Memorandum

To: Glenn Williamson

From: Corinne Packard Beasley, Assistant Professor, Georgetown Masters of Real Estate Program, School of Professional Studies

Date: March 4, 2025

RE: Financial Feasibility Analysis of New York City, Washington, D.C., Calgary, and Chicago Governments' Office-to-Residential Conversion Programs

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Executive Summary

This Memorandum analyzes the financial feasibility of office-to-residential conversions across four North American cities – New York City, Washington, D.C., Calgary, and Chicago – that have instituted office-to-residential conversion incentive programs in the wake of the COVID-19 pandemic. The analysis focused on one subject property in each city and evaluated the impact of each incentive program by comparing projected project returns with and without the incentives offered. Our analysis determined that only the incentive programs in Chicago and Calgary succeeded (which both included upfront capital) in raising projected returns within the minimum required return threshold, assumed to be a levered IRR of 15% - 20%. This presents a strong indicator that the programs' incentives are sufficient to motivate conversions. Washington, D.C.'s and New York City's incentive programs (which only included tax abatements), however, did not produce sufficient increases in projected returns to meet the minimum required return threshold, indicating that either additional incentives may be necessary to motivate the cities' conversions, market conditions must improve to allow for such conversions to take place, or acquisition costs must be discounted further. Our conclusion is that given the significant upfront cost to convert, including acquisition, hard costs and high cost of capital, programs providing subsidy upfront are more successful than longer term tax abatement programs.

1 Introduction

In light of the office market decline across cities in North America in the wake of the COVID-19 pandemic, city governments have instituted programs aimed at incentivizing office-to-residential conversions. Professor Corinne Beasley of Georgetown University has developed a Microsoft Excel model for assessing the financial feasibility of office-to-residential conversions in four subject cities: New York City, Washington, D.C., Calgary, and Chicago, with and without the incentives offered by each city's government. This Memorandum describes the methodology undertaken to build this analysis, and concludes whether or not the incentive programs were necessary to incentivize the office-to-residential conversions in each city. Specific buildings were used as case studies to test the financial feasibility of office-to-residential conversions without the incentives, and then the impact on the feasibility while utilizing each city's incentive program.

1.1 Scope of Work

The remainder of this Memorandum is structured as follows:

- Section 2 will describe the government incentive program put forth in each subject city,
- Section 3 will describe the four subject properties used as bases for the analysis,
- Section 4 will describe the methodology behind the revenue, expense, and conversion cost assumptions,
- Section 5 will analyze the impacts the incentives have on each of the building case studies,
- the Appendix provides an overview of how to use the Microsoft Excel model.

2 Government Programs Assessed

2.1 New York City – Affordable Housing from Commercial Conversions Tax Incentive Benefits Program ("AHCC")[1]

In April 2024, New York Governor Kathy Hochul enacted several new housing laws affecting New York City real estate; among them was Real Property Tax Law ("RPTL") Section 467-m, establishing AHCC.[2] AHCC provides a partial tax exemption for Non-Residential Buildings converted to Eligible Multiple Dwellings (rentable units) that meet certain construction and affordability criteria.[3] A summary of AHCC's key benefits and requirements is outlined below.

Program Benefits

AHCC provides a 100% tax abatement during construction (except for assessments on local improvements).[4] Post-construction, the tax abatement duration and amount is dependent on Commencement Date and location, as summarized in the table below:[5,6]

[1] *N.B. Capitalized terms undefined herein are defined in RPTL Section 467-m.*
[2] *https://www.rosenbergestis.com/blog/2024/04/updated-4-22-24-summary-of-the-2024-housing-laws/*
[3] *https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-467-m.page*
[4] *https://www.nysenate.gov/legislation/laws/RPT/467-M*
[5] *https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-467-m.page#:~:text=Real%20Property%20Tax%20Law%20Section,%E2%80%9CAHCC%20Program%20Benefits%E2%80%9D).*
[6] *N.B. The analysis assumes a Commencement Date on or before 6/30/2026 and location inside the Manhattan Prime Development Area (MPDA).*

