

**FROM VACANCY
TO VITALITY:
D.C.'S URBAN
TRANSFORMATION**



EXECUTIVE SUMMARY: D.C. OFFICE CONVERSIONS

Washington, D.C. is undergoing a significant real estate transformation as high office vacancies and aging commercial buildings push the city towards large-scale adaptive reuse. More than 10 million square feet (msf) of office space is completed, under construction, planned or rumored—driven by the obsolescence of older Class B and Class C assets and a strong demand for downtown housing. Here are the main takeaways from this report:

- While conversions offer a strategic path to revitalization, they remain financially complex due to elevated construction costs, high interest rates, and the challenges of repurposing deep-plate office buildings.
- To accelerate redevelopment, the District has introduced major incentive programs which provide long-term tax abatements and property tax freezes. “Housing in Downtown” (20-year tax abatement) and “Office to Anything” (15-year tax freeze) were created to attract investment and add 15,000 residents by 2028. Innovative financing tools, such as C-PACE, is also emerging as a critical tool.
- The conversion pipeline is heavily concentrated in the core submarkets, with projects overwhelmingly occurring in buildings constructed before the 1980s. While conversions help reduce office inventory and bring vibrancy downtown, the overall impact on vacancy will be incremental.
- A sustained public-private partnership, stable capital markets, and continued policy innovation will determine how fully the District can convert today’s vacancy challenge into long-term urban vitality.



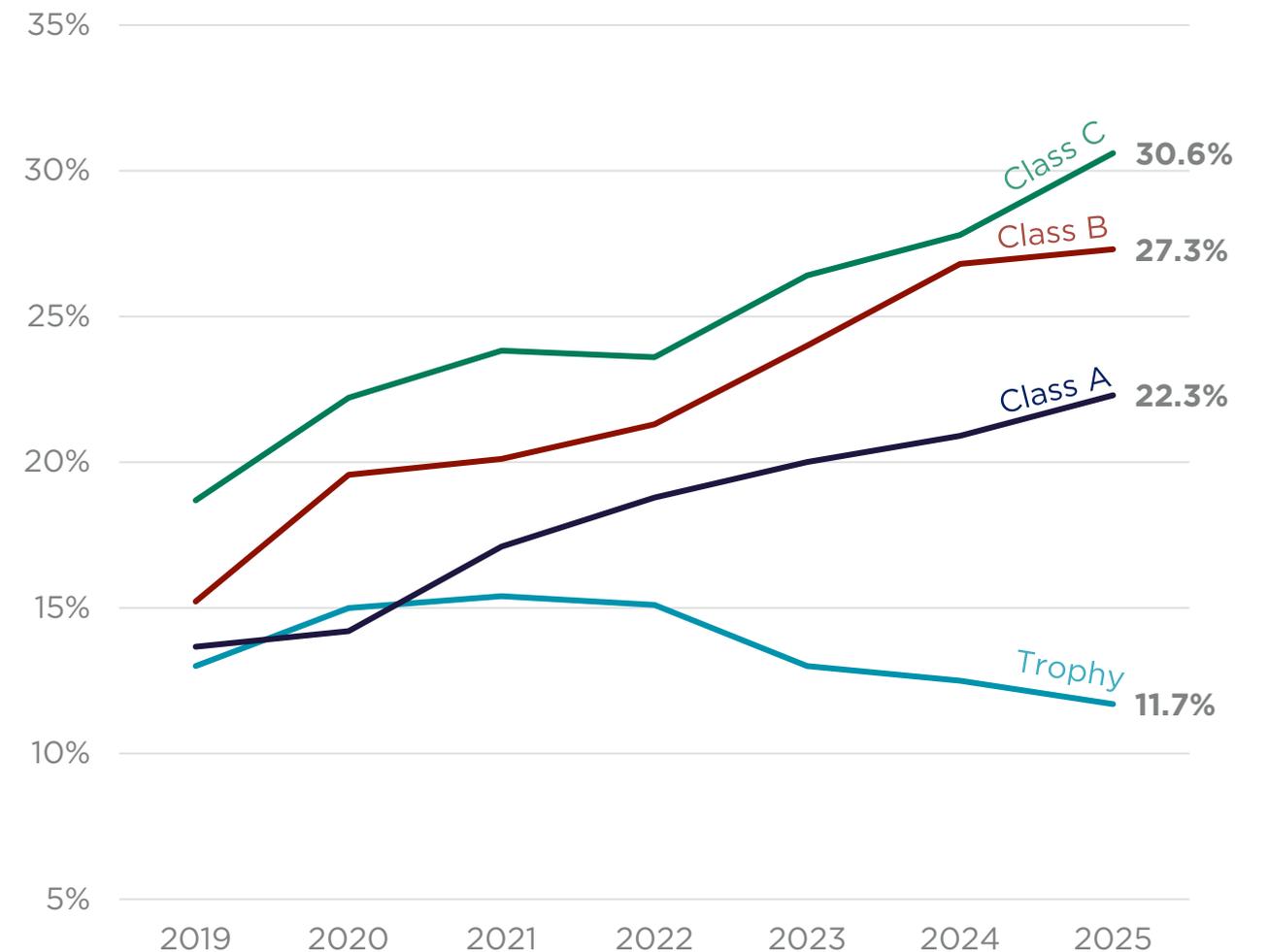
FROM VACANCY TO VITALITY: D.C.'S URBAN TRANSFORMATION

