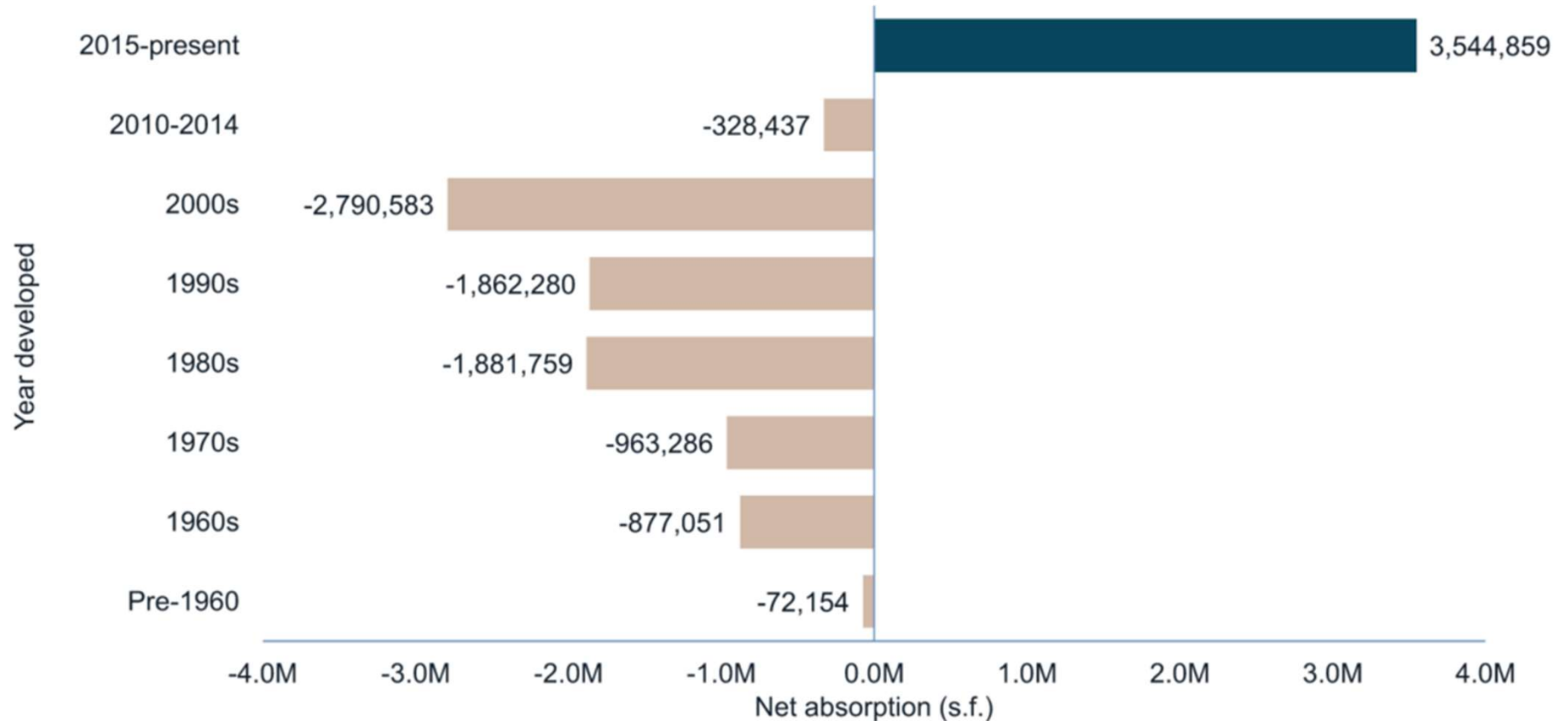


ECONOMICS OF OFFICE-TO-RESIDENTIAL CONVERSIONS IN THE DMV

NEGATIVE ABSORPTION IN B AND C QUALITY OFFICE SPACE

Flight to quality- Net Absorption by Building Vintage (Q2 2020 – Q4 2022)

Since the start of the pandemic, newly-developed buildings have vastly outperformed the rest of the DC office market.



OFFICE-TO-RESIDENTIAL CONVERSIONS

Considerations for Exploring OTR Conversions

Construction Complexity for Change of Use

- How difficult will it be to create light and air for residential occupancy?
- How much cutting of the concrete slab is necessary to achieve this result?
- How much density is lost in the process?

Cost of Construction

- Range from \$225 - \$325/SF
- How much façade (skin) will need to be replaced?
- Are there existing improvements that can be retained?

Parking

- How much existing parking does the building have?
- What is the cost to rehabilitate an existing parking garage?

Inclusionary Zoning

- Does the site require affordable housing?
- If so, how much and at what level of affordability?

Entitlement Process

- Is additional entitlement needed to facilitate the change of use?

At what point are you better off just tearing down and starting from scratch?