Figure 2.1: AHCC Program Benefits Schedule

CONSTRUCTION BENEFIT PERIOD[1]

YEAR	EXEMPTION FROM REAL PROPERTY TAXATION[2]
1	100%
2	100%
3	100%

POST-CONSTRUCTION BENEFIT TERMS

25-Year Benefit where Commencement Date is on or after 7/1/2028 and on or before 6/30/2031

MANHATTAN PRIME DEVELOPMENT AREA (MPDA)[3]		OUTSIDE MPDA	
YEARS	EXEMPTION[2]	YEAR	EXEMPTION[2]
YEARS 1-20	90%	YEARS 1-20	65%
YEAR 21	80%	YEAR 21	50%
YEAR 22	70%	YEAR 22	40%
YEAR 23	60%	YEAR 23	30%
YEAR 24	50%	YEAR 24	20%
YEAR 25	40%	YEAR 25	10%

30-Year Benefit where Commencement Date is on or after 7/1/2026 and on or before 6/30/2028

MPDA		OUTSIDE MPDA	
YEARS	EXEMPTION[2]	YEAR	EXEMPTION[2]
YEARS 1-25	90%	YEARS 1-25	65%
YEAR 26	80%	YEAR 26	50%
YEAR 27	70%	YEAR 27	40%
YEAR 28	60%	YEAR 28	30%
YEAR 29	50%	YEAR 29	20%
YEAR 30	40%	YEAR 30	10%

35-Year Benefit where Commencement Date is on or after 12/31/2022 and on or before 6/30/2026

MPDA		OUTSIDE MPDA	
YEARS	EXEMPTION[2]	YEAR	EXEMPTION[2]
YEARS 1-30	90%	YEARS 1-25	65%
YEAR 31	80%	YEAR 26	50%
YEAR 32	70%	YEAR 27	40%
YEAR 33	60%	YEAR 28	30%
YEAR 34	50%	YEAR 29	20%
YEAR 35	40%	YEAR 30	10%

[1]Begins on the later of (i) Commencement Date or (ii) three years prior to the Completion Date.
[2]Other than assessments for local improvements.
[3]Any tax lot now existing or subsequently created located entirely south of 96th Street in Manhattan.

The City of New York has also initiated an Office Conversion Accelerator program for projects that might provide 50 or more housing units to assist with analyzing and navigating zoning and regulatory requirements.[7]

Affordability Requirements

AHCC requires that at least 25% of converted units are affordable units, maintained according to the following conditions: i. at least 5% of units at a maximum of 40% of Area Median Income ("AMI"), ii. a maximum of three income bands (none of which can exceed 100% of AMI), and iii. the weighted average of all income bands is no greater than 80% of AMI. Affordable units must be maintained, and are rent stabilized, in perpetuity.[8]

2.2 Washington, D.C. – Housing in Downtown Program ("HID")[9]

Washington, D.C.'s HID is a tax abatement plan launched by Mayor Muriel Bowser and the Office of the Deputy Mayor for Planning and Economic Development ("DMPED").[10] The program's final adopted rules

[7] *https://www.nyc.gov/site/officeconversions/index.page*
[8] *https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-467-m.page#:~:text=Real%20Property%20Tax%20Law%20Section,%E2%80%9CAHCC%20Program%20Benefits%E2%80%9D).*
[9] *N.B. Capitalized terms undefined herein are defined in 10-B DCMR § 6699.*
[10] *Housing in Downtown Program | dmped (dc.gov)*

were codified in the D.C. Municipal Regulations ("DCMR") and effective as of March 22, 2024.[11] A summary of HID's key benefits and requirements is outlined below.