Washington, D.C. is at a pivotal moment in its urban evolution, as the city responds to shifting real estate dynamics driven by remote work and changing workforce patterns. With office vacancy rates at their peak and demand for aged unrenovated office space declining, many older and obsolete buildings—some dating back multiple decades—are no longer suited to modern business needs. Recognizing this, the District of Columbia and other surrounding jurisdictions have launched a series of ambitious programs to convert underutilized office properties into vibrant residential, hotel, and mixed-use developments. These efforts not only address the broader market's housing shortage but also breathe new life into aging infrastructure, positioning downtown D.C. for a more resilient and inclusive future.

Financial challenges play a significant role in shaping the feasibility and pace of office-to-residential conversions in Washington, D.C. Older office buildings often require extensive structural changes to meet residential codes—such as plumbing, natural light access, and HVAC upgrades. These retrofits can be cost-prohibitive, especially for buildings with deep floor plates or outdated layouts. Developers face uncertainty around future demand for downtown living, interest rates, and construction costs. This makes financing riskier and slows down investment decisions. The city must balance the long-term benefits of revitalization with short-term losses in commercial property tax revenue. This tension affects how aggressively D.C. can subsidize conversions. Despite these challenges, D.C.'s targeted programs like "Housing in Downtown" and "Office to Anything" aim to bridge the financial gap with tax abatements and incentives. Cushman & Wakefield estimates that at least 20 msf of office product in the District of Columbia is obsolete or otherwise unable to transact office leases in the current environment. The removal of these assets from the office inventory would instantly drop the overall vacancy rate in the office sector to 17% from the current 22% rate.

