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Office Buildings Sell At Fire-Sale Discount

BY PETER GRANT

The U.S.'s battered office market is holding a fire sale, featuring some buildings marked down by more than 90%.

In Chicago, real-estate developer Marc Calabria bought a 485,000-square-foot office building for \$4 million. The building sold for \$68.1 million a decade ago.

Developer Asher Luzzatto paid a mere \$5.3 million for the Denver Energy Center after a foreclosure process. The twobuilding complex sold for \$176 million in 2013.

Even the federal government's landlord is getting in on the act. The General Services Administration sold last month a 940,000-square-foot building to a residential converter for \$24 million, a tiny fraction of its value a few years ago.

Landlords and their lenders held on to their office towers

for years, hoping for a turnaround after Covid. Now, they are accepting enormous losses. Owners and creditors are capitulating to the reality that more employees are splitting their work time between home and office. They are also resigned to stubbornly higher interest rates, which lower property values and make it harder for buyers to borrow.

"People who don't know real estate would be shocked at the level of distress," Luzzatto said.

Not every office building goes for a few pennies on the dollar. These are mostly poorer-quality buildings, often in undesirable locations. And owners of high-end office towers in the best locations of New York City and the hottest parts of San Francisco are raising rents and selling buildings profitably.

But most office sales reflect the sector's steep decline. Even higher-quality properties on average have dropped about 35% in value from their peak, according to analytics firm Green Street.

Buyers, meanwhile, are picking up office towers in major U.S. cities for roughly the price of a three-bedroom condo unit in Manhattan. These distressed sales are paving the way for new owners to pursue redevelopment ideas that would have been unthinkable just a few years ago.

Calabria in Chicago plans to convert the office building into an urban farm and education center. He is working with Farmzero, which will use grow lights and hydroponic farming techniques to produce millions of pounds a year of berries, tomatoes, lettuce, herbs and other vegetables.

"The buy-in at this distressed price allows us the opportunity to afford change," Calabria said.

Rock-bottom prices are also accelerating the move to residential conversion. Developers who bought at steep discounts can now justify costly structural changes—such as carving out atriums or reconfiguring floor layouts—that would have been financially unworkable at higher valuations.

At the start of the year, more than 90,000 apartments nationwide were in the process of conversion nationwide, up 28% from a year earlier, according to data firm RentCafe. New York City's obsolete buildings are leading the way, but tax breaks and other government incentives are helping spark similar projects in Chicago and Washington, D.C.

Investors purchased 204 distressed office buildings nationwide last year, up from 133 sales in 2024, according to data firm MSCI. Sales of these properties, which were auctioned out of bankruptcies or sold through foreclosures and lender seizure, came to \$5.2 billion.

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This reckoning follows years when office owners and their lenders avoided confronting the sector's problems. Owners would inject more equity, while lenders extended loans in hopes of a rebound.

Now, with many concluding that values aren't coming back, lenders are increasingly demanding repayment or selling the properties, a sign that the office market's long slide that intensified during the pandemic is nearing a bottom.

"We're six years from the shock of Covid," said Jim Costello, an MSCI executive director. "But that's how long it takes someone to capitulate and give up such a highly valued asset."

In the first two months of this year, sales volume of distressed offices was \$808 million, up 24.5% from the same period last year, MSCI said.

Special servicers overseeing distressed office buildings financed through commercial mortgage-backed securities also are selling. The Chicago building being converted into an urban farm was sold by special servicer CW Asset Management, which said the low price was justified because the empty building's taxes, utility bills and other costs were so high.

It isn't just weak demand from remote work forcing down values.

Owners must contend with the high cost of leasing up empty space—through hefty brokerage commissions and tenant incentives—and uncertainty about how AI could reshape office usage.

Sharp discounts are showing up in both downtown and suburban markets. For example, Newmark Group brokered the sale of five suburban Texas office buildings over the past two years at prices less than half prepandemic values. Buyers demolished them to make way for higher-demand uses like industrial space.

Some of the big buyers of distressed office assets include Cross Ocean Partners, a credit-focused investment firm known for moving from one pocket of distress to another. It recently raised the first \$300 million of a \$750 million fund to buy distressed office assets—both debt and equity—in such markets as Minneapolis, Austin, Texas, and the Boston area.

While institutional investors have largely pulled back from distress to focus on the strongest buildings in the most resilient markets, high-net-worth individuals are stepping in.

Hossein Fateh recently bought a 940,000-square-foot GSA building in Washington, D.C. A data-center investor, he made a fortune when Digital Realty paid \$7.6 billion for Du-Pont Fabros Technology, which he co-founded.

Fateh is planning a residential conversion, adding a swimming pool or atriums in the middle of the floors to create windows. Such architectural hacks will help push the conversion cost into the hundreds of millions of dollars.

If the price wasn't so low, "this deal wouldn't work," Fateh said.

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