Program Benefits

HID awards a twenty-year tax abatement, beginning after construction is complete and subject to the below funding schedule:[12]

Figure 2.2: HID Funding Schedule

FY24-26 – $2.5M total
FY27 – Total cap increases to $6.8M
FY28 – Total cap increases to $41M
Future Years – The prior year's cap, with 4% annual escalation in each successive year

HID also grants owners an exemption from Washington, D.C.'s Tenant Opportunity to Purchase Act ("TOPA").[13]

Affordability Requirements[14]

HID requires that either: i. at least 10% of converted units are maintained as affordable units at 60% of Median Family Income ("MFI")[15] or ii. at least 18% of converted units are maintained as affordable units at 80% of MFI. Affordable units must only be maintained during the twenty-year tax abatement period.

2.3 Calgary – Downtown Calgary Development Incentive Program[16,17]

Calgary's office-to-residential conversion program was initially launched in April 2021 but was paused in October 2023 as demand exceeded the funding available.[18] The program, officially referred to as the Downtown Calgary Development Incentive Program, reopened for applications between September 19, 2024 and October 31, 2024, following allocation of $52.5 million in funding secured from the Government of Canada.[19] A summary of the program's key benefits and requirements is outlined below (the analysis focuses on the initial iteration of the program).

[11] *https://www.dcregs.dc.gov/Common/DCMR/RuleList.aspx?ChapterNum=10-B66*
[12] *HID RFA 03.22.24_Final_0.pdf (dc.gov)*
[13] *https://www.dcregs.dc.gov/Common/DCMR/RuleList.aspx?ChapterNum=10-B66*
[14] *Ibid.*
[15] *N.B. This analysis assumes selection of option i.*
[16] *N.B. Capitalized terms undefined herein are defined under the Downtown Calgary Development Incentive Program.*
[17] *N.B. All $ amounts with respect to Calgary are in CAD.*
[18] *https://storeys.com/calgary-office-conversions-sales-relaunch/*
[19] *https://www.calgary.ca/development/downtown-calgary-incentive-program.html; https://storeys.com/calgary-office-conversions-sales-relaunch/*

Program Benefits[20]

The program offered a grant of $75 per square foot to Multi-Residential Developments, based on the original gross building area of existing office space to be converted, up to a maximum of $15 million per property (absent the approval of Calgary City Council). Ground floor and residential amenity space to be converted was compensated at 50% of the incentive rate.

2.4 Chicago – LaSalle Street Reimagined Program[21,22]

In an effort to revitalize the LaSalle Street Corridor in the Loop (Chicago's central business district), the City of Chicago issued an Invitation for Proposals (IFP) in September, 2022 for adaptive reuse projects to repurpose vacant office space. As of November 2024, five such projects have been approved by the City of Chicago's Community Development Commission for $250 million in Tax Increment Financing (TIF) support. A summary of the revitalization effort's key benefits and requirements is outlined below.

Program Benefits[23]

The Community Development Commission will provide TIF support to approved projects. The amount awarded is dependent on a number of factors, including the amount of funding available as well as the financial need of each project and adherence to IFP criteria.

Affordability Requirements[24]

As part of the IFP, the City of Chicago sought a commitment that proposals designate a minimum of 30% of on-site units as affordable for households with a range of incomes, averaging 60% AMI.

3 Buildings Assessed

One subject property was selected in each subject city, based on the availability of market data and eligibility under each incentive program, in order to assess the feasibility of conversion with and without the program benefits offered. The subject properties are all anticipated to be converted but, given the nascency of the incentive programs, are in various stages of development. This entailed, as further described below, making certain revenue and cost assumptions to determine the projected return of each conversion. Additional data was sourced from public records and published media.

