

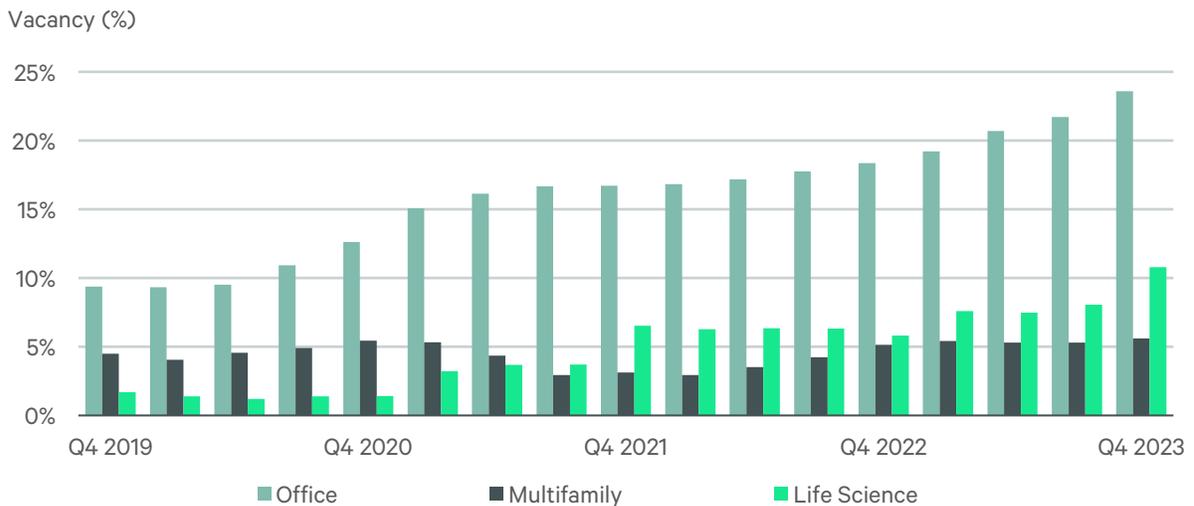
Office Conversions in Seattle: The Opportunity & Challenge

PUGET SOUND REGION

By Annie Han

Nationwide, the office market is witnessing a rise in vacancy rates, primarily attributed to the rapid adoption of hybrid work arrangements. This evolution in the workspace dynamic is prompting local politicians and office investors to explore new strategies to utilize the growing volume of vacant office space, protect property values and maintain tax revenues. Though conversion of office space into residential apartments has been a popular topic of conversation to address housing shortages, other potential opportunities include transforming them into specialized facilities for life science and research purposes to meet the burgeoning demand in Seattle’s biotech sector.

FIGURE 1: Puget Sound Office, Multifamily and Life Science Vacancy



Source: CBRE Research, Q4 2023

The office vacancy rate in the Puget Sound region reached a record high of 23.6%, in Q4 2023 and is expected to continue climbing as more direct leases expire and the pace of leasing remains subdued. Multifamily housing and life science facilities have become popular options for repurposing vacant office buildings. The consistently low vacancy rates, ongoing demand and potential for rent growth have made such conversions attractive to opportunistic investors. The ceiling height, seismic safety retrofitting and construction costs for renovations, however, continue to be challenges.

Office Conversions in Puget Sound

Office-to-multifamily conversions comprise 40% of conversion projects—both underway and planned—in the region. Office-to-life science conversion projects have been slightly less, at 39%.

However, while office conversions are being adopted nationwide, their prevalence in the Puget Sound region remains limited. Over the past two decades, the region has seen 14 office buildings, totaling 1.6 million sq. ft., converted into other asset types. This accounts for only 1.3% of total office inventory in the region. This trend, including current and planned projects will lead to the creation of an additional 450 apartment units through office conversions, which amounts to only 3% of the total number of units delivered in the region during all of 2023.

