



DOWNTOWNDC

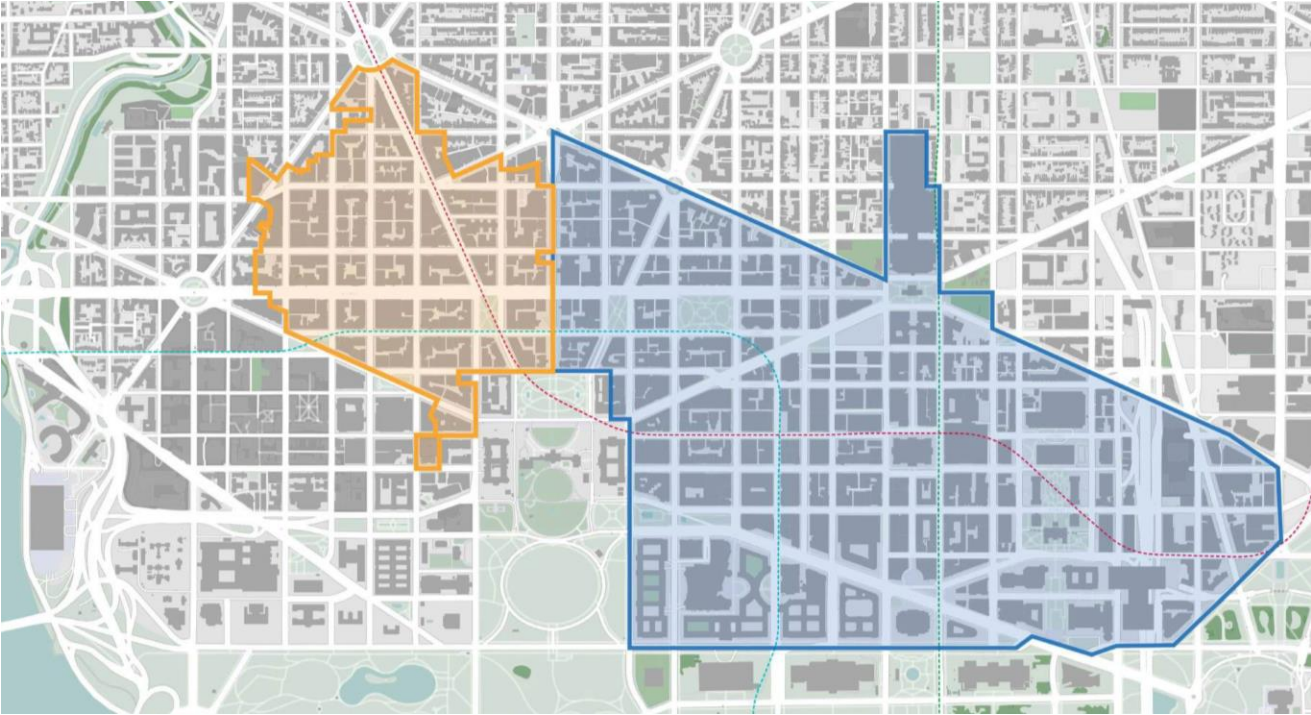


Downtown Office to Residential Conversion

- Bill B22-0378 “Mixed-Use neighborhood Conversion Incentive Act of 2017”
- Introduced 7/6/17 by Council Member Evans

July 21, 2017

Downtown = DowntownDC and Golden Triangle BIDs



CM Evans' Legislation, Bill 22-0378

- Provides funding to bring private sector to the table
- Goal is to convert 200,000 to 400,000 SF of office to 200 to 400 residential units
 - 200K SF in DowntownDC BID / 200K SF in Golden Triangle BID
- 8% affordable at 60% of AMI
- Funding
 - \$5 million per year of tax abatements for ten years (starts FY 2020)
 - Up to \$20 per SF for converted office space
 - Tax abatement can be applied to multiple buildings
- Award by DMPED at discretion of the Mayor

Process to Develop Legislation

- Discussed with office building owners
- Discussed with housing developers
- Discussed with architects
- Discussed with Mayor and Council
 - Compliments CM Robert White's legislation
- Introduced legislation on July 6, 2017
- Hearing in late September/early October

Office Building Owner Discussion

- Historically low office absorption for past five years
- No significant new tenant categories
- City is increasing its office tenant retention, development and attraction efforts
- Too much new supply
- Will pay \$200 to \$400 per developable SF for land
- Empty downtown office buildings trade at \$400 per SF
- Older building's valued at \$300 to \$400 per SF