3.1 650 First Avenue, New York, NY 10016

[20] *https://www.naiopcalgary.com/government-affairs/downtown-calgary-development-incentive-program/*
[21] *N.B. Capitalized terms undefined herein are defined under the IFP.*
[22] *https://www.chicago.gov/city/en/sites/lasalle-street/home.html*
[23] *Ibid.*
[24] *Ibid.*

650 First Avenue was acquired by Lalezarian Properties on March 23, 2023 for $33.5 million.[25] The property is currently undergoing construction to convert from a commercial to a mixed-use building, adding four stories and a total of 111 residential units (a minimum of 25% of which will be affordable) across approximately 139,000 gross square feet.[26] Construction completion is anticipated in 2025.[27]

3.2 2100 M Street NW, Washington, D.C. 20037

2100 M Street was acquired by Post Brothers on May 10, 2023 for $66.8 million.[28] Post Brothers plans to convert the vacant commercial property, adding five stories, into 400 residential units (a minimum of 10% of which will be affordable).[29] The property will also house approximately 20,000 square feet of ground-level retail space and 178 below-grade parking spaces.[30] Post Brothers' plans for conversion were approved by the D.C. Board of Zoning Adjustment in October, 2024.[31]

3.3 909 5th Avenue S.W., Calgary, AL, Canada ("The Cornerstone")[32,33]

The Cornerstone was the first conversion project to be completed, in April 2024, under the program. The majority of the building's approximately 129,000 gross square feet were converted to 112 residential units, with 74 parking stalls, while preserving the second floor as coworking space (approximately 14,000 square feet), together with 10,000 square feet of street-level retail. The total conversion cost (including the purchase of the building) amounted to approximately $38 million and was developed by the Canadian developer, Peoplefirst Developments.

3.4 30 N LaSalle Street, Chicago, IL 60602[34,35,36,37]

American General Life Insurance Co. took control of 30 N LaSalle Street through a credit bid in the amount of $34.7 million after the property was put up for foreclosure auction by the Cook County's Sherriff Office. The property was approved to receive $57 million in TIF by the Community Development Commission in June 2024, with construction scheduled to begin in March 2025 and to complete in January 2027. The project, planned by a venture between Golub & Company and American General Life Insurance Co., will convert approximately 370,000 square feet of office space to 349 residential units (30% of which will be affordable). Total project costs are estimated at $130 million, and will see the

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[25] *Bargain & Sale Deed Without Covenants, Document #2023032400640001, New York City Department of Finance, Office of the City Register*
[26] *Alteration CO Filing, Job Filing #M08030325-I1, NYC Department of Buildings*; *https://www.cityrealty.com/nyc/murray-hill/650-first-avenue/189233*; *https://therealdeal.com/new-york/2024/10/23/where-office-to-resi-conversions-are-heating-up-in-nyc/*
[27] *https://www.cityrealty.com/nyc/murray-hill/650-first-avenue/189233*
[28] *Special Warranty Deed, Document #2023038914, DC Office of Tax and Revenue*
[29] *https://dc.urbanturf.com/articles/blog/400-unit_office-to-residential_conversion_pitched_in_dcs_west_end/22692*
[30] *Ibid.*
[31] *https://www.postrents.com/press/post-brothers-conversion-of-west-end-office-wins-key-approval*
[32] https://www.cbc.ca/news/canada/calgary/office-to-residential-the-cornerstone-1.6716211; *https://people-1st.ca/current-projects/*
[33] *https://images4.loopnet.com/d2/VDa3nBX04koN00sFRwloNafNFlP3I16Mipq8HoiOx3c/document.pdf*
[34] *https://chicago.urbanize.city/post/cdc-approves-57-million-tif-30-n-lasalle*; *https://www.chicago.gov/content/dam/city/sites/lasalle-street/pdfs/30_n_lasalle_presentation.pdf*; *https://www.chicago.gov/city/en/sites/lasalle-street/proposals.html*
[35] *2024-06-11_5D-DOH30NLaSalleSt_StaffReport_Breems.pdf*
[36] *https://crs.cookcountyclerkil.gov/Search/ResultByPin?id1=17094570090000*
[37] *https://propmodo.com/lender-takes-control-of-chicago-office-tower-in-uncontested-auction/*

addition of outdoor and indoor amenity spaces. Floors 23 through 43 of the 44-story building will retain their office use, and the property will also retain the majority of its street-level retail program.