FIGURE 2 : Puget Sound Office Conversion Summary

End Product	Complete	Underway	Planned	Total
Multifamily	2	1	3	6
Life Science	3	1	0	4
Hotel	0	1	0	1
Other*	3	0	0	3
GRANT TOTAL	8	3	3	14

*Other category includes property types not specified in the table, such as industrial and retail spaces, and specialized facilities like schools.

Source: CBRE Research, Q4 2023

Offices converted in Puget Sound

Average Year Built

1965

Average NRA SF

117K

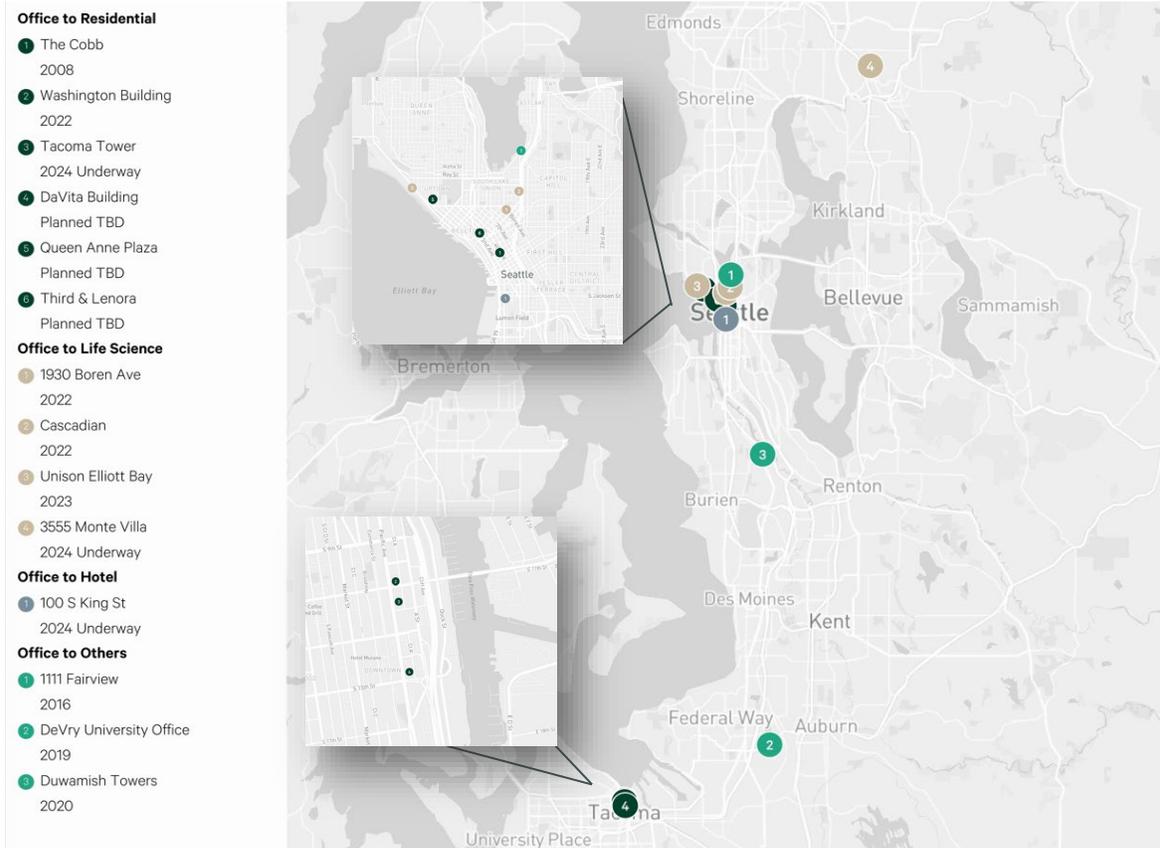
Total Office SF

1.6 M

Conversion's % of Total Puget Sound Office Inventory

1.3%

FIGURE 3 : Puget Sound Office Conversion Map



Source: CBRE Research, 2024

Potential Conversion Candidates in the Puget Sound

Similar to the office conversion trends reported by [CBRE Greater Los Angeles, Orange County, and Inland Empire region](#), conversions are most feasible in older and lower quality buildings with smaller floor plans. But less than 1% of the office space in the Puget Sound region fits these criteria.