Sources: D.C. Policy Center

D.C. OFFICE VACANCY BY CLASS



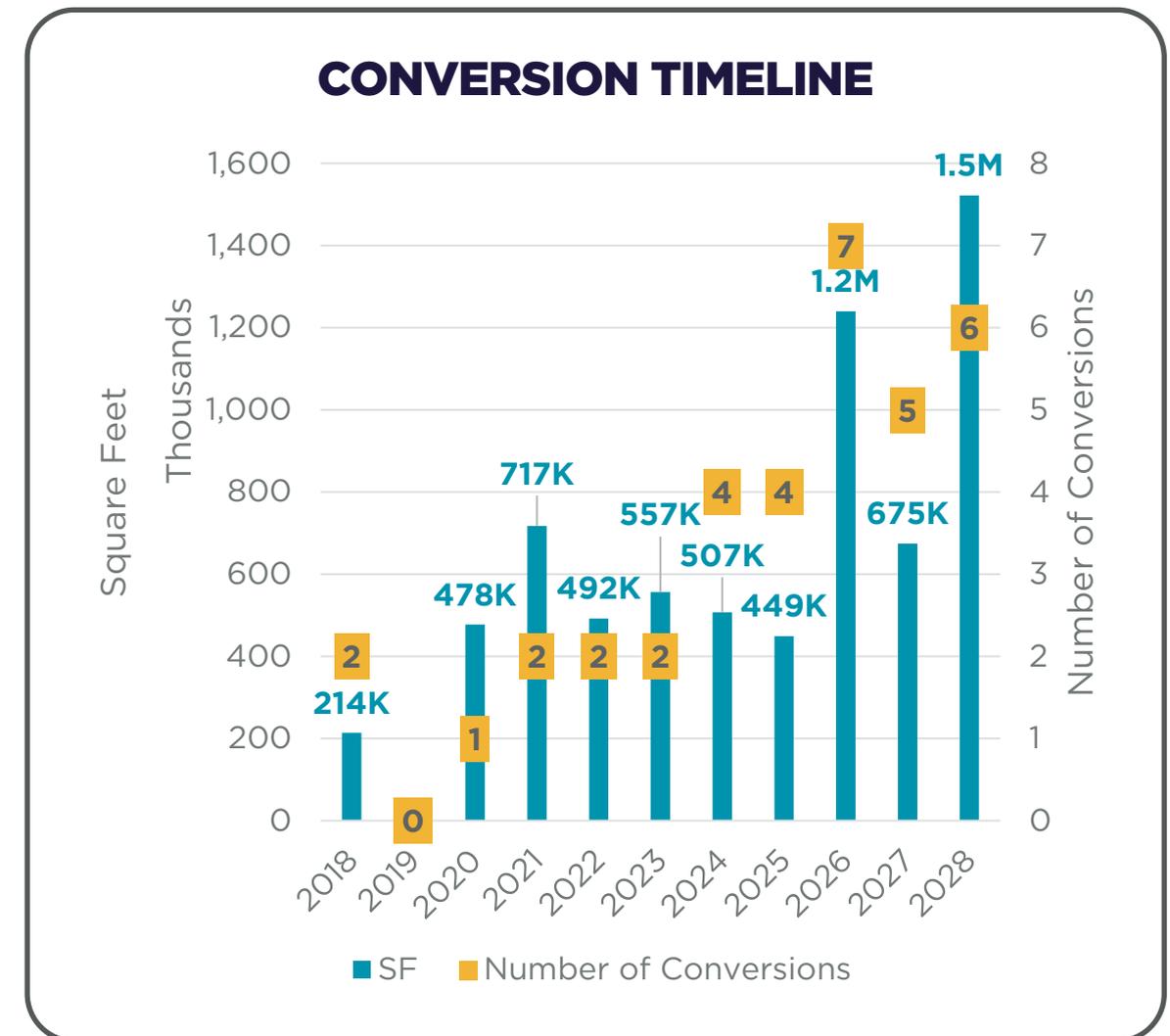
OFFICE CONVERSION INVESTMENT SALES



The rate of conversion of aging office assets has been stymied by high construction costs, high interest rates, and declining asset values. The bottom of the market is now becoming clearer, and several sales are setting the market for conversion strategy. Looking forward, price realization and the potential for lower interest rates will propel the number of conversions in the market rapidly.

PROPERTY	STATUS	CONVERSION TO	SALE DATE	SALE PRICE	# OF UNITS	\$/UNIT
2121 Virginia Avenue, NW	Planned	Student Residential	11/2025	\$23.5M	320	\$73,438
1990 K Street, NW	Planned	Multifamily	9/2025	\$42.5M	434	\$97,926
3333 K Street, NW	Planned	Multifamily	5/2025	\$29.2M	30	\$973,333
608-624 Eye St, NW	Planned	Multifamily	12/2024	\$3.0M	116	\$25,862
1000 Potomac Street, NW	Planned	Multifamily	9/2024	\$16.5M	135	\$122,222
1776 K Street, NW	Under Construction	Hotel	6/2024	\$28.0M	280	\$99,800
2121 Ward Court, NW	Delivered	Multifamily	5/2023	\$20.5M	48	\$427,083
1010 Vermont Avenue, NW	Delivered	Hotel	10/2022	\$15.9M	85	\$187,480
1125 15th Street, NW	Under Construction	Multifamily	12/2021	\$82.0M	264	\$310,606
1425 New York Avenue, NW	Delivered	Multifamily	12/2021	\$56.0M	243	\$230,453
4620-4624 Wisconsin Avenue, NW	Under Construction	Multifamily	8/2021	\$30.0M	144	\$208,264
1313 L Street, NW	Delivered	Multifamily	2/2020	\$34.7M	222	\$156,081
515 22nd Street, NW	Delivered	Multifamily	1/2019	\$21.0M	158	\$132,911
2501 M Street, NW	Delivered	Multifamily	12/2014	\$31.6M	97	\$326,186

+3.9 MSF of planned or rumored conversions across 20 properties with a 2029+ timeline



WHY IS FINANCING SO CHALLENGING?

Office to residential conversions are notoriously difficult to finance. High construction costs, aging office stock, and the complexity of adaptive reuse mean that developers must assemble unusually layered capital stacks—often combining senior debt, mezzanine financing, tax incentives, and increasingly Commercial Property Assessed Clean Energy (C-PACE) financing, which has emerged as a critical tool in D.C. On top of the construction and redesign costs, lenders struggle to underwrite conversions because the end product is fundamentally different from the existing asset. These projects often take years to plan and entitle, tying up capital. While Washington, D.C. has strong housing demands, lenders remain cautious due to the broader office market downturn. Because of these challenges, traditional construction lenders hesitate, pushing developers toward alternative financing sources.

The most significant trend in D.C.'s conversion market is the surge in C-PACE financing, which allows developers to borrow for energy-related improvements and repay the loan through a property tax assessment. C-PACE is attractive because it offers long-term, fixed-rate, non-recourse capital. It can sit alongside other debt, reducing the need for expensive mezzanine financing. The Post Brothers project, The Geneva, is the clearest example.

THE POST BROTHERS' THE GENEVA: A CASE STUDY IN LAYERED CAPITAL

At the end of 2025, Post Brothers secured \$465 million in C-PACE financing from Nuveen's Green Capital fund to support the conversion of Universal North and South (1825 and 1875 Connecticut Ave NW) into The Geneva. This financing represents the largest C-PACE loan ever issued in the United States and forms the backbone of the project's capital structure. Prior to the C-PACE transaction, Post Brothers assembled additional financing including a \$79 million loan from Kawa Capital Management, later refinanced into \$96.6 million, as well as an \$110 million loan from Mavik Capital Management. In total, the developer has assembled \$575 million in financing for a project now estimated at \$750 million.