4 Market Assumption Analysis

As part of the creation of a financial feasibility model, all model assumptions drew from rigorous market analysis. The following section discusses the methods and conclusions impacting various major assumptions.

4.1 Construction Costs

Office-to-Residential Conversion Construction Costs

Construction cost estimates (PSF) were derived from conversations with local developers and published media (these estimates can be found in row 25 of the Assumptions tab).[38] The estimated construction cost was multiplied by the total gross square feet of office space to be converted (including additional gross square feet of space to be added) to arrive at an estimate of the total construction cost for each conversion (row 30 of the Assumptions tab), 80% of which was assumed to be hard costs and the remaining 20% soft costs.

4.2 Loss/Gain Factor

We assumed a loss factor, both pre and post-conversion, of 10% below gross square feet for office space and 25% for residential space (reflected in rows 5 and 6 and rows 12 and 13 of the Assumptions tab). The assumptions were based on data drawn from comparable buildings across markets, with a higher loss factor applied to residential space to account for the larger share of common space associated with that use, and potential reconfiguration of rentable square footage.

4.3 Residential Market Rents

Approximations for prevailing market rents were sourced, in the case of Chicago, from CoStar data as of 2024 for comparable residential properties in the relevant subject area.[39] In the case of Washington, D.C., projected market rents were sourced directly from a local developer.[40] In the case of New York City, projected market rents were sourced directly from a local broker. In the case of Calgary, projected market rents were sourced from publicly advertised rates.[41] We assumed no discount below market rents offered at traditional residential buildings. These assumptions, made across various unit sizes, can be found in rows 77 through 80 of the Assumptions tab. We assumed a 4% annual increase in residential market rents across all subject cities.

4.4 Residential Affordable Rents

Approximations for affordable rents were sourced, in the case of New York City (as required by AHCC), from the New York City Department of Housing Preservation and Development's (HPD) published AMI

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[38] *https://www.wsj.com/video/series/wsj-explains/what-it-takes-to-convert-a-multimillion-dollar-office-into-housing/88CDF171-D046-4FD4-A4BB-72130DCCB4C6?mod=trending_now_video_1*

[39] *N.B. Chicago does not include an assumption for 3-bedroom unit rents (market and affordable) as no units of such size are anticipated in the subject property's proposal.*

[40] *N.B. Washington, D.C. does not include an assumption for 3-bedroom unit rents (market and affordable) as the HID's Eligible Area contains such a small number of such units.*

[41] *https://astraliving.ca/the-cornerstone/*

guidelines.[42] In the case of Washington, D.C. (as required by HID), they were sourced from the maximum permitted rents published under the Inclusionary Zoning Affordable Housing Program.[43] In the case of Chicago, they were sourced from the City of Chicago's IFP guidelines.[44] In the case of Calgary, while 40% of the units are designated as affordable, we reflected all units as collecting market rents under the assumption that nonprofit partner organizations would be fully subsidizing the affordable rents.[45] These assumptions, made across various unit sizes, can be found in rows 84 through 87 of the Assumptions tab. We assumed an increase in residential affordable rents commensurate with the increase in residential market rents across all subject cities.

4.5 Retail & Office Rents

To account for the office and retail rent, recognizing that office square feet would account for a less significant share of the total square feet post-conversion, we opted to apply a blended rate. These approximations were sourced from CoStar data as of 2024 and can be found in row 103 of the Assumptions tab. Note, there were no taxes, utilities, reimbursements, concessions, or tenant improvement allowances incorporated into the retail or office component of the model.

