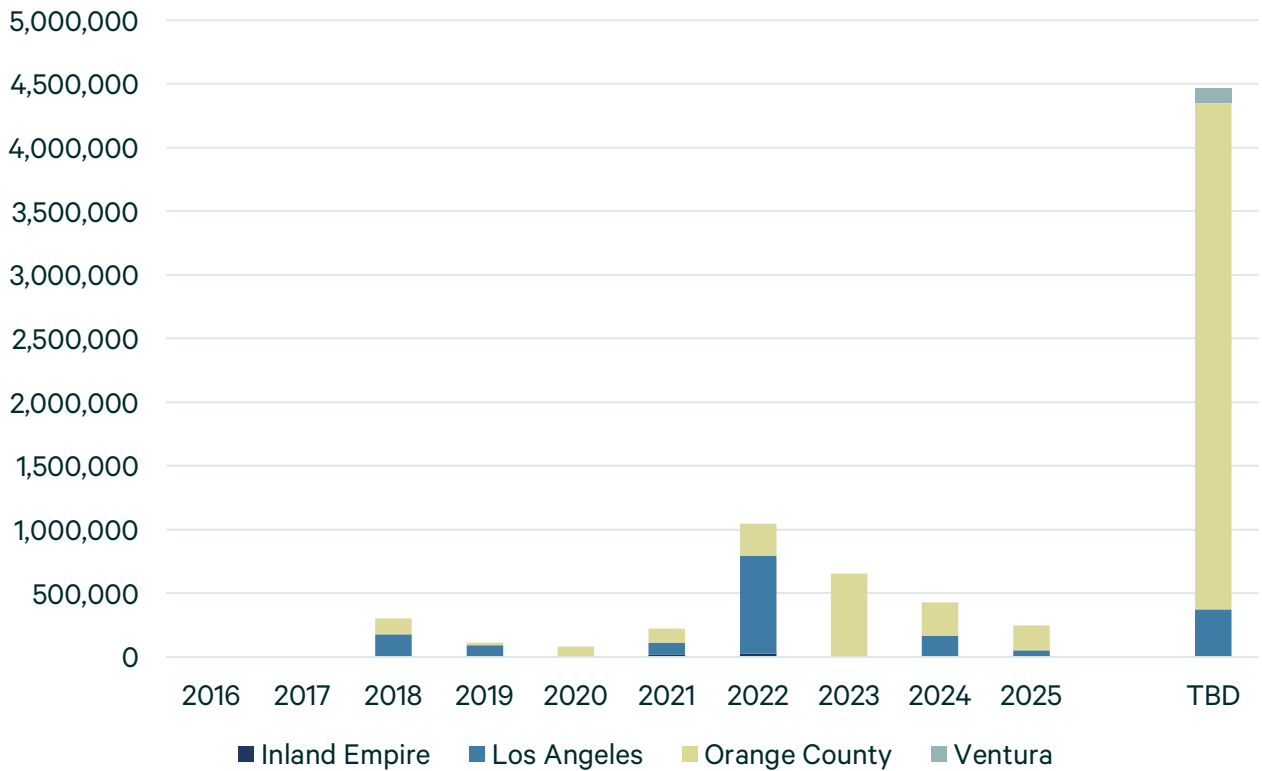
Total office demolition projects (sq. ft.) since 2016, GLA-OC-IE

7.7 M

Number of demolition projects since 2016, GLA-OC-IE

58

FIGURE 2: Office demolitions by market and estimated year of completion (sq. ft.)



Note: Data includes projects that are completed, planned, and underway.
 *Demolitions are defined as complete office building tear-downs and include redevelopments.

Source: CBRE Research, Q3 2023.

Office conversions picked up pace over the pandemic

Office conversions* picked up pace in 2022 with 1.1 million sq. ft. converted that year alone, primarily driven by activity in the GLA market. Over 1.1 million sq. ft. of office conversions are planned or underway in GLA, comprising just 0.5% of total office inventory. In comparison, 60 million sq. ft. of office conversions are planned or underway in the U.S., comprising 1.4% of total U.S. office inventory. There are no conversions in IE given it has much tighter supply with just 9.4% in total vacancy.

