Downtown Atlanta Commercial-to-Residential Conversion Feasibility Study

January 2024

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This report examines the challenges and opportunities for office to residential conversions in Downtown Atlanta and identifies potential policies and incentives to facilitate conversion.

Firms Engaged

HR&A
Financial Analysis

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Cost Estimation

Research Questions

- How does the performance of the Downtown Atlanta office and residential market support conversions?
- What are the barriers or opportunities in terms of the building stock, zoning, and building code?
- What types of buildings might be rational to convert to housing? Under what economic conditions?
- How can enhanced public investment in conversions advance policy objectives around increasing housing supply and affordability Downtown?

The Case for Conversions: Downtown's Context and Opportunity

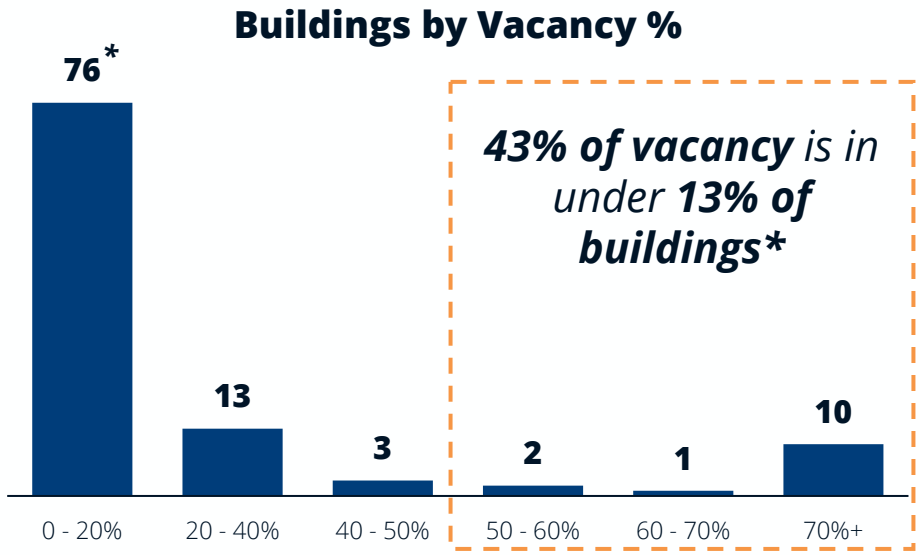
- Adaptation to hybrid or work-from-home regimens has driven **office vacancy in Downtown Atlanta to 5.5M SF**.
- The current **economic environment is challenging** for real estate development.
- Office vacancy creates a drain on Downtown's property tax base, which generated $86M for the City of Atlanta pre-pandemic. A diversification is vital to the City's continued fiscal health.
- Atlanta has demonstrated a **commitment to addressing office vacancy, while increasing housing** supply and affordability.
- **Adaptive reuse is a proven strategy for residential development in Downtown Atlanta**. Approximately 20% of Downtown's housing supply is within converted office or industrial buildings.
- **Private actors have increasingly entered this market** with proposed or ongoing conversions at the Grant Building and 41 Marietta Street, and the City's recently announced partnership with Two Peachtree Partners, LLC for the redevelopment of 2 Peachtree Street.

Atlanta's office market is struggling due to shifting patterns of work exacerbated by the pandemic.

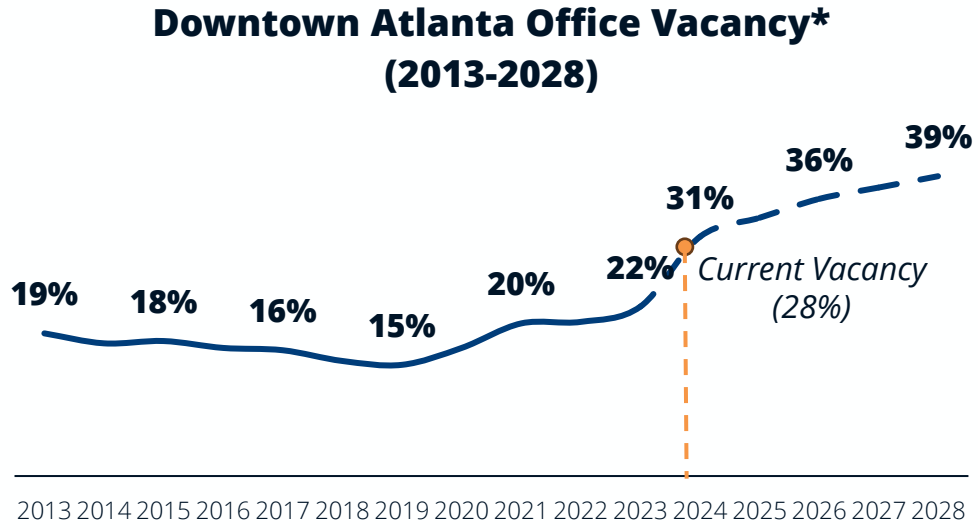
With significantly lower office rents than Buckhead and Midtown, **Downtown Atlanta provides value to price-conscious tenants, along with proximity to government and institutional anchors**, insulating it from the vacancy increases seen in other cities like San Francisco and Dallas. However, as in other markets nationally, tenants are taking advantage of post-COVID rent discounts to attain higher quality space in more expensive submarkets with more new construction. As a result, Downtown, which has an older office stock, has seen net negative absorption of approximately 1.5M square feet since 2020.

Currently, of the 20.2M non-owner-occupied office square feet in Downtown Atlanta, 5.5M square feet are vacant **(28% vacancy).**

In the next 4 years, over 2.4M SF of additional leases will expire downtown. If this is not backfilled, total vacancy could reach 39%.



*0% vacancy includes buildings without vacancy data



*Non-owner-occupied buildings. Projected Vacancy assumes no new leases are signed, including those that are scheduled to expire.

Conversions can help to address rising office vacancies while creating a more vibrant Downtown and addressing policy goals.

- **Right-Size the Office Market |** Across the buildings considered in this analysis, there was approximately 5.5 M square feet of vacant space, with the potential to grow to 7.9M by 2025. Reducing the supply of office space through conversion can help support the market for remaining office space.
- **Address housing needs |** Despite a cooling housing market and significant new deliveries across the region, Atlanta continues to face a housing shortage, particularly for low-to-moderate income households. Conversions can help increase housing supply and leverage public incentives to secure affordable units in converted buildings.
- **Catalyze Growth |** Concentrated investment in the creation of residential space through conversions could help to catalyze the residential market Downtown.
- **Increase Vibrancy |** By filling vacant space with residents and creating a mix of users at different times of day, conversions can support increased vibrancy, creating foot traffic that supports active ground floor uses and street life.