4.6 Residential Unit Mix

We looked to relevant market data for the New York City (StreetEasy), Washington, D.C. (CoStar), and Chicago (CoStar) submarkets, as of 2024 to calculate approximations for residential unit mixes (spanning studios, one-bedroom, two-bedroom, and three-bedroom units). In the case of Calgary, we looked to the property's advertised floor plans.[46] These assumptions can be found in rows 90 through 93 of the Assumptions tab. We assumed (following the requirements of AHCC, HID, and Chicago's IFP) that the affordable and market unit mixes would be proportionate. To calculate an approximation of market and affordable residential rents per unit, we took the sum product of the market and affordable rents across each unit type (calculated as described in Sections 4.3 and 4.4) and the unit mixes calculated as described in Section 4.6. The resulting approximations (calculated on a monthly and annual basis) can be found in rows 105 and 106 (market rent) and rows 110 and 111 (affordable rent) of the Assumptions tab.

To account for the difference in average unit size between those in each subject property and the market each occupies, we divided the average subject property unit size by the average unit size in the market (for both market and affordable units) to arrive at a 'size multiplier', expressed in percentage terms, that can be found in rows 107 (market) and 112 (affordable) of the Assumptions tab. This size multiplier was multiplied by our annual rent approximations (found in rows 106 and 111 of the Assumptions Tab) and by the total number of, in each case, market and affordable units in each subject property to arrive at total annual revenue number. The total annual revenue can be found in rows 108 (market) and 133 (affordable) of the Assumptions tab.

Lastly, to arrive at market and affordable rent approximations on a PSF basis for each subject property, we divided the respective annual revenue numbers by the average square feet of each unit type in each

[42] *https://www.nyc.gov/site/hpd/services-and-information/area-median-income.page*
[43] *https://dhcd.dc.gov/publication/2024-2025-inclusionary-zoning-maximum-income-rent-and-purchase-price-schedule*
[44] *https://www.chicago.gov/content/dam/city/sites/lasalle-street/LaSalle_Pre-Submission_Deck.pdf*
[45] *https://www.calgary.ca/our-leadership/articles/from-offices-to-homes.html*
[46] *https://astraliving.ca/the-cornerstone/*

subject property and by the total number of units of each type in each subject property. The results can be found in rows 109 (market rent PSF) and 114 (affordable rent PSF) of the Assumptions tab.

4.7 Operating Expenses

Operating Expenses for each subject property (post-conversion) were approximated by studying comparable properties in each property's respective subject area, drawing from CoStar data as of 2024. These assumptions can be found in rows 139 (PSF basis) and 140 (annual basis) of the Assumptions tab.

4.8 Real Estate Taxes

Real Estate Taxes for each subject property (post-conversion) were approximated by studying comparable properties in each property's respective subject area, drawing from CoStar data as of 2024. These assumptions can be found in rows 141 (PSF basis) and 142 (annual basis) of the Assumptions tab.

4.9 Miscellaneous & Parking Revenue

Non-rental revenue included miscellaneous revenue and parking revenue. Miscellaneous revenue was included to account for items such as storage, pet, application, and amenities fees, which we assumed to be equal to $2.00 PSF. The resultant annual revenue calculations can be found in row 124 of the Assumptions tab. Parking revenue, applicable only to Calgary and Washington, D.C., was estimated on a per space basis (with revenue per space estimated from discussions with local operators), with occupancy assumed as growing at the same rate as residential occupancy during the lease up period following construction. The assumptions for parking revenue can be found in rows 119 through 121 and row 123 of the Assumptions tab.

4.10 Construction and Permanent Financing

We assumed each project would require purchasing the property prior to conversion and thus financing through a construction-to-permanent loan. Our assumptions for the construction and permanent loan interest rates were drawn from anecdotal data (gathered through discussions with local developers and advertised quotes) and reflect the dramatic rise in the Federal Funds Rate since early 2022.[47] Using the same evidence, we targeted a 60% Loan to Cost / Value ratio for each loan, basing our ultimate assumption on what a permanent loan takeout could support. We assumed a slightly higher rate for the construction loan than the permanent loan given the shorter time horizon of the former (a construction time of 24 months across all subject properties), and assumed a slightly higher (1%) rate in Washington, D.C. and New York given the more complex regulatory environments compared to those in Chicago and Calgary. We assumed construction loan interest would be capitalized and paid out together with the principal at the end of the construction period (upon conversion to the permanent loan, ensuring also that the total amount to be paid out would not exceed the value of the permanent loan). The construction loan assumptions can be found in rows 45 through 50 of the Assumptions tab and the permanent loan assumptions can be found in rows 53 through 59 of the Assumptions tab.