While not enough as a single solution for elevated vacancy to stand on its own, office conversions play an important role in improving market fundamentals and alleviating lack of supply in other property sectors, including industrial and multifamily.

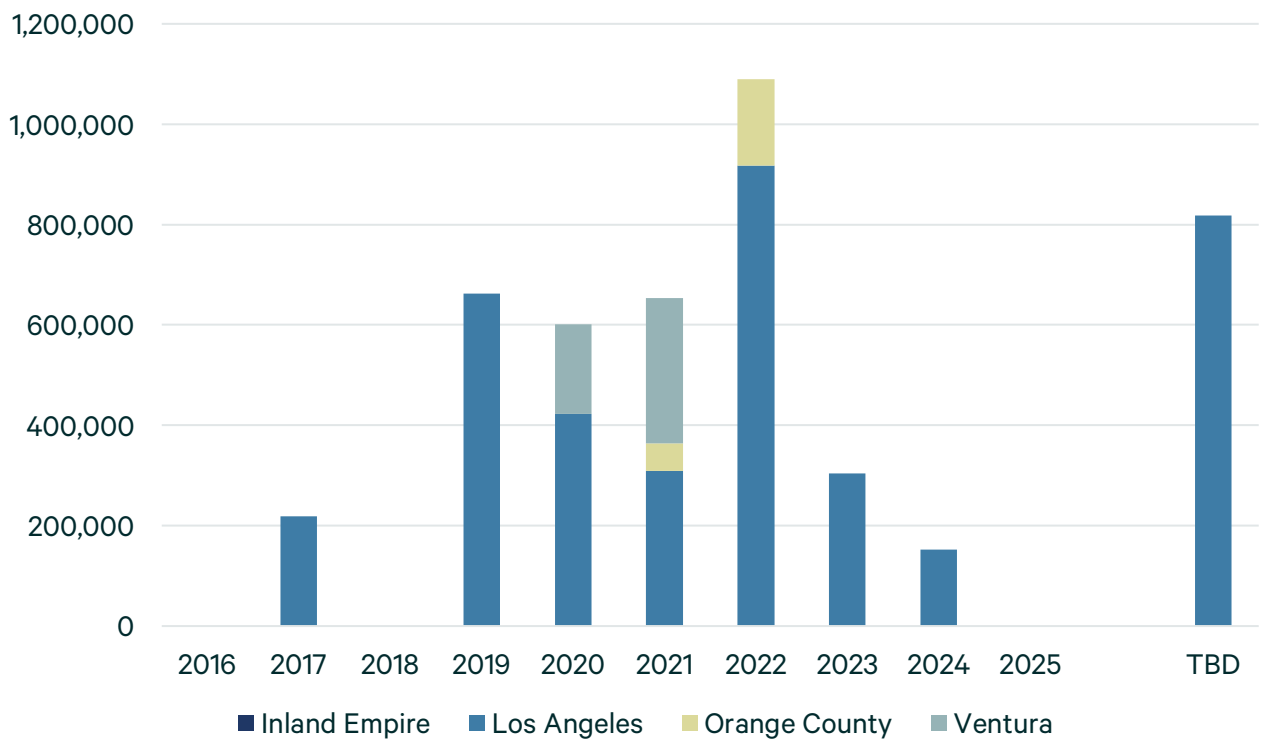
Total office conversion projects (sq. ft.) since 2016, GLA-OC-IE

4.5 M

Number of office conversion projects since 2016 GLA-OC-IE

32

FIGURE 3: Office conversions by market and estimated year of completion (sq. ft.)



Note: Data includes projects that are completed, planned, and underway.
 * Conversions are defined as office properties structurally changed for a different use.