Housing Developer Discussion

- We can make any office building work as residential with the “right” economics
- Can pay \$100 to \$200 per SF for an office building
- Believe office building owners over estimate that their empty buildings are worth \$300 to \$400 per SF

Architect Discussion

- Can make any office building work
 - Dislike deep floor plates
 - Dislike low ceiling heights
- Some office buildings would work better than others

Conclusion from Discussions

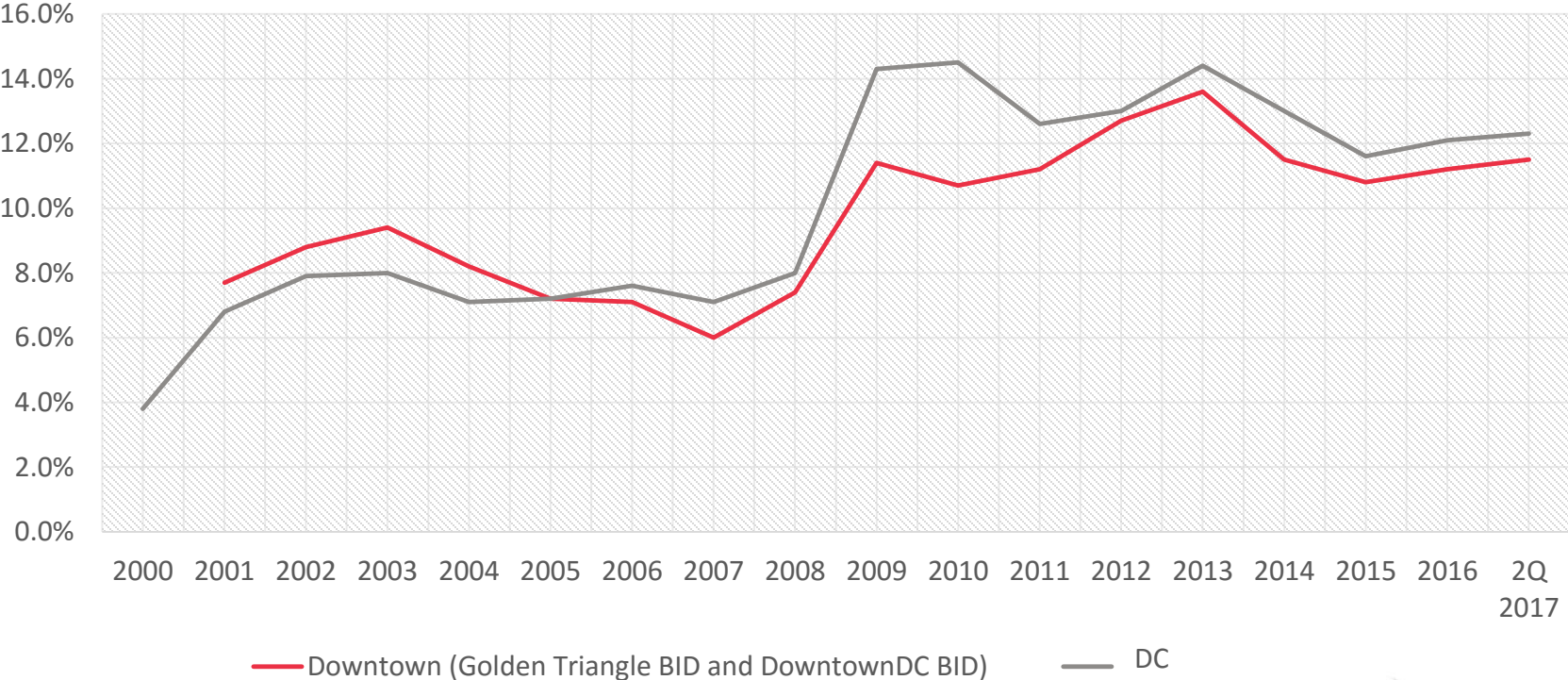
- There is a “gap” of \$100 to \$300 per SF between the value office building owners believe is possible (\$300 to \$400 per SF) and what housing developers can pay (\$100 to \$200 per SF)
- A conversion needs many factors to all line up
- Of the hundreds of office buildings in Downtown, a handful should be good candidates
- A modest pilot incentive program should bring a handful of office building owners to the table

Why Is the Legislation Needed?