Address a need for housing and/or affordable housing

Right-size office market and reduce vacancy

Focus investment to catalyze growth in a particular Downtown neighborhood

Increase vibrancy and retail support through a greater mix of uses

What Do Conversions Require? And How Does Downtown Atlanta Stack Up?

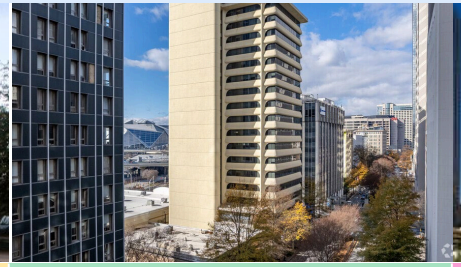
	 Market Conditions	 Physical Attributes and Location	 Cost to Convert	 Regulatory Requirements
FAVORABLE CONDITIONS	• Weakening office market with high vacancy and low rents • Strong residential market with high and growing rents and low vacancy	• 70’ – 100’ floorplate width • 200K – 350K GSF for scale and unit absorption • Operable windows • Access to schools, grocery stores, restaurants, transit access • On-site parking	• Low hard and soft costs • Empty building to reduce/eliminate time to vacate • Low interest rates • Strong capital markets	• Zoning that allows for residential and mixed-use • Minimal additional requirements that increase costs (eg affordability, sustainability, etc.) • Streamlined permitting
ATLANTA	• Residential rents are not high enough to promote conversions • Office vacancy needs to increase further to incentivize conversion in most buildings	• Only 11 buildings fall in the target GSF range. Smaller buildings lack scale while larger could create absorption issues. • Lack of residential amenities Downtown	• All typologies are projected to cost <$250/SF to convert • Vacancy varies by building • High construction interest (>9%)	• Zoning allows for conversions in Downtown Atlanta • Affordability as a condition for new incentives will increase incentive costs

This study identified over 100 possible candidates for conversion in Downtown Atlanta (non-owner-occupied, at least 3 stories), then divided these into four typologies for economic analysis.

The analysis filtered out owner-occupied buildings and buildings under 3 stories, leaving **105 buildings and 20M square feet** (over half of the total office stock).

From the set of 105 buildings, we identified **four typologies** of buildings that were largely representative of the office building stock downtown.

- **Type 1** buildings tend to be older and smaller with more compact floorplates
- **Type 2 and Type 3** share similar characteristics with respect to floorplate size, height, and age, but Type 3 buildings are larger overall with higher vacancy rates.
- **Type 4** buildings are the largest, with bulky floorplates, moderately high vacancy but higher rents. These would likely need to be partial conversions while retaining some office space given their scale.

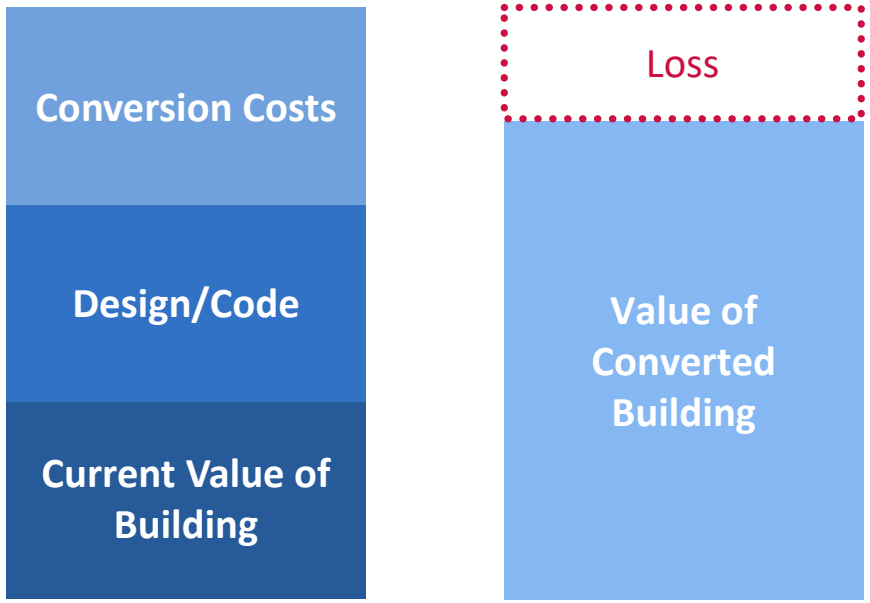


	Type 1	Type 2	Type 3	Type 4
Gross SF	<150K	150K – 350K	350K – 600K	600K+
Avg. Floorplate Size (SF)	10K	22K	24K	44K
Avg. Number of Stories	5	17	23	35
Avg. Age (Years)	88	51	57	38
Average Rent	$24	$24	$25	$31
Average Vacancy	21%	31%	33%	26%
Applicable Buildings	74	11	11	9

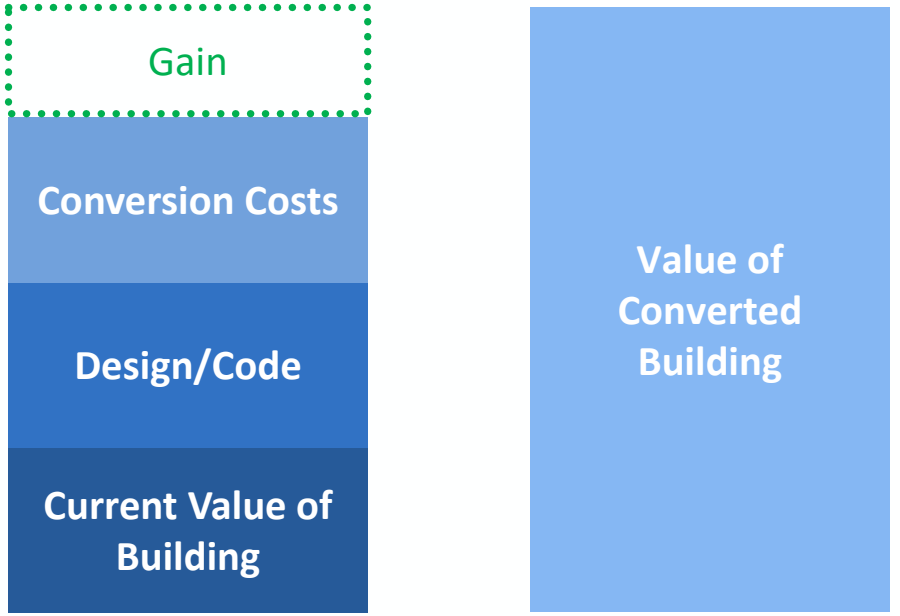
Conversion 101: What makes an office to residential conversion successful?