OFFICE-TO-RESIDENTIAL COMPARISON

DOWNTOWN DC					
PROGRAMMING					
Use	GSF	RSF	Efficiency	Avg. Unit Size	Units
Residential	250,000	180,000	72.00%	750	240
Retail	-	-	-	-	-
Total	250,000	180,000	72.00%	750	240
Parking				Required Ratio	Required Stalls
Required Residential				0.75 / Unit	180 Stalls
Required Retail				1.00 / 1,000 SF	-
Total					180 Stalls

PROJECT COST BUDGET

Cost	Input	\$ per GSF	\$ per RSF	\$ per Unit	\$ Total
Acquisition Cost	\$150 / GSF	\$150	\$208	\$156,250	\$37,500,000
Hard Costs - Building	\$300 / GSF	\$300	\$417	\$312,500	\$75,000,000
Hard Costs - Parking	\$5,000 / Stall	\$4	\$5	\$3,750	\$900,000
Hard Costs - Sitework	\$12 / GSF	\$12	\$17	\$12,500	\$3,000,000
Soft Costs	\$85,000 / Unit	\$82	\$113	\$85,000	\$20,400,000
Financing Costs [1]		\$44	\$61	\$45,942	\$11,026,000
Contingency	8.0% of Hard & Soft	\$32	\$44	\$33,100	\$7,944,000
Total Project Cost		\$623	\$865	\$649,042	\$155,770,000

[1] Assumes 60% LTC; 6.50% average interest rate; 1.00% loan fees

PRO FORMA COMPARISON

		100% Market Rate	8% IZ @ 60% MFI
INCOME			
Market Rate	\$5.00 / RSF / Mo.	\$10,800,000	\$9,900,000
IZ / ADU	\$2.10 / RSF / Mo.	-	\$378,000
Total / Wtd. Avg.		\$10,800,000	\$10,278,000
Parking Income	\$350 / Stall / Mo.	\$756,000	\$756,000
Other Income	\$150 / Unit / Mo.	\$432,000	\$432,000
Potential Gross Income		\$11,988,000	\$11,466,000
Vacancy	5.00%	(\$599,400)	(\$573,300)
Effective Gross Income		\$11,388,600	\$10,892,700
EXPENSES			
Operating Expenses		\$1,382,000	\$1,319,000
Real Estate Taxes [2]		\$1,633,000	\$1,562,000
Management Fees	3.0% of EGI	\$342,000	\$327,000
Replacement Reserves	\$250 / Unit	\$60,000	\$60,000
Total Expenses		\$3,417,000	\$3,268,000
Net Operating Income		\$7,971,600	\$7,624,700

[2] Assumes tax rate of 0.85 / \$100 of assessed value; 5.00% assessment cap rate

CURRENT RETURN ON COST ANALYSIS

Current Return on Costs (NOI Divided by Total Project Cost)	5.12%	4.89%
Required Cost (Reduction) / Surplus to Achieve 6.00% Current Return on Cost	(\$22,910,000)	(\$28,692,000)
\$ per GSF	(\$92)	(\$115)
Required Additional / (Reduction of) Income to Achieve 6.00% Current Return on Cost	\$1,375,000	\$1,722,000
\$ per GSF	\$5.50	\$6.89

OFFICE-TO-RESIDENTIAL COMPARISON

SUBURBAN VA (Fairfax County)					
PROGRAMMING					
Use	GSF	RSF	Efficiency	Avg. Unit Size	Units
Residential	250,000	190,000	76.00%	750	253
Retail	-	-	-	-	-
Total	250,000	190,000	76.00%	751	253
Parking				Required Ratio	Required Stalls
Required Residential				0.75 / Unit	190 Stalls
Required Retail				1.00 / 1,000 SF	-
Total					190 Stalls

PROJECT COST BUDGET

Cost	Input	\$ per GSF	\$ per RSF	\$ per Unit	\$ Total
Acquisition Cost	\$65 / GSF	\$65	\$86	\$64,229	\$16,250,000
Hard Costs - Building	\$225 / GSF	\$225	\$296	\$222,332	\$56,250,000
Hard Costs - Parking	\$5,000 / Stall	\$4	\$5	\$3,755	\$950,000
Hard Costs - Sitework	\$12 / GSF	\$12	\$16	\$11,858	\$3,000,000
Soft Costs	\$60,000 / Unit	\$61	\$80	\$60,000	\$15,180,000
Financing Costs [1]		\$30	\$39	\$29,407	\$7,440,000
Contingency	8.0% of Hard & Soft	\$24	\$32	\$23,834	\$6,030,000
Total Project Cost		\$420	\$553	\$415,415	\$105,100,000

[1] Assumes 60% LTC; 6.50% average interest rate; 1.00% loan fees

PRO FORMA COMPARISON

		100% Market Rate	8% ADU @ 60% MFI
INCOME			
Market Rate	\$3.25 / RSF / Mo.	\$7,400,250	\$6,786,000
IZ / ADU	\$2.10 / RSF / Mo.	-	\$396,900
Total / Wtd. Avg.		\$7,400,250	\$7,182,900
Parking Income	\$175 / Stall / Mo.	\$399,000	\$399,000
Other Income	\$120 / Unit / Mo.	\$364,300	\$364,300
Potential Gross Income		\$8,163,550	\$7,946,200
Vacancy	5.00%	(\$408,200)	(\$397,300)
Effective Gross Income		\$7,755,350	\$7,548,900
EXPENSES			
Operating Expenses		\$680,750	\$661,750
Real Estate Taxes [2]		\$1,505,000	\$1,465,000
Management Fees	3.0% of EGI	\$233,000	\$226,000
Replacement Reserves	\$250 / Unit	\$63,250	\$63,250
Total Expenses		\$2,482,000	\$2,416,000
Net Operating Income		\$5,273,350	\$5,132,900

[2] Assumes tax rate of 1.11 / \$100 of assessed value; 5.00% assessment cap rate

CURRENT RETURN ON COST ANALYSIS

Current Return on Costs (NOI Divided by Total Project Cost)	5.02%	4.88%
Required Cost (Reduction) / Surplus to Achieve 6.00% Current Return on Cost	(\$17,211,000)	(\$19,552,000)
\$ per GSF	(\$69)	(\$78)
Required Additional / (Reduction of) Income to Achieve 6.00% Current Return on Cost	\$1,033,000	\$1,173,000
\$ per GSF	\$4.13	\$4.69