Securing the capital has taken several years, as repositioning these large office buildings requires substantial investment and complex design solutions. Once construction begins, the redevelopment will become the largest office-to-residential conversion in Washington, D.C., transforming the former 700,000-square-foot office complex into 530 residential units.

The project has also been approved under D.C.'s "Housing in Downtown" (HID) tax abatement, a 20-year incentive designed to improve project feasibility by reducing long-term operating costs.



URBAN RENEWAL THROUGH INCENTIVES: D.C.'S CONVERSION STRATEGY

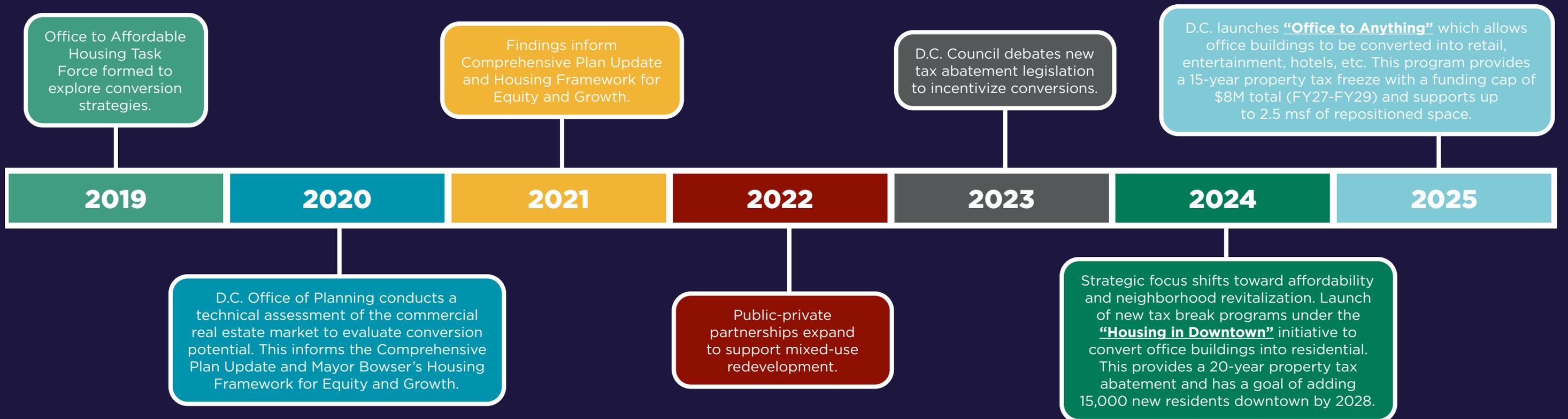


With remote work and a growing obsolete office inventory reshaping demand for commercial real estate, the District has embraced adaptive reuse as a strategic solution to address both vacancy rates and housing shortages. Through targeted programs like “Housing in Downtown” and “Office to Residential” tax abatements, D.C. is incentivizing developers to reimagine obsolete office buildings as vibrant residential communities. This policy pivot not only aims to attract 15,000 new residents by 2028 but also signals a broader commitment to economic resilience, urban livability, and inclusive growth.

In January 2025, D.C.’s government launched the “Office to Anything” program, designed to encourage the conversion of underutilized office spaces into alternative uses like retail

or community spaces using tax incentives and streamlined permitting. It remains to be seen if this will be enough to incentivize redevelopment as interest rates, labor, and materials costs continue to be elevated. The program is competitive and the value of the total tax abatements available is subject to a cap of \$5 million for 2027, \$6 million for 2028, and \$8 million for 2029, with 4% growth each year after. It will offer a 15-year property tax freeze and is expected to help convert 2.0 to 2.5 msf of office space.

These efforts reflect D.C.’s strategic response to declining office demand and rising housing needs, using adaptive reuse as a tool for urban revitalization.