To assess the financial feasibility of conversion, we begin with the assumption that underperforming **office buildings face two paths forward**: remain as office space or convert to residential use. Conversions only happen when **the cost of conversion plus the existing office space value is less than the future value of a converted building.***

Remain as Office if…



Convert to Residential Use if…



**Individual owner decision making will be driven by this and other building-specific factors*

Cost, revenue, and financing assumptions were used to model the financial performance of each typology in a variety of scenarios.

The following market assumptions were used as baseline inputs to a financial model and reflect average market conditions in Downtown Atlanta. Market assumptions were generated from third party research as well as conversations with local developers.

Conversion assumptions vary by typology, and were generated using prototypes from within each typology to determine efficiency factors, etc. Costs assume a typical mid-market apartment finish, are inclusive only of interior costs, and were developed by Palacio Collaborative.

Market Assumptions

	Office	Residential
Rent (Annual/SF)	$24.00	$26.40
Vacancy (After lease-up)	25%	7%
Concessions	8.3%	0%
Operating Expenses*	$9.00/SF	30% of Revenue
Rent Growth	2.5%	4.0%
Cap Rate	12.0%	6.5%

**Not including property taxes, which are calculated separately*
Source: CoStar, Developer Conversations

Conversion Assumptions

	Type 1	Type 2	Type 3	Type 4
GSF to RSF (Commercial)	85%	85%	85%	80 - 85%
Efficiency Factor (Residential)	61 – 72%	77 – 80%	77 – 82%	77 – 79%
Hard Costs/GSF*	$175-$225	$225-$230	$215-$225	$215-220
Soft Costs as % of HC	22%			
Time to Vacate Office	2 Years			
LTC	55%			
Construction Interest Rate	9%			
Discount Rate	12%			

An initial financial analysis assessed whether buildings would rationally convert, given market conditions.

This study analyzed the financial performance of two prototypes for each building typology to determine whether conversion from office to residential was financially accretive to a building owner.

- For each typology, modeled a **scenario in which the building remains as office** and a **scenario in which the building converts to residential use**.
- Calculated the **Net Present Value (NPV) of the cash flows over 20 years,** including the time to empty and convert the building, using different discount rates for maintain vs. convert.
- **Compared the NPV of the cash flows** to determine if the residual value of office cash flows is less than or greater than the residual value of the converted building.
- The relative value of a residential conversion exceeds that of the existing office building in scenarios where residential rent reaches $3.75/SF (70% higher than the market average of $2.20/SF) or when office vacancy in the building reaches 70%.

Rational	Conversion scenario is $10 or more **greater** than the office scenario **(NPV/GSF)**
Potentially Rational	Conversion scenario is between ($10) and $10 lower/higher than the office scenario **(NPV/GSF)**
Not Rational	Conversion scenario is $10 or more **lower** than the office scenario **(NPV/GSF)**

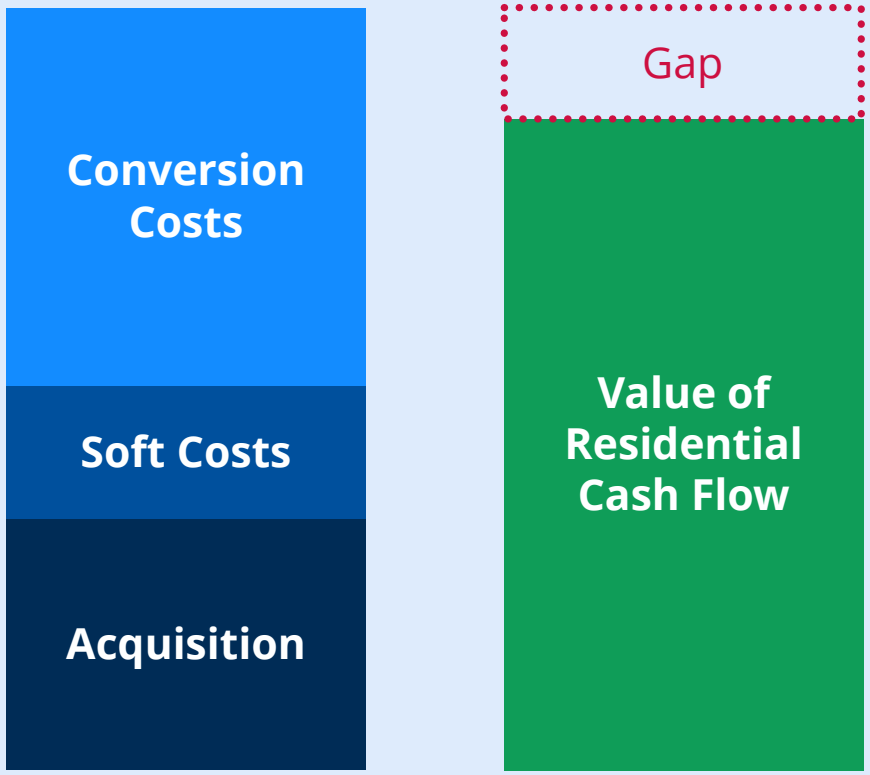
The analysis shows that buildings cannot convert unless office vacancy exceeds 70%. 11 buildings (23% of all vacant office space) are currently in this category or projected to be within 5 years.

The following table tests conversion rationale depending on office vacancy across each typology. This study tested additional sensitivities to residential and office rents, and found that office vacancy has the largest impact on conversion economics. Variations in conversion rationale among typologies are driven by floorplate efficiency and relative cost to convert.

- Across all typologies, assuming average market rent, conversions are rational or borderline rational only once office vacancy reached 70%.
- Office buildings with below market rent make economic sense to convert at lower levels of vacancy.

	10% Office Vacancy	30% Office Vacancy	50% Office Vacancy	70% Office Vacancy	90% Office Vacancy
Type 1	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 2	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 3	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 4	Not Rational	Not Rational	Not Rational	Potentially Rational	Rational

Next, to understand the financial gap for each building, HR&A calculated the gap between capitalized value of the converted building and total conversion costs.



- For each building, **acquisition cost was estimated using the Net Present Value (NPV)** of the cash flows from the existing office building – the "opportunity cost" for property owners.*
- The value of Residential Cash Flows was estimated using stabilized revenues and costs to determine **Net Operating Income (NOI)**. NOI was divided by a Capitalization Rate to determine the future value of the converted building.

** Financial gap modeling assumes a minimum opportunity cost – the lowest value an owner would reasonably be willing to accept -- of $0, even for properties experiencing negative cash flow. Avg opportunity cost across underperforming properties with vacancy of at least 50% is roughly $50/SF. Recent Atlanta commercial transactions have sold for $180/SF with transactions as low as $40/SF. Actual acquisition costs and owner decisions will be informed by evolving market conditions, as well as existing debt.*

Without incentives, even for underperforming buildings (50% vacancy or higher), there is typically a gap that needs to be filled in order for developers to convert.