- Reduce Downtown office vacancy
- Diversify Downtown building stock
- Positive ROI to the District

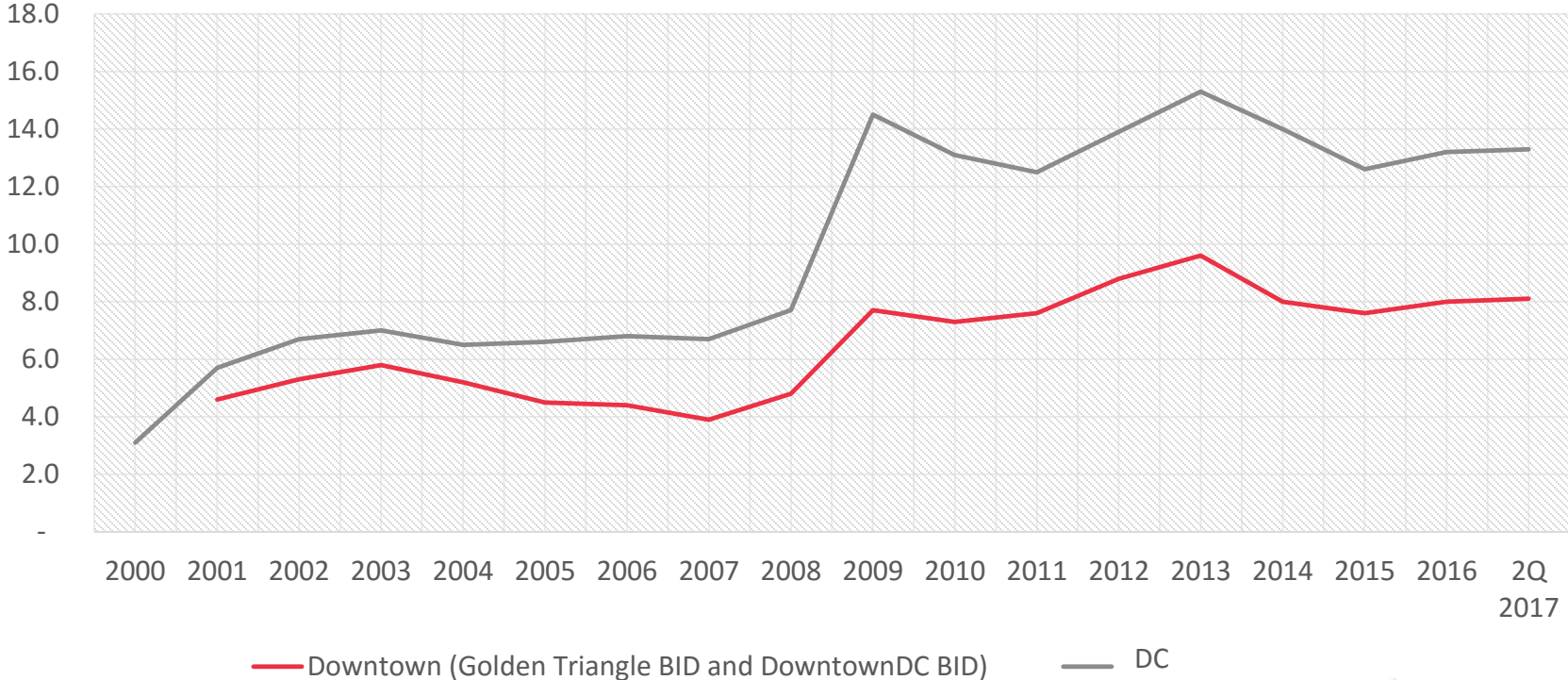
Downtown Office Vacancy Rate

Downtown and DC, 2000-2Q 2017



Downtown Office Vacancy SF

Downtown and DC, 2000-2Q 2017 (in millions of square feet)