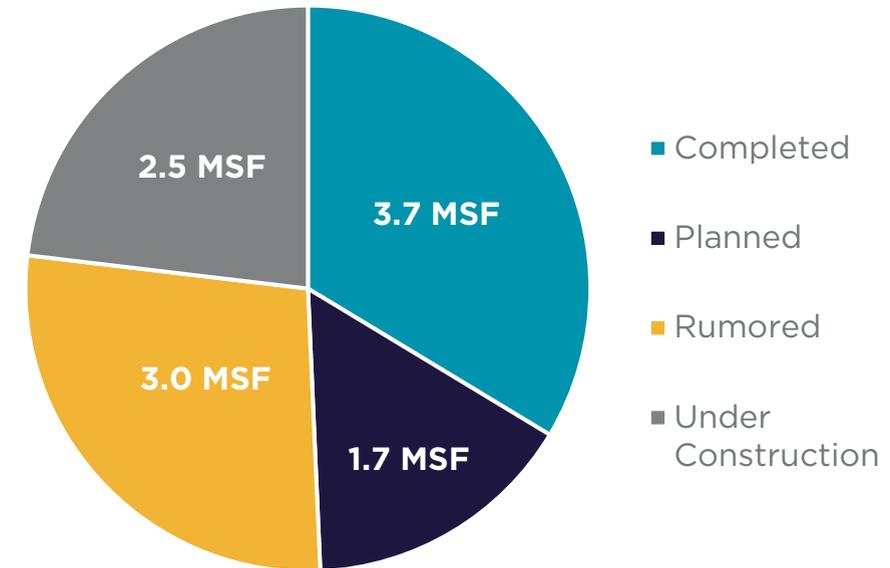
FROM VACANCY TO VITALITY

SQUARE FOOTAGE IN TRANSITION

Washington, D.C. has made significant strides in repurposing obsolete office space, with just under 3.2 msf already removed for residential conversion. This reflects a strong commitment to adaptive reuse as a strategy for urban revitalization. Residential conversions dominate the landscape, with 3.2 msf completed, 2.3 msf actively being converted, and another 4.0 msf is in the planning stage or under consideration due to the building's obsolescence. While hotel conversions are more modest—just over 31,000 sf completed—they show promise, with more than 370,000 sf in the pipeline and another 165,000 sf under consideration. Other uses, such as education spaces, are also emerging, with 466,000 sf already converted and 45,000 sf rumored.

This diversification signals a growing interest in mixed-use redevelopment, which could help create more vibrant and resilient neighborhoods. Looking ahead, the success of these conversions will depend on sustained public-private collaboration, favorable financing conditions, and continued demand for downtown living.

SQUARE FOOTAGE BY CONVERSION STATUS



SQUARE FOOTAGE BY TYPE



TRACKING CONVERSION MOMENTUM

The total volume of office space undergoing or slated for conversion in D.C. exceeds 10 msf, underscoring the scale of transformation underway. Of this, approximately 3.7 msf has already been completed, 1.7 msf is in the planning phase, 3.0 msf is rumored, and 2.5 msf is currently under construction.

This mix highlights both the momentum and complexity of these projects. Many buildings require extensive retrofits to meet residential standards, which can slow progress and increase costs. However, the pipeline suggests that developers and city officials are committed to long-term change. As interest rates stabilize and construction costs normalize, expect more projects to move from rumor to reality, especially with the support of incentive programs like “Housing in Downtown” and “Office to Anything”.

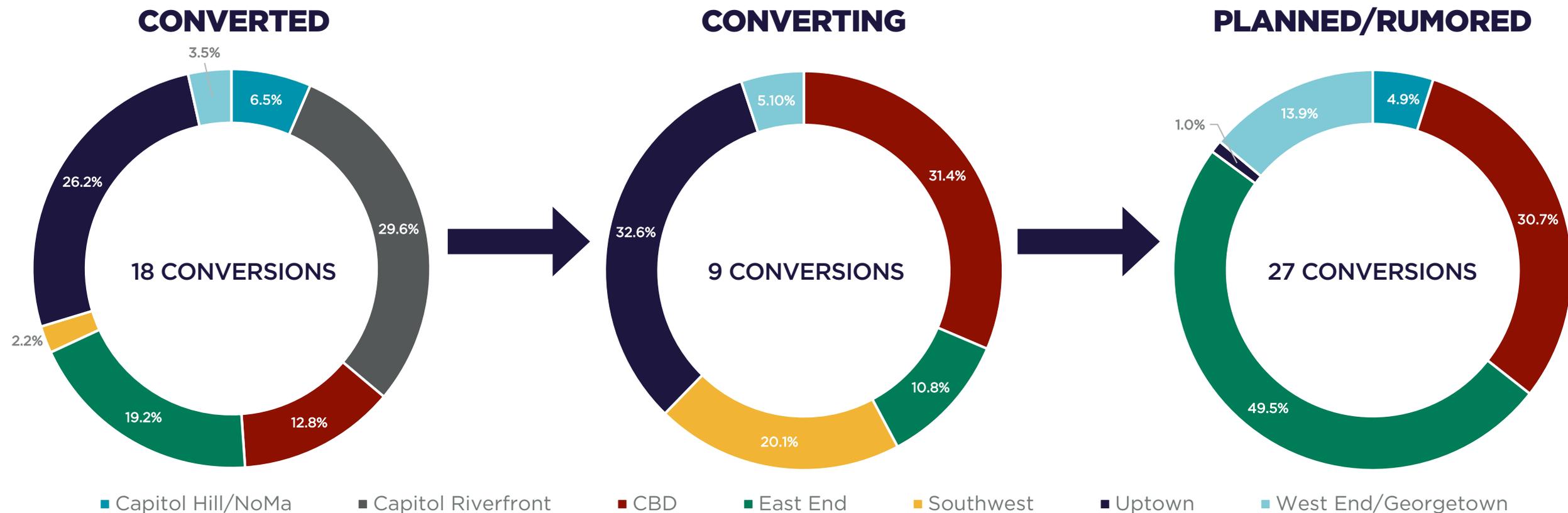
MAPPING THE SHIFT: WHERE CONVERSIONS ARE TAKING ROOT