Illustrative Pro Forma – Type 2 Building

Assuming $24/SF office rent and 50% vacancy. 10% of units at 60% AMI

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($296)**	**($329,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.0M	$0	$0
Total NOI	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$296,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$273**	**$304,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus **	**($6M)**	**($50)**	**($56,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

Rounded Values

***Value Gap, not necessarily equal to required funding*

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

Atlanta's existing resources to support conversion are limited and result in very few buildings that can convert.

Atlanta currently has limited incentives to improve feasibility of office to residential conversions. However, these programs can be leveraged and enhanced to fully incentivize conversions in underperforming office buildings.

Historic Preservation Tax Credits	Tax Allocation Districts	Lease Purchase Bond
Benefits: Freezes property tax assessment and provides up to 45% of project costs as tax credits **Challenges:** • Limited number of buildings qualify • Very competitive at the State level • Limits renovation scope	**Benefits** Upfront direct grant funding for conversions **Challenges:** • Incentive is too small to support affordable housing in conversions • Fund is oversubscribed	**Benefits:** 10-year tax abatement allocated annually or upfront **Challenges:** Abatement term is too short to support affordable housing in conversions
Recommendation: *Target buildings that can leverage Historic Preservation Tax Credits*	***Recommendation:*** *Create a larger grant funding source by enhancing TAD*	***Recommendation:*** *Create a larger grant funding source by increasing duration of Lease Purchase Bond*

Illustrative Pro Forma – Type 2 Building

Assuming $24/SF office rent and 50% vacancy. 10% of units at 60% AMI

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$9M	$77	$85,000
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($27M)**	**($219)**	**($244,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($17M)	($141)	($157,000)
Tax Abatement	$0.0M	$0	$0
Total NOI	($2M)	($12)	($14,000)
Total NOI	**$34M**	**$273**	**$304,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$35M**	**$280**	**$312,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus **	**$4M**	**$33**	**$37,000**

*Leasing Costs, Tenant Improvements, and Capital Reserve

Rounded Values

***Value Gap, not necessarily equal to required funding*

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

→ ***Project works with Historic Tax Credits***

2) Existing Abatement – Lease Purchase Bond

Illustrative Pro Forma – Type 2 Building

Assuming $24/SF office rent and 50% vacancy. 10% of units at 60% AMI

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($296)**	**($329,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.4M	$3	$3,000
Total NOI	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$270**	**$299,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$276**	**$307,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus **	**($6M)**	**($47)**	**($53,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

Rounded Values

***Value Gap, not necessarily equal to required funding*

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

Negligible reduction in total operating expenses from a partial tax abatement for 10 years (Lease Purchase Bond)

→ ***Total gap drops to $47 from $50/SF with the tax abatement.***

3) New Grant Per Square Foot

Illustrative Pro Forma – Type 2 Building

Assuming $24/SF office rent and 50% vacancy. 10% of units at 60% AMI

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($33M)	($265)	($295,000)
Grant	$6M	$46	$51,000
Historic Tax Credits	$0M	$0	$0
Financing Costs	($2M)	($16)	($18,000)
Net Project Costs	**($29M)**	**($236)**	**($262,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.0M	$0	$0
Total NOI	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$296,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$273**	**$304,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus **	**$1M**	**$10**	**$11,000**

*Leasing Costs, Tenant Improvements, and Capital Reserve

Rounded Values

***Value Gap, not necessarily equal to required funding*

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A $46/SF grant is required to incentivize conversions with no other incentives at 50% office vacancy

The amount of subsidy required depends on office vacancy, ability to use Historic Preservation Tax Credits, and affordability requirements.

No Historic Tax Credits / No Affordability

Vacancy

Typology	1	2	3	4
0 - 20%	$95	$95	$75	$120
20 - 40%	$45	$70	$30	$65
40 - 50%	$25	$40	$20	$55
50 - 60%	$20	$40	$20	$55
60 - 70%	$20	$40	$20	$55
70%+	$20	$40	$20	$55

No Historic Tax Credits / 10% at 60% AMI*

Typology	1	2	3	4
0 - 20%	$100	$105	$85	$125
20 - 40%	$55	$55	$40	$70
40 - 50%	$30	$50	$25	$65
50 - 60%	$30	$50	$25	$65
60 - 70%	$30	$50	$25	$65
70%+	$25	$50	$25	$65

Historic Tax Credits / No Affordability

Vacancy

Typology	1	2	3	4
0 - 20%	$45	$35	$35	$85
20 - 40%	$0	$0	$0	$20
40 - 50%	$0	$0	$0	$15
50 - 60%	$0	$0	$0	$15
60 - 70%	$0	$0	$0	$15
70%+	$0	$0	$0	$15

Historic Tax Credits / 10% at 60% AMI

Typology	1	2	3	4
0 - 20%	$55	$45	$45	$95
20 - 40%	$0	$0	$0	$30
40 - 50%	$0	$0	$0	$20
50 - 60%	$0	$0	$0	$0
60 - 70%	$0	$0	$0	$0
70%+	$0	$0	$0	$0

**The required subsidy for 10% of units at 60% of AMI is roughly the same as the required subsidy for 20% of units at 80% of AMI. The later requirement would yield twice as many affordable units, while the former would create more deeply affordable units.*

All subsidy requirements are listed as per square foot values

Incentive Scenarios | No Incentive

Scenario 1:

- **Developers are unlikely to convert any building under current market conditions** without further incentive due to lack of financial feasibility. For any of the 105 total potential buildings to convert, Historic Tax Credits or some other incentive program would be necessary.

	Applicable Buildings	Vacant Office SF	Housing Units Created	Affordable Units Created	Total Cost of Incentive to City	Incentive Cost per Unit	Incentive Cost per Building
All buildings (out of 105 total)	0	0	0	0	$0	$0	$0
Underperforming Buildings* *(out of 20 total)*	0	0	0	0	$0	$0	$0

**Underperforming buildings – a subset of "all buildings" shown above -- are defined as buildings with 50% office vacancy or higher. HR&A has assumed 0% vacancy for buildings without data.*

Incentive Scenarios | Historic Tax Credits but No New Incentive

Scenario 2:

- If no new incentives are created but historic tax credits are leveraged where applicable, **historic buildings with moderate vacancy and non-historic buildings with high levels of vacancy** could convert.
- In total, there are 10 **buildings that could potentially convert without new incentives**. However only half of these buildings are currently underperforming.