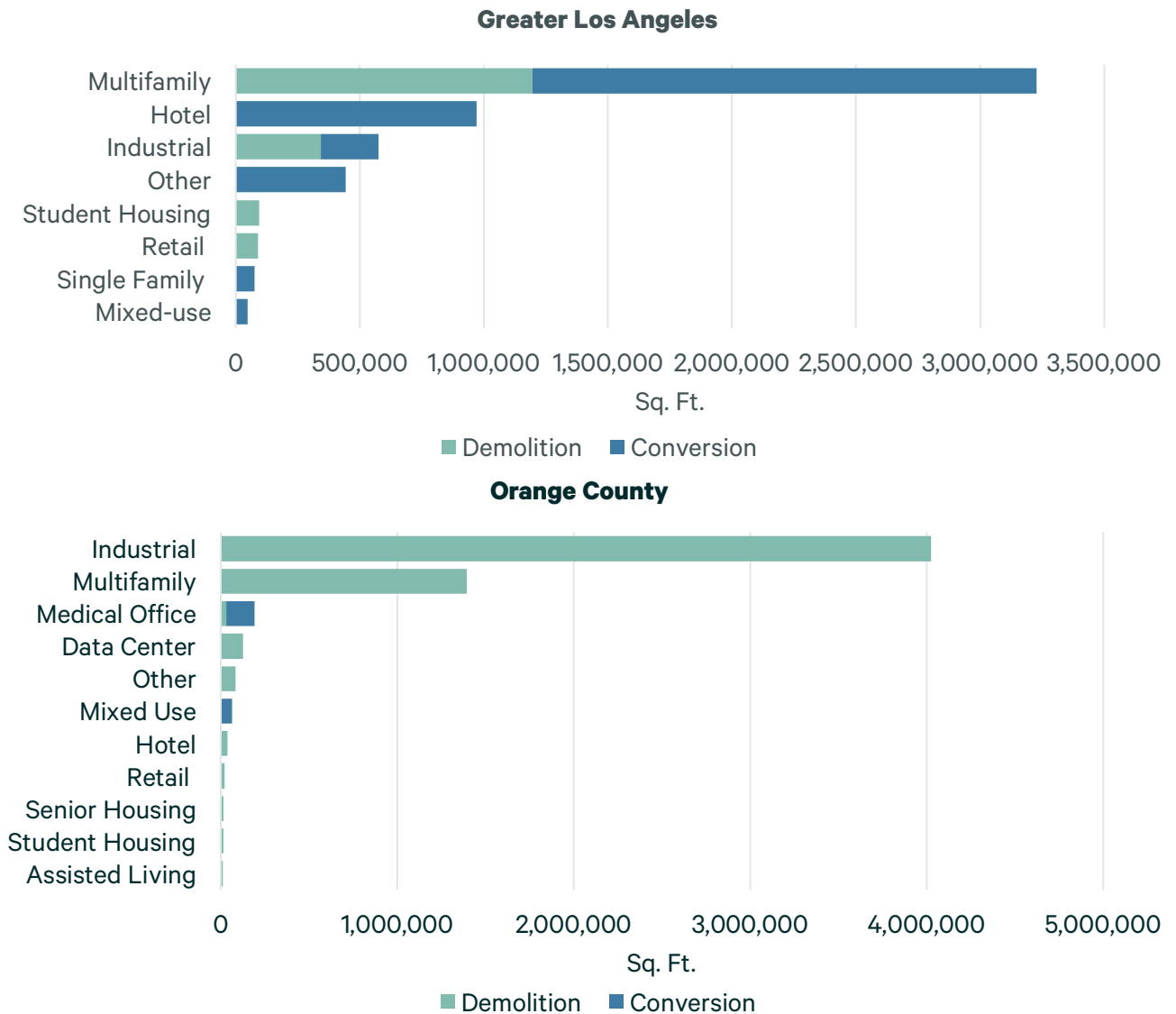
Source: CBRE Research, Q3 2023.

Multifamily and industrial lead new property types

Office-to-multifamily conversions and demolitions greatly outnumber other property types in GLA, accounting for 59% of all conversion and demolition projects in the market by sq. ft. Office-to-industrial conversions and demolitions account for 67% of all conversion and demolition projects in OC. The large number of office-to-industrial projects directly relates to large share of low-rise office buildings in OC that are more suitable for industrial occupiers.

Despite recent upticks in vacancy, industrial and multifamily supply remain relatively limited in the region and will continue to be attractive property types for office conversions.

FIGURE 4: Completed, planned, and underway projects by new property type (sq. ft.)



Source: CBRE Research, Q3 2023.