Factors That Will Prevent Downtown and DC Vacant SF from Declining

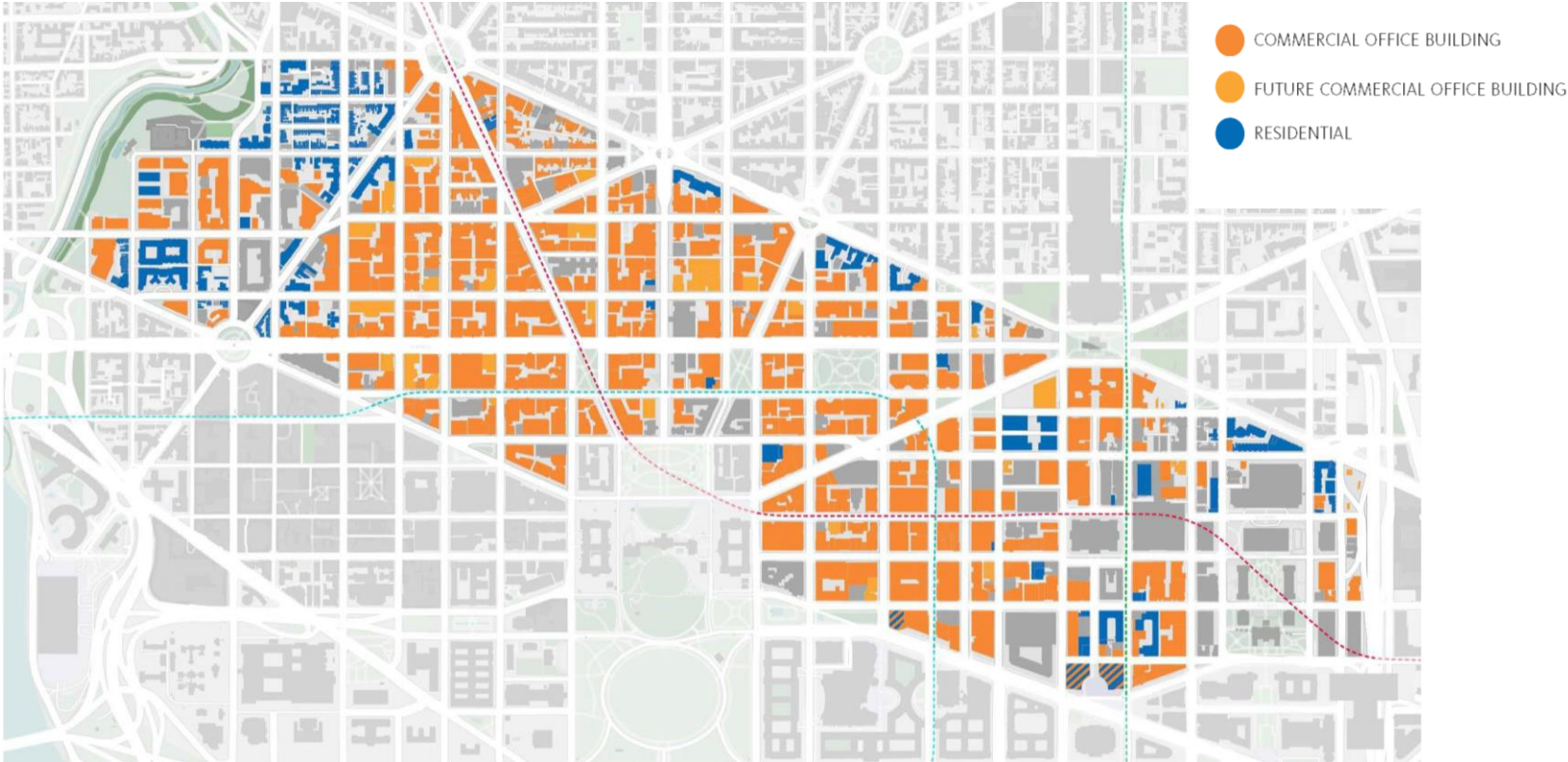
- Five million SF under construction in DC (versus annual absorption of 600,000 SF for 2012 – 2Q 2017)
- 39 million SF of vacant space in suburbs (20% vacancy)
- GSA is densifying/reducing its 23 million of leased space
- 10 – 20 million SF of development potential in emerging DC markets (including MVTriangle, NoMa, Union Market, Capital Riverfront and the Wharf)

Diversify Downtown Building Stock

- Only five million SF (7,000 units) of residential
 - None in Golden Triangle BID
- 70 million SF of privately-owned office space
- 20 million SF of federally-owned office space
- 5 million SF of international organizations-owned space
- 13 million SF of hotels
- 5 million SF of entertainment and culture facilities