	Applicable Buildings	Vacant Office SF	Housing Units Created	Affordable Units Created	Total Cost of Incentive to City	Incentive Cost per Unit	Incentive Cost per Building
All buildings *(Out of 105 total)*	10	675K	1,050	0	$0	$0	$0
Underperforming Buildings* *(Out of 20 total)*	5	404K	400	0	$0	$0	$0

**Underperforming buildings – a subset of "all buildings" shown above -- are defined as buildings with 50% office vacancy or higher. HR&A has assumed 0% vacancy for buildings without data.*

While there is currently a gap to convert, other cities have been successful in incentivizing conversions using a mix of funding, tax, and process tools.

Throughout the United States and Canada, cities are offering incentives for office to residential conversions to remove vacant office space from the market and create vibrant, mixed-use downtowns. Incentives range from tax abatements to direct funding to help offset construction costs.

Downtown Boston Conversion Pilot Program, Boston

Abatement Structure: 75% abatement on property tax for up to 29 years for office to residential conversions that meet affordability and electrification standards. Awarded via application.

Impact: 4 projects have applied since July 2023, totaling 170 residential units.

LaSalle Street Reimagined, Chicago

Funding Tool: City selected 5 projects via RFP to support with upfront grants sized by project and funded by Tax Increment Financing.

Impact: The 5 projects selected will create 1,600 units of mixed-income housing and will remove 2.3M square feet of vacant office space from the market, while creating additional public amenities.

Downtown Calgary Development Incentive Program, Calgary

Funding Tool: Up to $56/SF ($75CAD) in discretionary grant funding (with a $7.5M limit) for conversions with affordable units.

Impact: To date, 13 projects have been approved. These projects will remove 2.3M square feet of vacant office space and create 2,300 units of mixed-income housing.

New incentives could unlock conversion of another 15 buildings and 4.6M vacant square feet of office space while creating 4,800 residential units and 490 affordable units.

Scenario 3:

- Create a property tax abatement and offer grants on a discretionary basis to underperforming office buildings that convert with **10% of units affordable at 60% AMI**.*
- **Adding an affordability requirement will increase the required subsidy** but will provide a public benefit to the City.
- **A focus on underperforming office buildings** again reduces the required subsidy per unit significantly by reducing the value of the office building and opportunity cost of conversion.

	Applicable Buildings	Vacant Office SF	Housing Units Created	Affordable Units Created	Total Cost of Incentive to City	Incentive Cost per Unit	Incentive Cost per Building
All buildings *(Out of 105 total)*	95	7.3M	12.9K	1.3K	$1.3B	$98K	$13M
Underperforming Buildings *(Out of 20 total)*	15	4.6M	4.8K	490	$330M	$69K	$22M

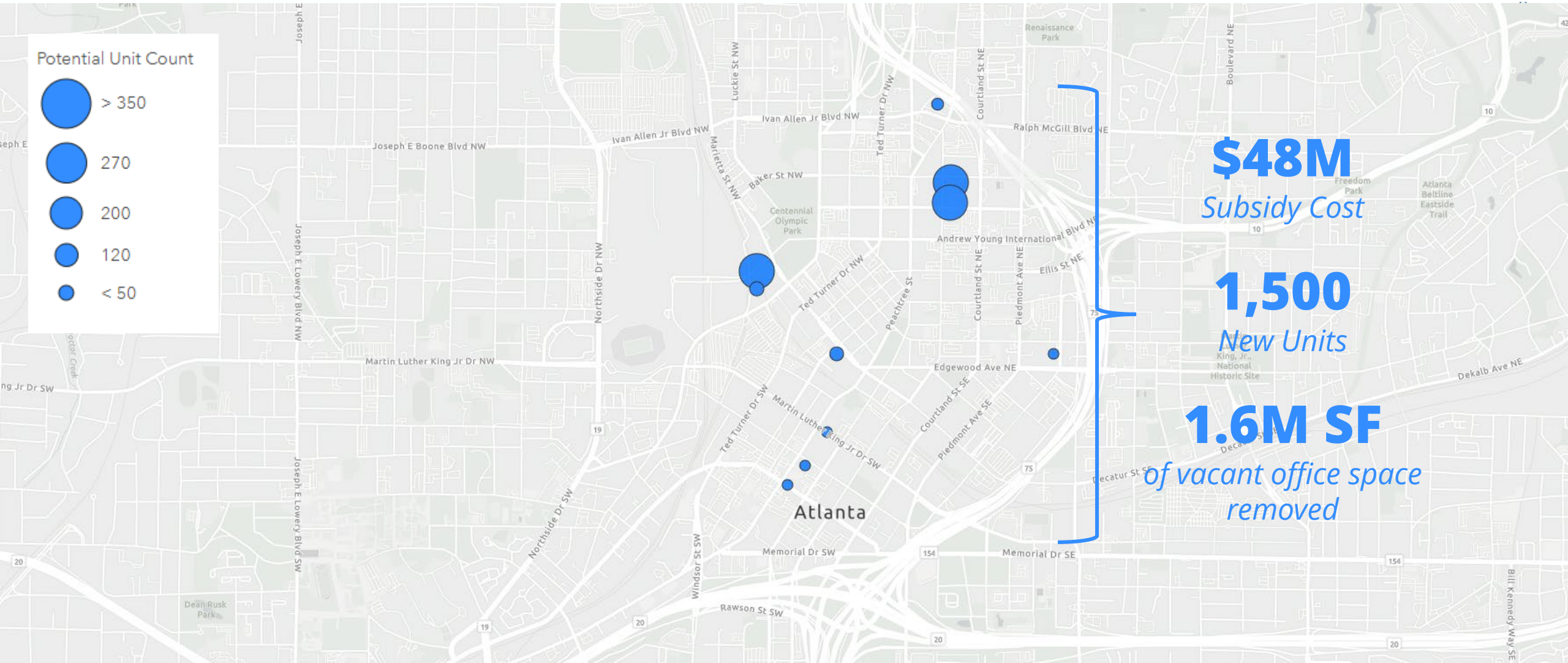
**The required subsidy for 10% of units at 60% of AMI is roughly the same as the required subsidy for 20% of units at 80% of AMI. The later requirement would yield twice as many affordable units, while the former would create more deeply affordable units.*

Incentives that would achieve conversion of the 25 buildings examined that are either underperforming (at least 50% vacant or could convert without incentives could increase downtown housing by 97%, create 490 units of affordable housing, and eliminate over 5M square feet of vacant office space.