4.11 Return Metrics

The Scenario Chart tab includes select return metrics – levered and unlevered IRR, NPV, and NOI yield – for each subject property's conversion across three scenarios: (1) without program incentives and

[47] *https://tradingeconomics.com/united-states/interest-rate*

creating affordable units, (2) without program incentives and no affordable units, and (3) with program incentives while creating affordable units (to account for the cases in which a developer might be subject to affordability requirements independent of those imposed by the incentive program analyzed here).[48] These returns can be found in rows 3 through 20 of the Scenario Chart tab (and are presented in Figure 4.11 below). To calculate the terminal value of each subject property we assumed, drawing from anecdotal and CoStar data as of 2024, a capitalization rate of 5% for the New York, Washington, D.C. and Calgary subject properties, and 9% for the Chicago subject property given that a significantly higher portion will retain its office use. These assumptions can be found in row 155 of the Assumptions tab.

Figure 4.11: Scenario Chart

RETURNS - NO INCENTIVES & NO AFFORDABLE				
	Chicago	NYC	Calgary	Washington, D.C.
Unlevered IRR	11.30%	9.13%	9.47%	8.24%
Levered IRR	18.59%	12.32%	13.60%	9.56%
NPV	$148,582,860	$48,139,741	$24,392,742	$106,588,140
NOI Yield	11.75%	7.00%	7.24%	6.33%
RETURNS - BASE CASE - NO INCENTIVES & WITH AFFORDABLE				
	Chicago	NYC	Calgary(1)	Washington, D.C.
Unlevered IRR	10.17%	7.05%	9.47%	7.41%
Levered IRR	14.87%	7.37%	13.60%	7.94%
NPV	$116,522,177	$21,779,270	$24,392,742	$76,349,997
NOI Yield	10.61%	5.66%	7.24%	5.81%
RETURNS - WITH INCENTIVES & WITH AFFORDABLE				
	Chicago	NYC	Calgary	Washington, D.C.
Unlevered IRR	13.35%	9.37%	11.29%	9.47%
Levered IRR	17.35%	13.01%	15.43%	13.00%
NPV	$168,222,857	$49,454,314	$31,996,280	$155,802,332
NOI Yield	10.61%	7.17%	7.24%	7.17%
(1) Affordable rents are subsidized by nonprofits so do not affect the project's IRR				

5 Incentive Program Analysis

5.1 Summary of Findings

Our analysis found that all subject property conversions had positive levered and unlevered IRRs even without the benefits offered by the incentive programs, though the New York City and Washington, D.C. subject properties had materially lower projected returns, with levered IRRs below 8%. Once the program benefits are applied, all subject properties' levered and unlevered IRRs increased. In both absolute and relative terms, the New York City subject property saw the highest increase, as its levered IRR grew by almost 6%, representing an increase of over 75%.

[48] *N.B. Office-to-residential conversions will typically require a modification to the property's zoning, approval of which may be conditioned on introducing affordable housing through, for example: Chicago's Affordable Requirements Ordinance, Washington, D.C.'s Inclusionary Zoning Program, New York City's Inclusionary Housing Program, and Calgary's inclusionary zoning. As such, we assumed in our base case that the affordability requirements would apply.*

5.2 Conclusion

When determining the effectiveness of an incentive program, it is important to consider whether the incentives offered provide a sufficient, independent basis for investments that would otherwise not occur. As conversions are relatively risky endeavors, we assumed, drawing from discussions with developers, that most investors only consider those projects with a projected return (we are assuming levered IRR to be the most precise proxy) of 15-20% or higher. Following this, an effective incentive program would be one that increases the levered IRR of a potential conversion project from below the minimum required return threshold – subsidizing projects that would be funded without government assistance would be a form of public waste – above it and, therefore, truly incentivizing investment.