Residential is 4.2% of Downtown building stock

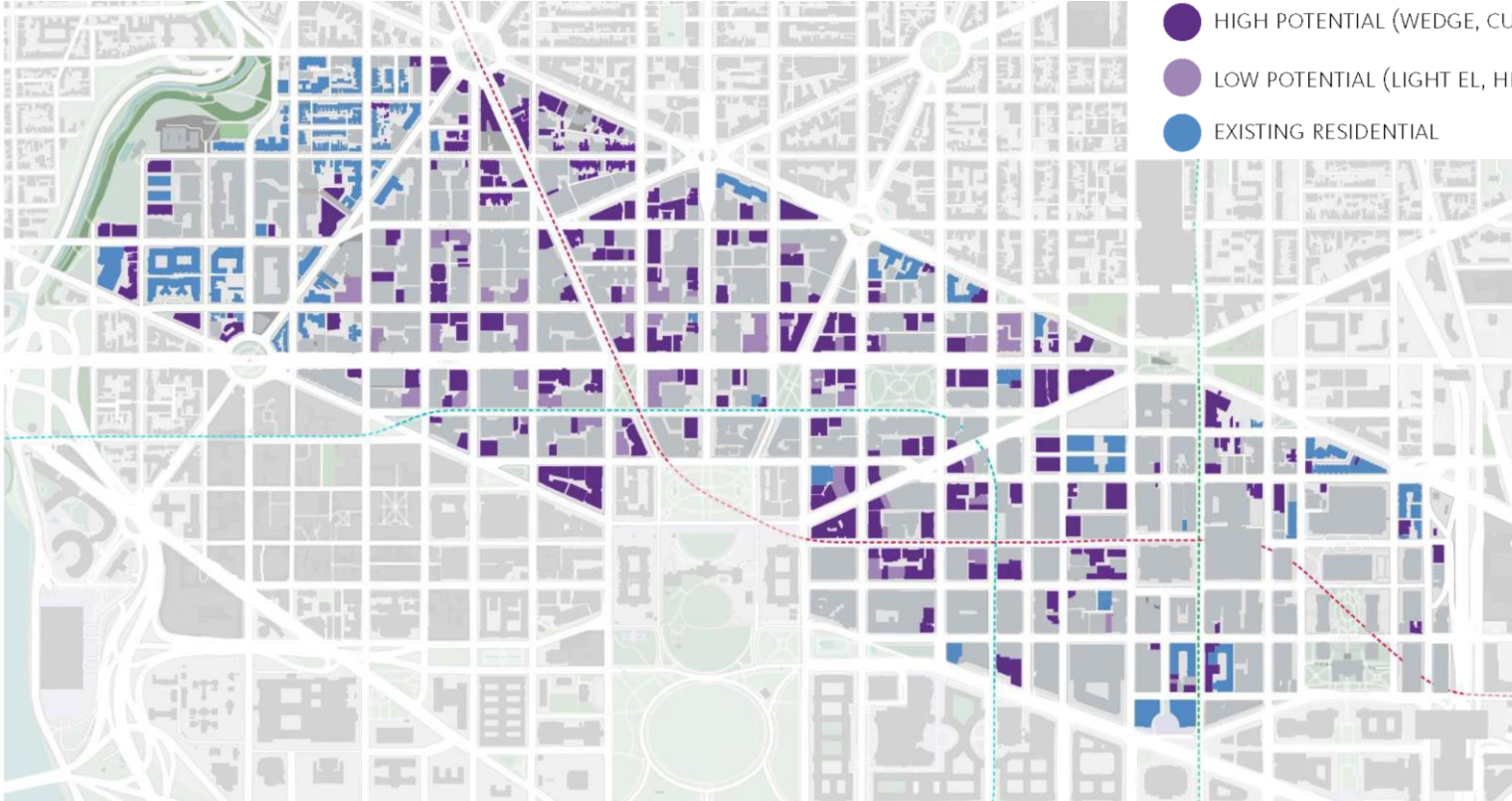
Few Residential Buildings Downtown



Provide a Positive ROI to the District

- Do Nothing Scenario
 - \$7.40 per SF in taxes from vacant office building
 - As low as \$3.70 per SF if building demolished and left as land
- Conversion Scenario
 - Invest: \$10 to \$15 per SF tax abatement for market rate housing
 - Return: \$16 to \$21 per SF of new tax revenues or lower expenses
 - \$4.25 to \$5.10 per SF in residential property taxes
 - \$8 to \$12 per SF in individual income and other taxes
 - \$3.28 per SF if remaining office increases in value by \$1 per SF
 - \$0.75 per SF if 20 market rate units preserve one affordable unit