	Historic Tax Credits Alone			New Incentive with Affordability Requirement			Total Impact					
	Applicable Buildings	Vacant Office SF	Housing Units Created	Applicable Buildings	Vacant Office SF	Housing Units Created	Applicable Buildings	Vacant Office SF	Housing Units	Affordable Units (10% at 60% AMI)	Total Cost of Incentive to City*	Incentive Cost per Unit
Type 1	8	323K	400	3	305K	230	11	628K	630	20	$10M	$16K
Type 2	1	199K	250	4	852K	1,050	5	1.1M	1,300	110	$60M	$46K
Type 3	1	153K	400	5	1.6M	1,810	6	1.7M	2,210	180	$50M	$23K
Type 4	0	0	0	3	1.8M	1,750	3	1.8M	1,750	180	$210M	$120K
Total	**10**	**675K**	**1,050**	**15**	**4.6M**	**4,840**	**25**	**5.2M**	**5,890**	**490**	**$330M**	**$56K**

**Sized by applying the typology gap by vacancy to the vacancy level of each building.*

To convert just the 10 buildings with the lowest subsidy cost per impact (units created plus square feet of vacant office space removed), it would cost the city $47.6M and create over 1,500 new units (150 affordable) Downtown at an average incentive cost of $31,000 per unit. This would remove 1.6M vacant office square feet from the market.



Takeaways & Policy Considerations for Downtown Atlanta

CONVERSION IS NOT THE SILVER BULLET, BUT OPPORTUNITIES EXIST

With the right tools, certain buildings *can* convert, delivering more housing and increased affordability in Downtown, an area well poised for growth. The top 10 opportunities could yield around **1,500 units of mixed-income housing** and a reduction of 1.6M square feet of vacant office space at an estimated public subsidy cost of $48 million.

NEW OR EXPANDED FUNDING TOOLS ARE NEEDED

Conversions are still cost-prohibitive for most developers, and existing incentive tools fall short in meeting the funding gaps of many conversion candidates. Historic tax credits provide tangible benefits but are capped at the state level, lessening their effectiveness. A grant in the range of $30 - $65 per sq. foot could unlock convertibility in most underperforming buildings and enable a percentage of units to be affordable.

PUBLICLY-OWNED PARKING CAN BE A CATALYST

Parking is a significant hard cost for conversion projects due to lender requirements. Explore ways that the City to play **a more direct role in managing parking** Downtown, reducing conversion costs and unlocking more units.

TARGETED APPROACH WILL YIELD BIGGEST IMPACT

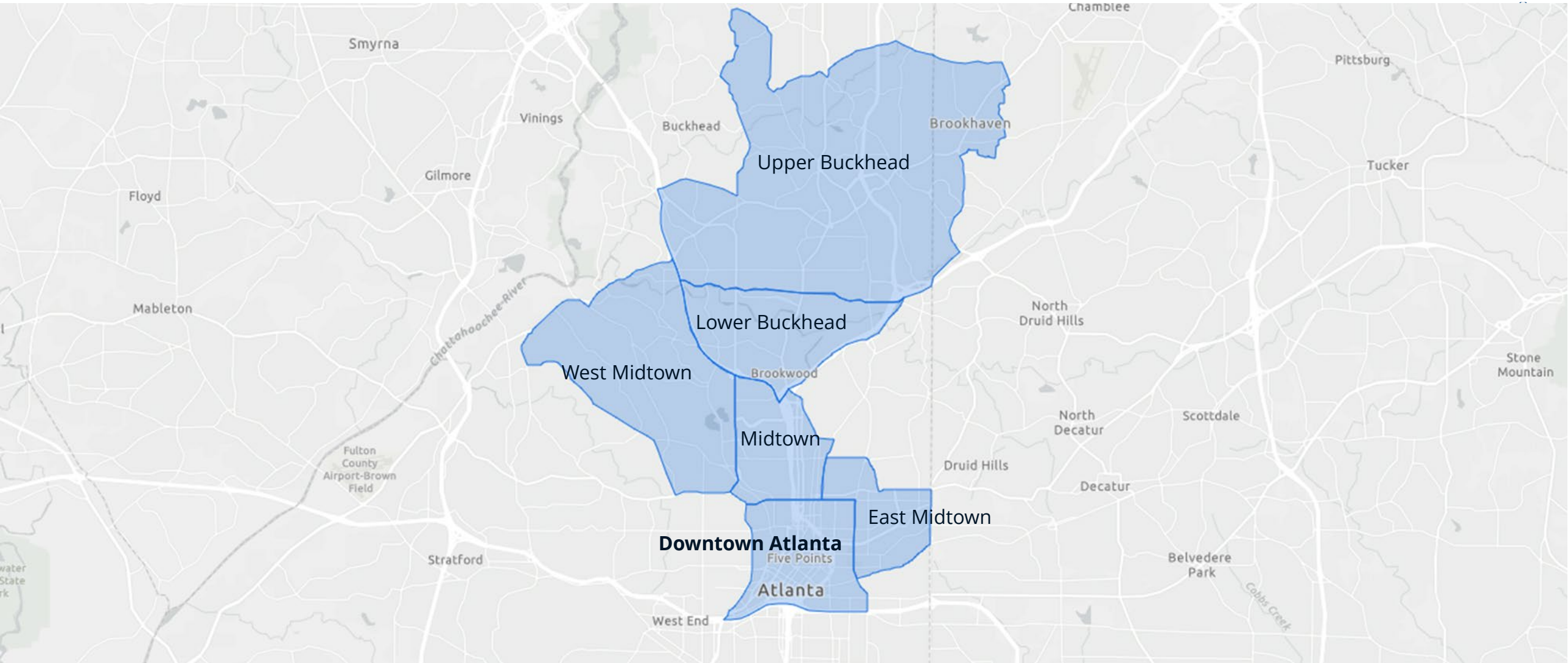
Peer cities have used an **RFP process** to target an incentive program for specific properties, enabling the City to remain in control of program scale, the ability to layer other funding sources, and the achievement of specific, policy goals.