Conversions remain heavily concentrated in the District’s core submarkets, with the East End and CBD leading both in completed projects and in those planned or rumored. Their appeal is driven by strong transit access, established infrastructure, and a dense blend of commercial and residential uses. Uptown and the West End/Georgetown corridors are also experiencing notable momentum, supported by aging office inventory and highly desirable locations for new housing.

Southwest and Capitol Riverfront have recorded three completed conversions, and Southwest has an additional large project underway—evidence of growing interest in waterfront areas and ongoing redevelopment districts.

This geographic clustering underscores a deliberate strategy by developers and policymakers to focus investment where high vacancies intersect with strong potential for improved livability. As zoning tools evolve,

permitting processes mature, and new financial incentives come online, the core submarkets are likely to continue capturing the majority of conversion activity, given their scale, infrastructure advantages, and concentration of underperforming office assets.

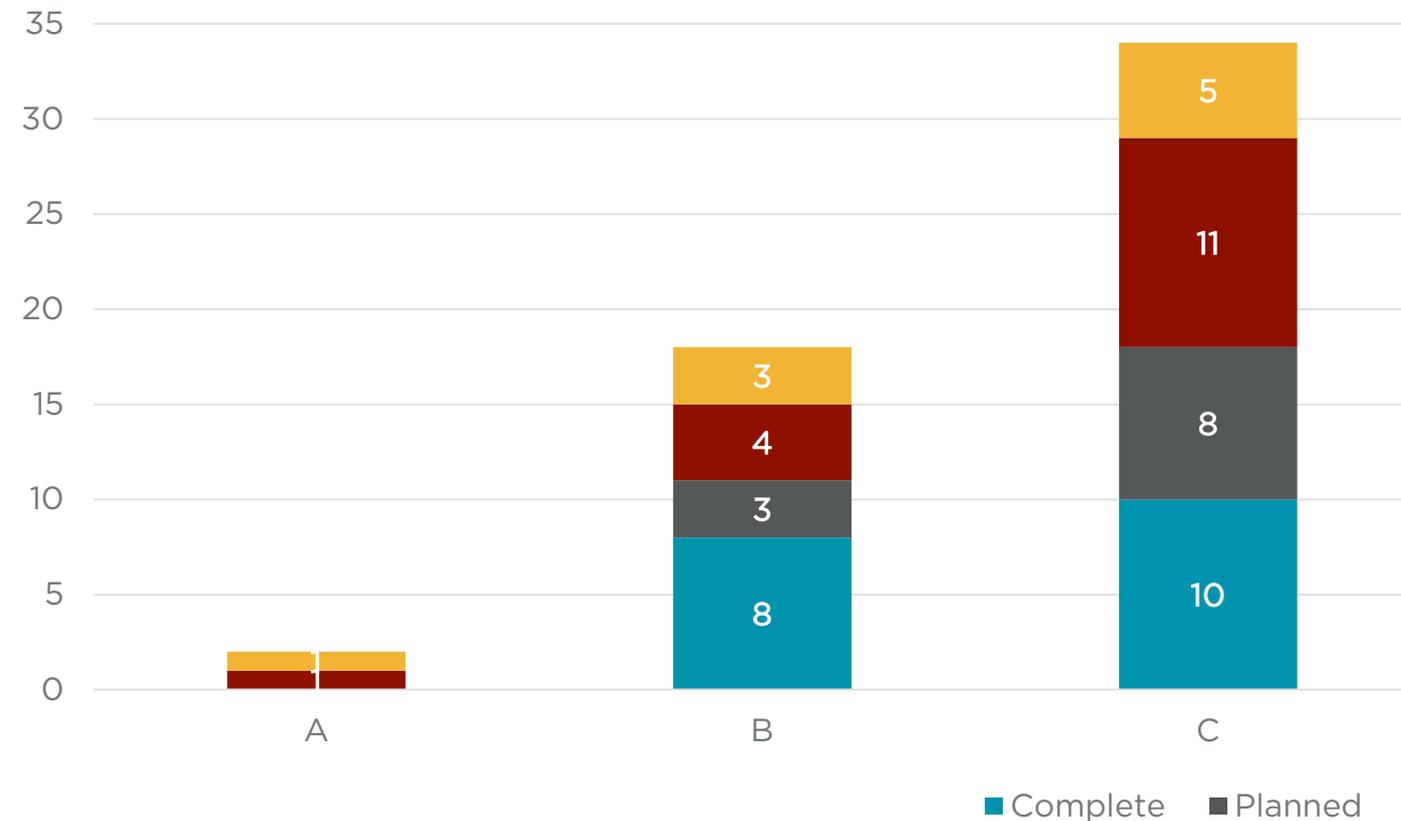


TARGETING THE RIGHT BUILDINGS: AGE, CLASS, AND OPPORTUNITY

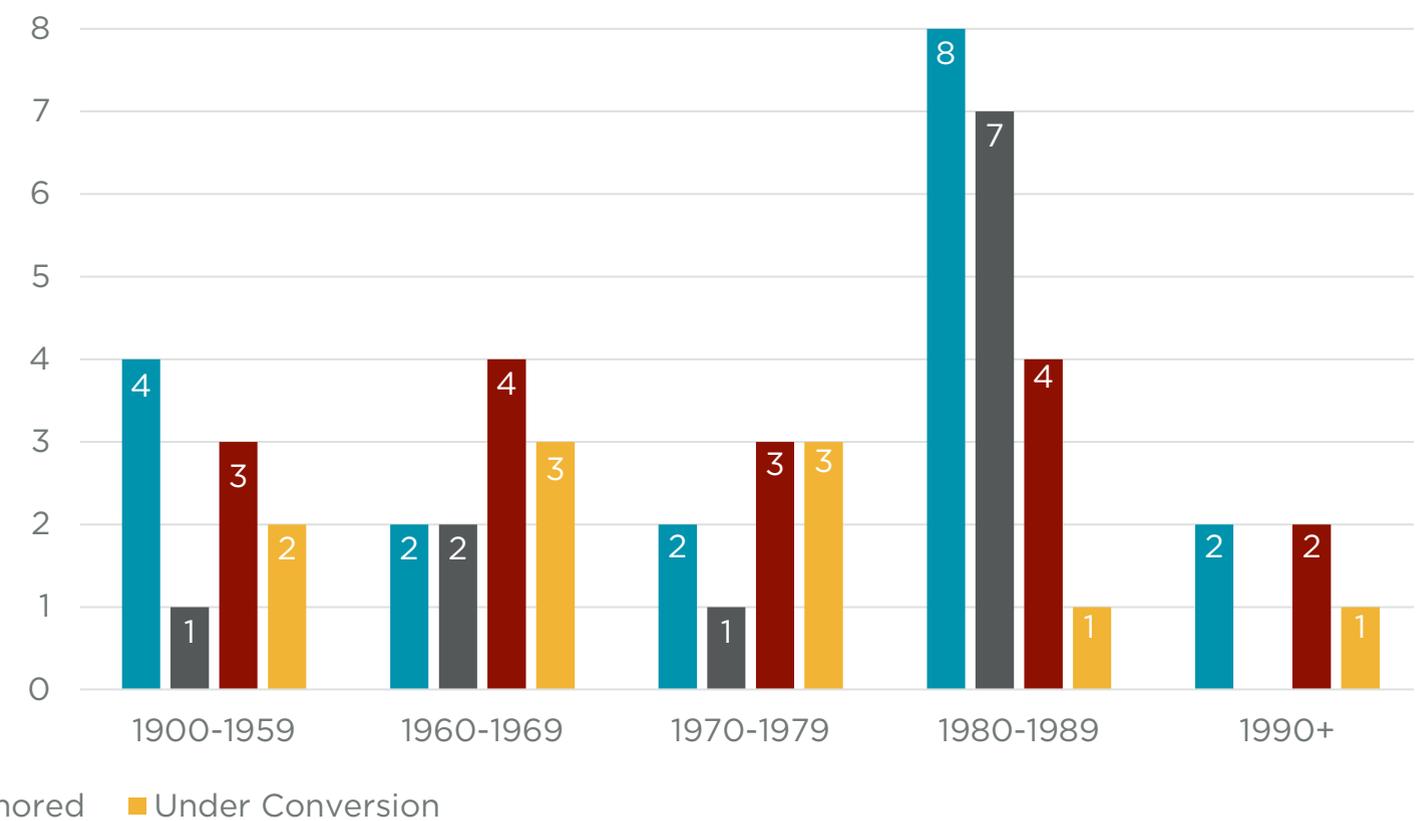
Almost all conversions are occurring in Class B and Class C office buildings, which tend to be older and less competitive in today's leasing market. Of the buildings tracked, 18 are Class B and 34 are Class C, compared to just two Class A properties. This trend reflects the relative ease and cost-effectiveness of converting lower-tier buildings, which often have simpler layouts and lower retrofit standards.

In terms of age, buildings constructed before 1980 dominate the conversion pipeline, with 30 such properties either completed, planned, rumored, or under construction. These older structures often have deep floor plates and outdated systems, making them less viable for modern office use but well-suited for residential adaptation.