Conversion Potential



Potential Conversion Rendering

DOWNTOWN BID CONVERSION: VERMONT & L ST

EXISTING



POTENTIAL



Potential Conversion Rendering

GOLDEN TRIANGLE CONVERSION: RHODE ISLAND AVE & M ST

EXISTING



POTENTIAL

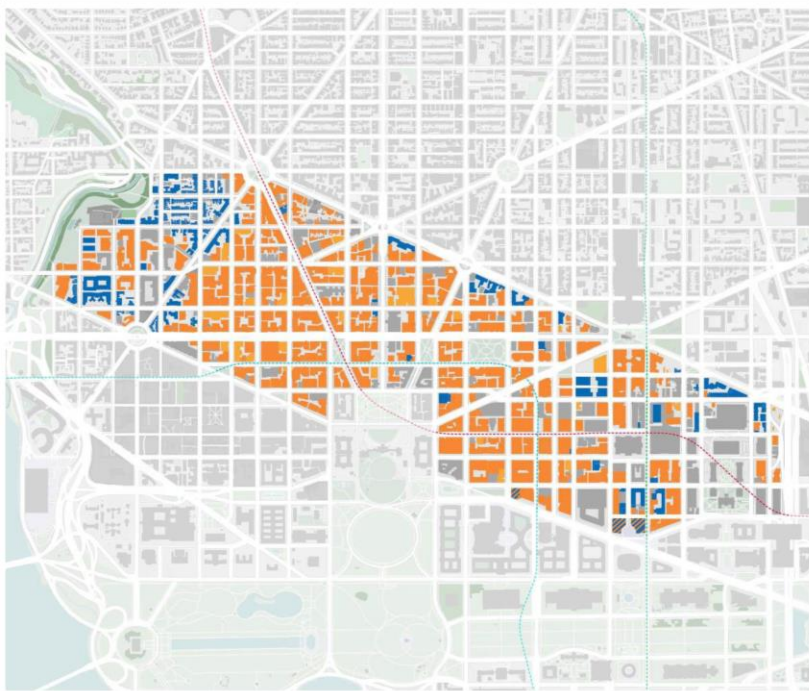


Next Steps

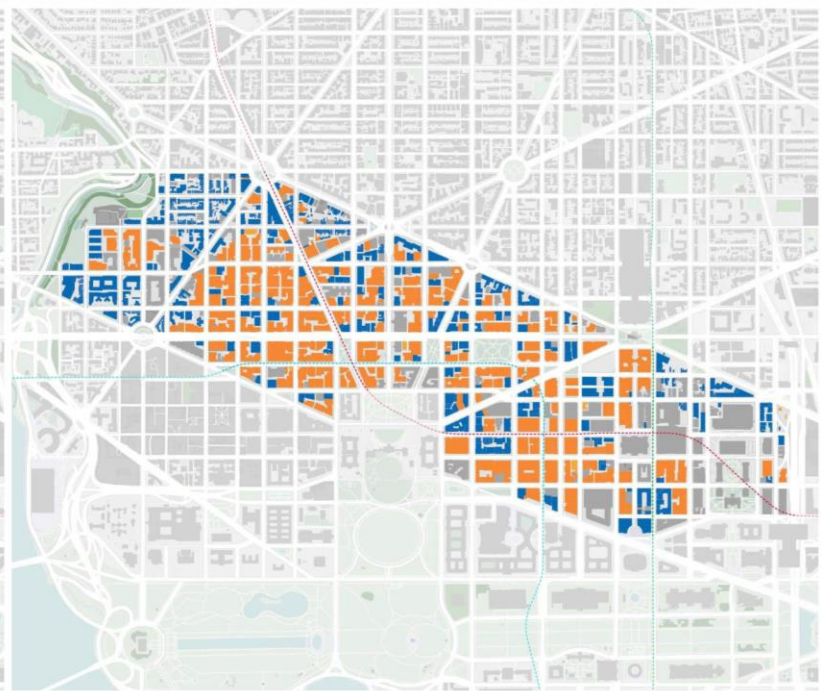
- Hearing
- CFO issues a fiscal impact statement
- Amend bill based on hearing and Council input
- Legislation passed
- BIDs and DMPED market program
- DMPED enters into discussions with multiple office building owners
- DMPED may or may not make a tax abatement award

What Success Could Look Like

COB VS. RESIDENTIAL **PRESENT**



COB VS. RESIDENTIAL **FUTURE**



Credits

- Office market data courtesy of Cushman & Wakefield.
- Maps and renderings courtesy of Gensler



DOWNTOWNDC