01

Market Scan

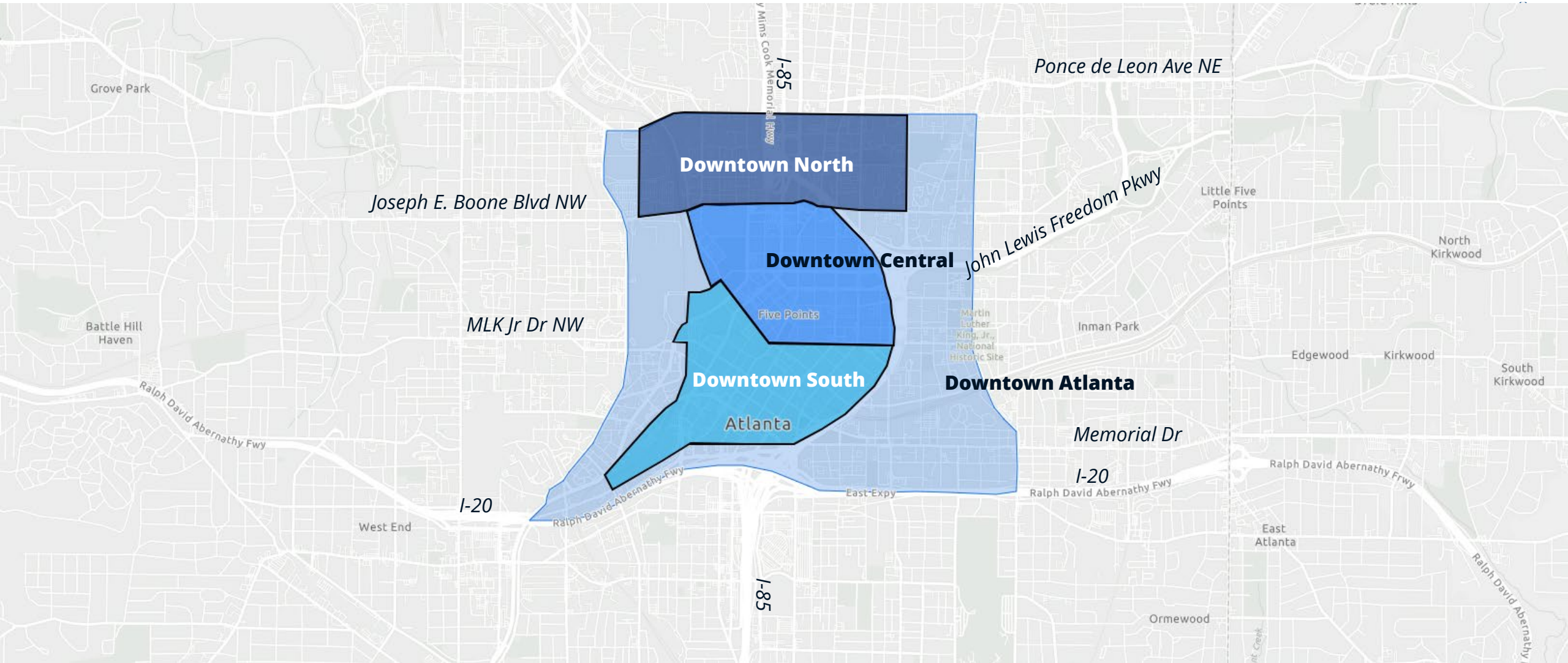
Key Market Findings | Study Areas

The analysis focuses on Downtown Atlanta and uses West Midtown, Midtown, East Midtown, Lower Buckhead, and Upper Buckhead as competitive study areas.



Key Market Findings | Submarkets

HR&A's analysis also split Downtown Atlanta into three submarkets to understand trends within the primary study area.



HR&A analyzed the office, residential, and hotel markets to understand market health and performance and begin to contemplate conversion feasibility.

Office

- Office vacancy has been increasing in Downtown since the pandemic but is still healthy when compared to other cities, with 13% vacancy overall.
- Downtown Atlanta is predominantly made up of class B&C office buildings which tend to be older and smaller, which are often good candidates for conversion.
- Downtown lags competitive study areas in terms of rent and deliveries of new office.

Hotel

- Downtown Atlanta has a strong and prominent hotel market.
- While the pandemic significantly decreased hotel occupancy, Revenue per Available Room (RevPAR) has recovered to pre-pandemic levels.
- Occupancy is still ~10% lower than pre-pandemic levels due to a decrease in both leisure and business travel. Increases in Average Daily Rate (ADR) have made up for decreases in occupancy.

Residential

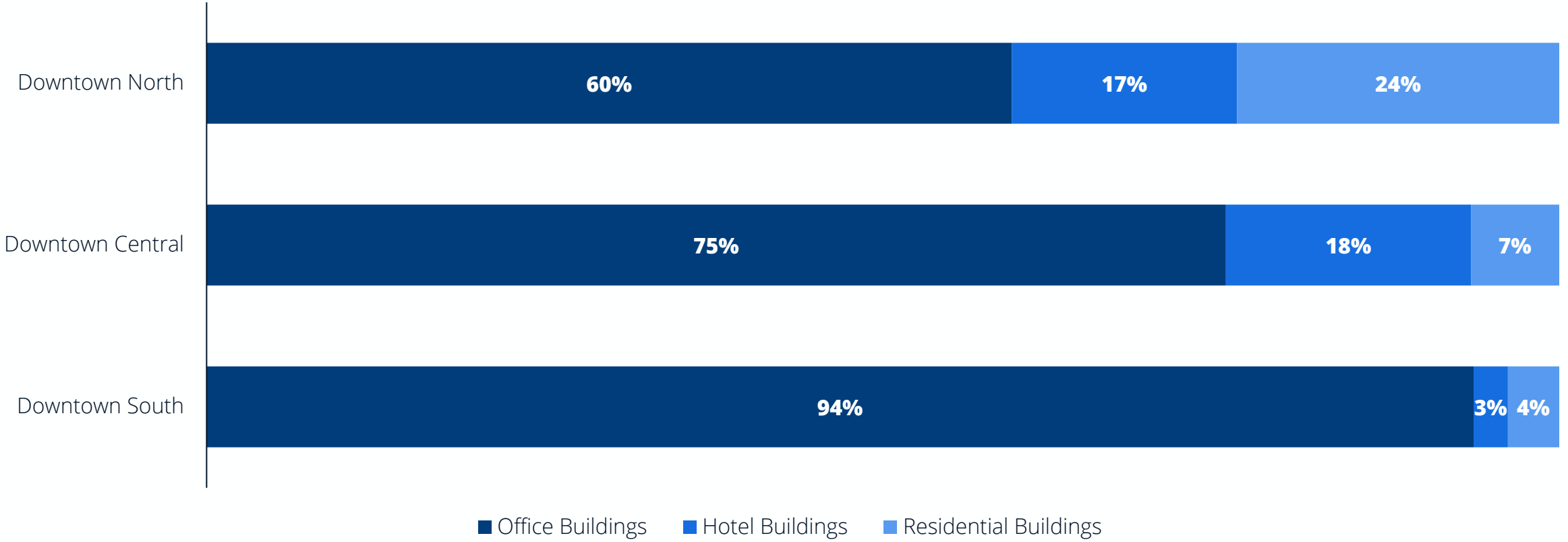
- Compared to competitive markets, the Downtown Atlanta residential market is small, but growing with just 6,000 units* but over 3,000 in the pipeline.
- Downtown rents currently lag competitive study areas while vacancy has been volatile due to new deliveries.
- There are currently over 3,000 units in the pipeline which would increase residential supply by 50% and is 20% of the pipeline among competitive markets.