Older and lower-quality office product comprise a vast majority of conversions and demolitions

Conversions and demolitions in GLA and OC tend to target older offices. In GLA, offices built before 1980 make up 84% of conversion projects and 75% of demolitions. In OC, offices built before 1980 make up 29% of conversion projects and 34% of demolition projects. Offices built in the 1980s in OC account for 3.0 million sq. ft. of demolition projects.

Office building quality also matters. Class B and C office buildings make up 91% of demolitions in GLA and 88% in OC, by sq. ft. Class B office buildings make up 67% of conversions in GLA and 53% in OC, by sq. ft.

Unless renovated, older offices may struggle to keep up with shifting occupier requirements. These include floor layout, amenities, energy efficiency, and more. Location is also a primary driver as demographics and labor supply may shift to other submarkets over time.

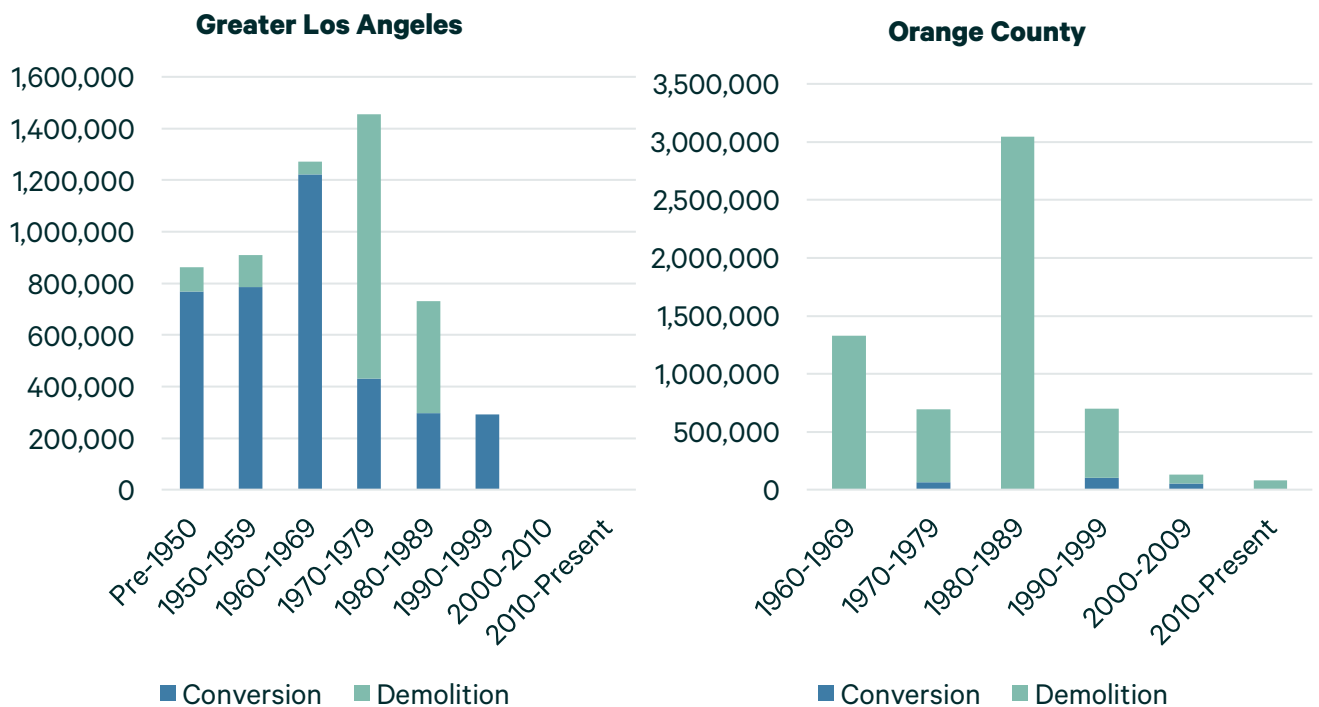
Average year built of converted offices in GLA

1952

Average year built of demolished offices in GLA

1969

Figure 5: Total office demolitions and conversions by year built (sq. ft.)



Note: Data includes projects that are completed, planned, and underway. Demolitions include redevelopments.

Source: CBRE Research, Q3 2023.