Based on our findings, it appears that Chicago's and Calgary's incentive programs (in the case of the subject properties analyzed) succeeded in raising levered IRR within the minimum required return threshold. This presents a strong indicator that the incentive programs have provided sufficient incentive to foster conversion projects in their target areas that might not have occurred in their absence. It is worth noting that we assumed the acquisition price of the Chicago property to be equal to the winning bid at the subject property's foreclosure sale. The subject property was purchased by the lender and therefore this transaction did not represent a true exchange of value. When assuming the acquisition cost cited in the developer's report to the Community Development Commission (of $7.8 million), levered IRR increases to 23.46% (above the minimum required return threshold).[49] This would further support our conclusion that Chicago's upfront incentive program was effective.

In the cases of Washington, D.C. and New York City, it does not appear that the incentive programs provide sufficient incentive to investors. We note, as a partial explanation, with respect to Washington, D.C., that the subject property has the highest purchase price of all subject properties, meaning that the project is more heavily impacted by the high financing costs that currently impact the real estate industry (the Chicago and Calgary subject properties were acquired at steep discounts). With respect to New York City, we note that the subject property's asking rents may be even higher than the market rents assumed in our analysis (that are depressed by older buildings lacking modern amenities and may not fully reflect the potential "ultra-luxury" positioning of the subject property) – this phenomenon has been well-documented in the New York City rental market.[50] Due to the high upfront acquisition and construction costs of these projects, the long-term tax abatement incentive program does not appear to be incentive enough to meet our expected threshold requirements.

That said, the decision to pursue a conversion project ultimately rests on a number of factors, including the developer's risk and return preferences and sources of competitive advantage this analysis may have overlooked that could alter projected return.

Appendix – Using the Financial Model

Step 1: City Selection

[49] *2024-06-11_5D-DOH30NLaSalleSt_StaffReport_Breems.pdf*
[50] *https://www.renthop.com/research/building-age-and-rents-in-new-york/*

The model's scenarios vary across three tabs: Monthly Pro Forma, Loan Amortization Table, and Assumptions. In the Monthly Pro Forma tab, the first function to select is which of the four cities you are analyzing (New York City, Washington, D.C., Calgary, or Chicago). This can be changed in the Monthly Pro Forma tab by utilizing the drop-down menu in cell D2. To ensure the permanent loan amount is applied correctly, you will also need to ensure the same city is selected in Cell D2 of the Loan Amortization Table tab.

Step 2: Incentive Program Benefits Selection[51]

After selecting a city in the Monthly Pro Forma tab, you can use the Assumptions tab to apply or remove the benefits of each city's incentive program to allow for easier comparison, as described below.

New York City & Washington, D.C.

To remove the tax abatement awarded under New York City's and Washington D.C.'s incentive programs, ensure that cells C129 and C130, and cell D130, respectively, are revised to include a value of zero (the model's default is set to apply the full tax abatement in each case in the relevant cells).

Calgary & Chicago

To remove the grant and TIF awarded under Calgary's and Chicago's incentive programs, respectively, ensure that cells E42 and F42, respectively, are revised to include a value of zero (the model's default is set to apply the full awarded amount in each case in the relevant cells).

Many thanks to my three research assistants, to whom I owe most the credit for model building, researching and writing: Sami Kattan, Nikhil Moondra and Morgan Nakaska.

[51] *N.B. To adjust the affordability criteria, ensure that rows 68 and 69 of the Assumptions Tab are updated to ensure the total number of units (in row 66 of the Assumptions Tab) are all reflected as market units.*