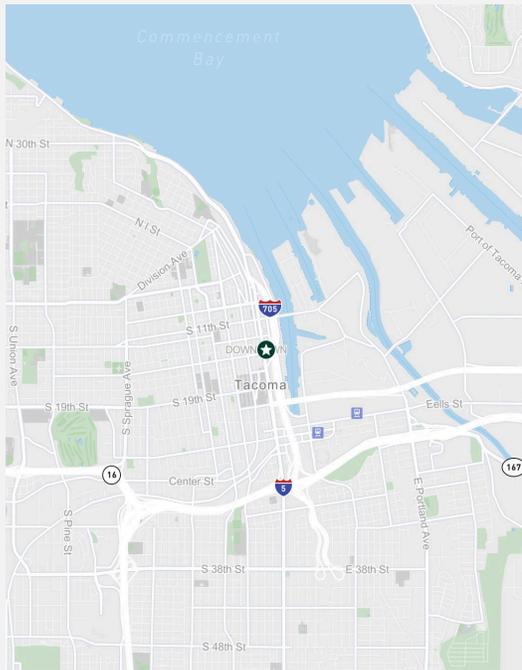
FIGURE 4 : Puget Sound Sample Conversion Candidate



Source: CBRE Research, Q4 2023

Case Study: Office to Multifamily Conversion

Former DaVita Building – 1423 Pacific Ave, Tacoma, WA Planned



In downtown Tacoma, the former DaVita building is undergoing a transformation. Owned by Horizon Partners Northwest, this 10-story, 110,000 sq. ft. structure has been vacant since 2019 and is being converted into 75 residential units. The shift to residential use was prompted by decreased demand for office space following the COVID-19 pandemic. The building’s unique architecture, featuring smaller floor plates and three-sided glass, make it ideal for conversion. Despite challenges in adhering to residential building codes, the project, benefitting from previous renovations, is expected to be completed in 7-8 months.

Original Office Structure (Before)	
Location	Downtown Tacoma
Property Class	Class B
Office Size	110,440 sq. ft.
Year Built	1927
Occupancy before conversion (%)	0%; DaVita Inc vacated the property in 2019

Conversion End-Product (After)	
New Type	Multifamily
Status	Work Order Permit Applied
Size	63 units in tower and 12 in building’s two-story annex
Estimated Construction Time	7 – 8 Months
Owner	Horizon Partners Northwest

Key Considerations in Office Conversion Projects

Office conversions offer notable benefits to landlords, providing opportunities in areas with limited available open space, while also offering cost and time savings compared to ground-up construction. However, these conversions also come with their own sets of challenges. The following key considerations should be taken into account for successful conversions:

Structural Limitation	Existing structures may not easily support new uses without significant modification. For example, structural columns in office spaces can hinder the installation of plumbing for residential use. The requirement for light penetration and window access in residential settings may be challenging in office buildings with large, deep floor plates.
Utility and Infrastructure	Existing utility and infrastructure may not suffice for new uses. Converted residential spaces, for instance, might require enhanced water systems and HVAC capabilities.
Zoning and Regulatory Challenges	Conversion projects often face strict zoning laws and building codes.
Financial Viability	The current high cost of capital for construction loans, combined with the substantial costs of conversion, might exceed the potential return on investment. Conversion considered as substantial alteration can incur extra expenses to comply with specific Seattle codes.
Historical Preservation	Buildings with historical value may have restrictions on alterations, which can limit conversion options.

While not every building is a viable candidate for adaptive reuse and conversions alone are not a comprehensive solution to the office market challenges, strategic planning and incentives from government subsidies can make these projects a creative alternative to current real estate market disparities.

Contacts

Annie Han
Senior Research Analyst
CBRE Research
Annie.Han@cbre.com

Carolyn Davis
Research Manager
CBRE Research
Carolyn.Davis@cbre.com