Not all offices are suited for conversions

High-rise office buildings account for 14 of 27 total office conversions in GLA, with no demolitions. Low-rise buildings account for just 4 of 27 conversions but 11 of 14 total demolitions. Redevelopments are seen more than conversions in OC as low-rise buildings account for 30 of 40 total demolition and redevelopment projects since 2016. One recent example of an office-to-industrial redevelopment is Rexford Industrial’s purchase of the low-rise 81,000 sq. ft. building at 16752 Armstrong Avenue in Irvine which will be redeveloped once the current tenant’s lease expires in 2027.

Conversions revitalize obsolete office product, but not every building is suited for conversions due to a host of factors, including building size, floor plate, lot size, HVAC, and more. A clearer economic landscape and incentives would go far to aid potential conversion projects.

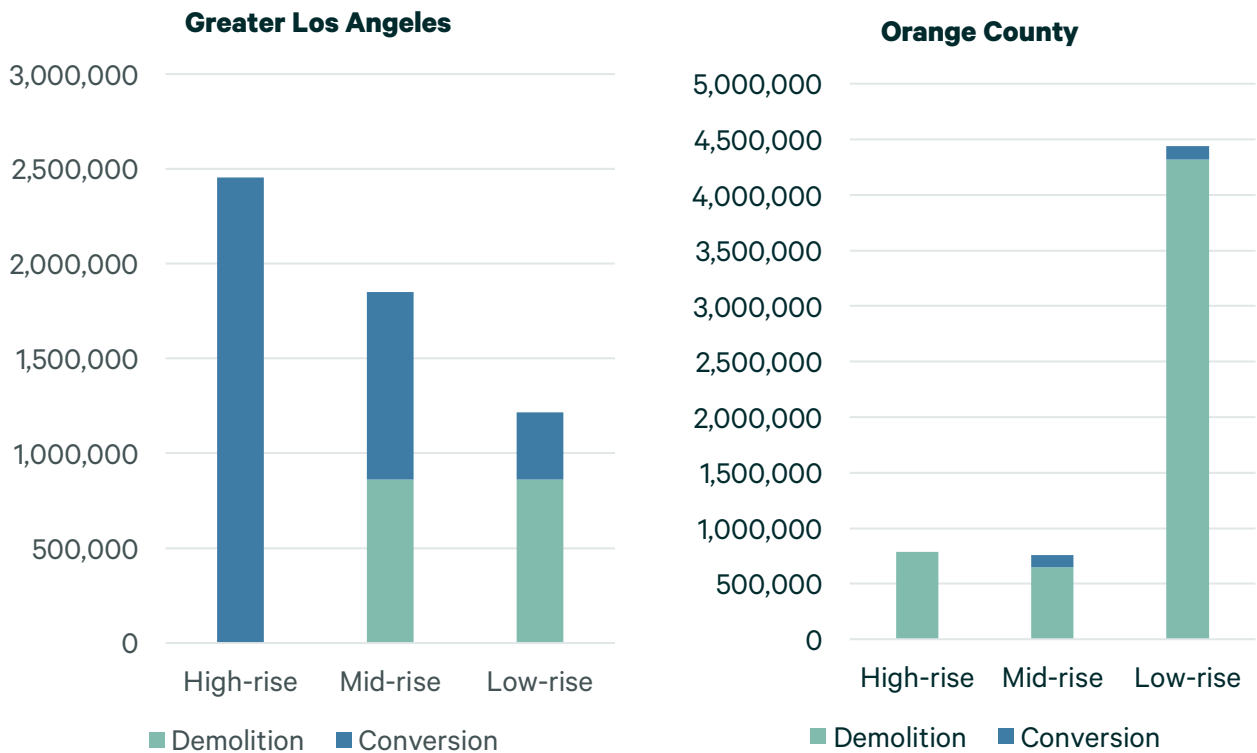
Average floor size of office conversions (sq. ft.)

27,110

Average floor size of office demolitions (sq. ft.)

42,324

Figure 6: Total office demolitions and conversions by rise (sq. ft.)



Note: Data includes projects that are completed, planned, and underway. Low-rise is defined as 1-3 floors in OC and 1-5 floors in GLA. Mid-rise is defined as 4-6 floors OC and 6-10 floors in GLA. High-rise is defined as 7+ floors in OC and 11+ floors in GLA.

Source: CBRE Research, Q3 2023.

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