COUNT REMOVED BY CLASS



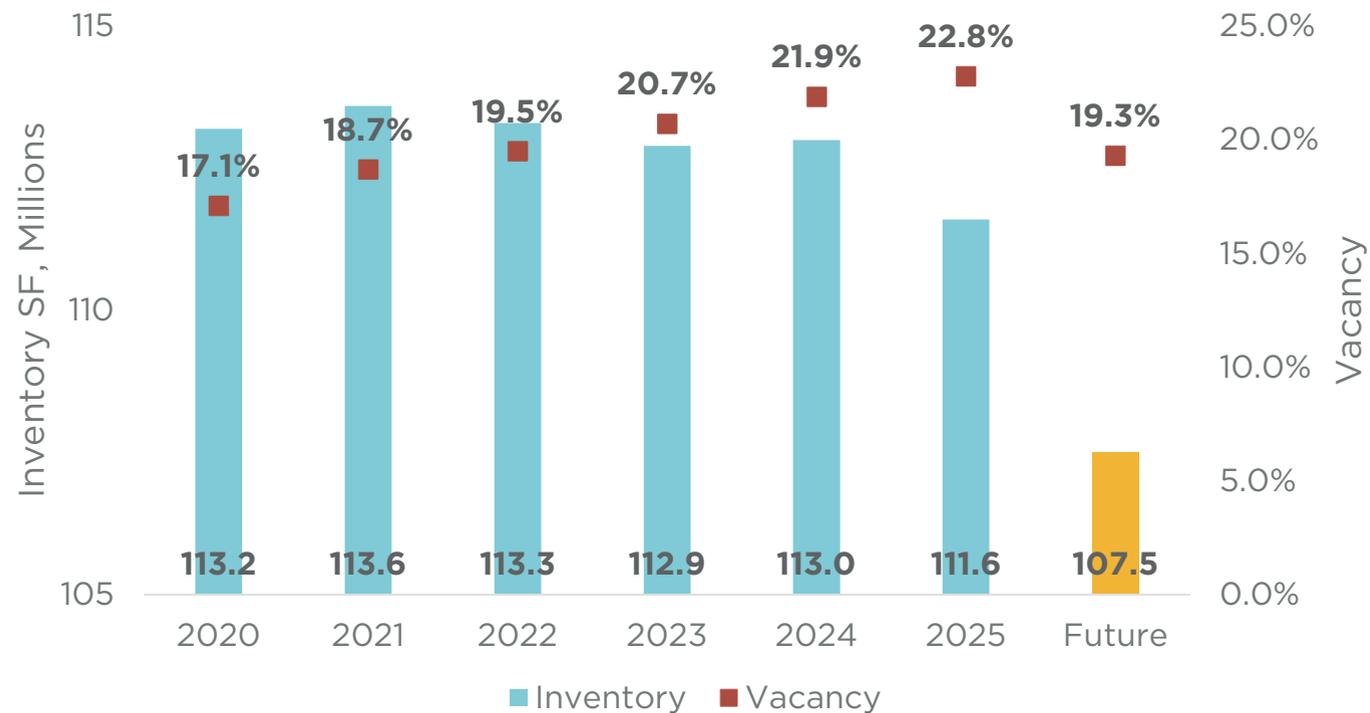
COUNT REMOVED BY YEAR BUILT



POTENTIAL IMPACT OF CONVERSIONS ON INVENTORY AND VACANCY

If all planned and rumored office conversions advance, Washington, D.C.'s office inventory would decline from the 111.6 msf as of January 2026 to 107.5 msf*. The vacancy rate, currently at 22.8%, would ease to slightly above 19.0% 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 Washington, D.C.'s size.

OVERALL INVENTORY



*Future inventory based on removals of planned/rumored projects plus the two office buildings proposed.



CONCLUSION: A CITY IN TRANSITION — BUILDING THE FUTURE FROM THE PAST

Washington, D.C. stands at a transformative crossroads. Faced with rising office vacancies and a growing demand for housing, the city has embraced adaptive reuse not as a stopgap, but as a strategic vision for urban renewal. Through targeted programs like “Housing in Downtown” and “Office to Anything”, D.C. is not only reimagining its aging commercial core but also laying the groundwork for a more inclusive, resilient, and livable city.

Yet, the path forward is not without challenges. Financial feasibility remains a major hurdle, with high retrofit costs, elevated interest rates, and uncertain demand dynamics. The city’s incentive programs—while promising—must continue to evolve to attract private investment and ensure affordability. Strategic zoning, streamlined permitting, and sustained public-private collaboration will be essential to unlocking the full potential of these conversions.

Ultimately, D.C.’s office-to-residential transformation is more than a real estate trend—it’s a bold reimagining of urban life. By turning vacancy into vitality, the District is not only addressing today’s housing shortage but also shaping a more dynamic, equitable, and future-ready downtown. The next few years will be critical in determining whether this vision becomes a lasting legacy or a missed opportunity.



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