



Office vacancies changing government regulations

With an affordable housing crisis sweeping cities across North America, many state and local governments are pushing to convert underutilized or completely vacant offices in central business districts to apartments.
Photo courtesy of Wes Guckert

by Wes Guckert

The landscape of urban centres in the United States and Canada is undergoing a significant transformation in 2025 due to ongoing high office vacancy rates. The shift to remote and hybrid work models, originally accelerated by the COVID-19 pandemic, has led to widespread underutilization of office spaces in major cities.

According to real estate and investment firm CBRE, the U.S. office vacancy rate hit a 30-year high of 18.2 per cent in 2023. The May 2024 office market report, by CommercialEdge, found that the nearly 20 per cent vacancy rate had remained the same, noting office vacancy rates had not been this high since 1979. In fact, some projections show the U.S. office market hitting a peak of nearly 25 per cent in 2026.

The last quarter of 2024 saw Canada's national office vacancy rate decrease to 18 per cent, with Calgary experiencing the highest office vacancy rate at 22 per cent. While the national rate decreased, these are still troubling figures for city centres across the country.

Even today, the office vacancy rate in downtown Portland, Ore., has continued

to rise, even with efforts to push in-person work.

Real estate firm Colliers reported that the city's overall office vacancy rate grew to nearly 25 per cent during the fourth quarter of 2024. During that time, tenants walked away from an additional 262,000 square feet of space. The rate surges to 35 per cent when solely looking at the Central Business District, which includes the downtown core.

To put in perspective, a vacancy rate of five to eight per cent would be normal for a typical pro forma, so these levels have catastrophic ripple effects, such as loss of tax base for cities. Less foot traffic means less economic activity. Imagine a restaurant owner in Toronto who now has 40 per cent fewer breakfast and lunch patrons.

Return to Office: What to Expect for 2025

In 2025, the United States and Canada are actively addressing the economic, housing, and social challenges posed by high office vacancy rates in urban centres, a trend accelerated by the COVID-19 pandemic and the sustained shift toward remote work.

Despite the continued dominance of working from home, return-to-office (RTO) policies are playing a role in reshaping city centres. Some companies are mandating employees to return to physical workspaces, while cities are pushing for policies that encourage office occupancy.

According to recent research by WTW, more than two-thirds of companies globally have a formal policy requiring employees to be in the office for a minimum number of days each week. Currently, the majority of organizations require employees to be onsite between one and four days per week, with nearly one-third of companies requiring three days each week.

Over the next three years, 79 per cent of CEOs said they expect workers "whose roles were traditionally based in office" to be working in person. That's up from 34 per cent earlier in 2024.

In many ways, the private sector is leading the way on RTO mandates in the past year. Salesforce, Amazon, Meta, JPMorgan Chase, AT&T, Boeing, Dell Technologies, *The Washington Post*, and Major League Baseball are already

Repurposing office spaces into residential units mitigates housing shortages and revitalizes downtown areas simultaneously.
Photo courtesy of Wes Guckert



insisting employees return to the office either full time or in some capacity.

According to KPMG's most recent survey of 800 business owners and C-suite leaders across Canada, 83 per cent of Canadian CEOs expect a full return to office within the next three years, up from 55 per cent in 2023. The same KPMG study noted that nine in 10 leaders report "they are likely to reward employees who make an effort to come into the office with favourable assignments, pay raises, or promotions," up from 77 per cent last year.

Last summer, public relations agency Publicis Groupe changed its RTO policy, also mandating three days a week, and dismissed dozens of employees in violation of the directive that fall. Goldman Sachs expanded its Dallas, Texas, office from 900 employees in 2017 to 4,600 in 2025, making it the firm's largest U.S. location outside New York City. This reflects a strategic shift toward urban hubs that offer affordability and quality-of-life advantages. Meanwhile, shortly after President Donald Trump was sworn in, he signed an executive order requiring federal workers in the United States to return to the office.

Local governments, too, are implementing RTO initiatives to boost economic activity. San Francisco Mayor Daniel Lurie has ordered 10,000 city employees to work in office at least four days a week, starting in April 2025. The goal is to revitalize the struggling downtown area, which has seen a sharp decline in commuter activity since the pandemic.

Office-to-Apartment Conversions

With an affordable housing crisis sweeping cities across North America, many

state and local governments are pushing to convert underutilized or completely vacant offices in central business districts to apartments.

Repurposing office spaces into residential units mitigates housing shortages and revitalizes downtown areas simultaneously.

As an example, Calgary has more centrally located "Class A" downtown office space – both vacant and occupied – than any other city in Canada, and a serious vacancy problem: 32 per cent of offices are vacant in the downtown and in the beltline area. The housing market is also tight, with spiking rents.

As part of a \$200 million local government initiative, three office buildings totalling 400,000 square feet are being converted into 401 apartments. The hope is that the redevelopments will be the first in a series that removes surplus office space while creating a more vibrant downtown living experience.

In the U.S., New York City has initiated projects like the transformation of 25 Water Street into apartments, aiming to add 80,000 housing units over 15 years through its "City of Yes for Housing Opportunity" proposal. Similarly, Pittsburgh has converted the historic GNC headquarters into Livewell Apartments, offering 253 residential units, as part of efforts to reduce its 21.9 per cent office vacancy rate.

In 2025, 70,700 offices in the United States are expected to be converted into apartments. This is a record high and a 484 per cent increase from 2021. By comparison, there were 23,100 conversions in 2022, according to RentCafe. Just last year, the 55,339 office-to-apartment makeovers scheduled were considered a record high.

New York City leads the U.S. in future office-to-apartment conversions with 8,310 units in its pipeline. It is followed by last year's first place, Washington, D.C., with 6,533 units, and then Los Angeles in third place with 4,388 units.

Changing Government Regulations

Government involvement plays a crucial role in facilitating these transformations.

Canadian policymakers are advocating for zoning changes and incentives to encourage developers to convert office buildings into residential and mixed-use spaces. Cities like Toronto and Vancouver, where housing demand remains high, are experimenting with fast-tracked approval processes for adaptive reuse projects to streamline these conversions.

The financing offered by the Canada Mortgage and Housing Corporation offers attractive premiums and loan amounts for multi-family projects, based on affordability, accessibility, and sustainability, with some loans reaching as high as 95 per cent loan-to-cost ratio. This financing motivates Canadian developers to seek solutions for office conversions, whereas U.S. developers are less incentivized.

That said, in the U.S., federal and local governments are re-evaluating their real estate holdings. The Department of Government Efficiency has initiated plans to terminate numerous federal office leases and sell underutilized properties. This includes high-profile buildings in Washington, D.C., and San Francisco, two cities that have been significantly impacted by the shift away from in-office work.

The transformation of vacant offices and city centres in 2025 is reshaping urban life in both the U.S. and Canada. The future of downtown areas will likely be more diverse, vibrant, and adaptable to changing work and lifestyle patterns.

The decline of traditional office space marks the beginning of a new era – one that prioritizes flexibility, sustainability, and community-centred urban design, balancing the coexistence of work, living, and leisure.



Wes Guckert (wguckert@trafficgroup.com), PTP, is chairman and CEO of The Traffic Group and is on the National Small Business Leadership Council.