Source: CoStar, HR&A Analysis, *CoStar analysis of residential market includes only market-rate rental units.

Office Market | Mix of Uses

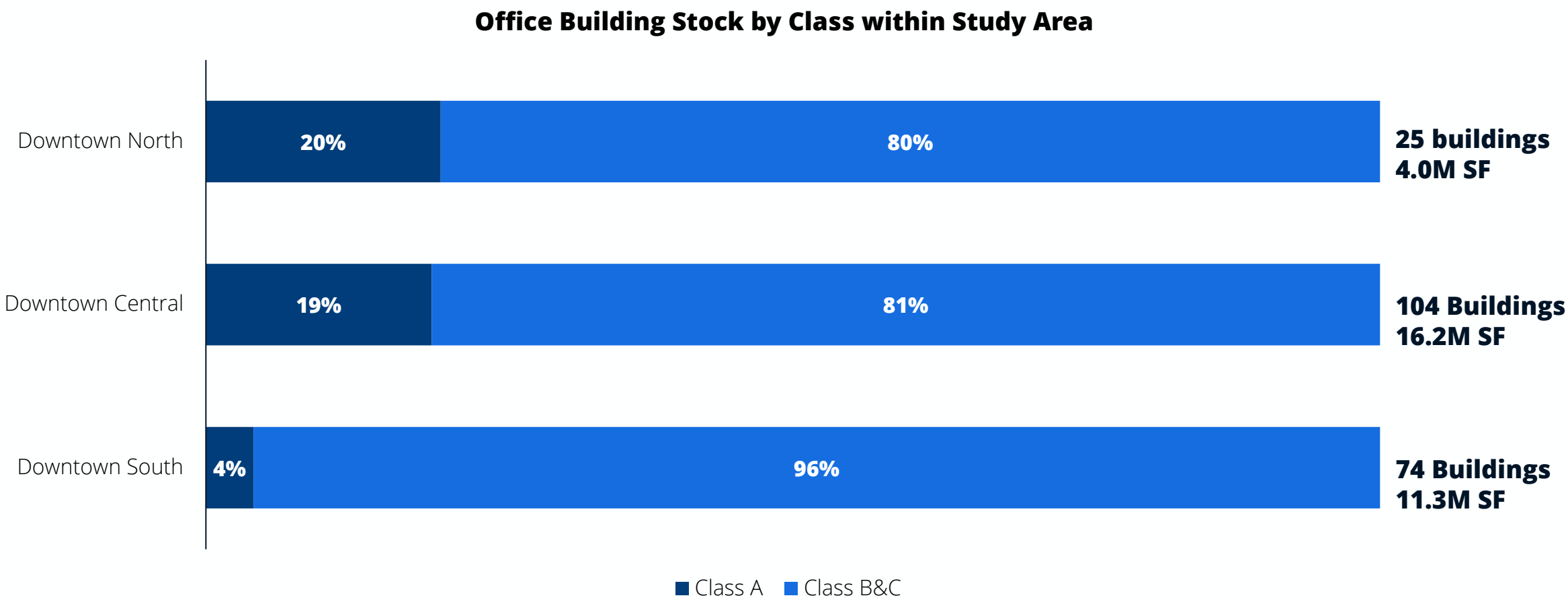
Downtown South has a significantly higher portion of office buildings than the other submarkets at 94%. Downtown North has a healthier mix of uses with 60% office buildings.

Building Stock by Use (2023)



Source: CoStar

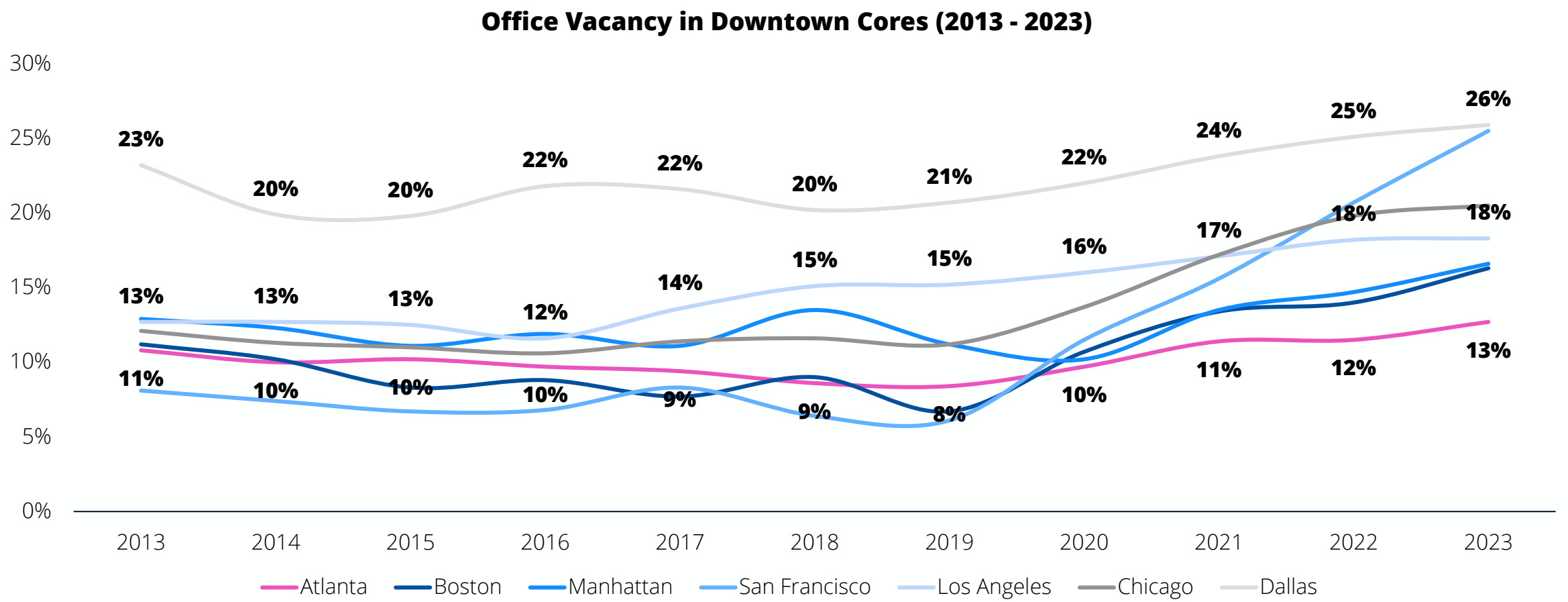
Downtown South has a much lower proportion of Class A office buildings compared to Downtown Central and Downtown North.



Source: CoStar

Office Market | Vacancy

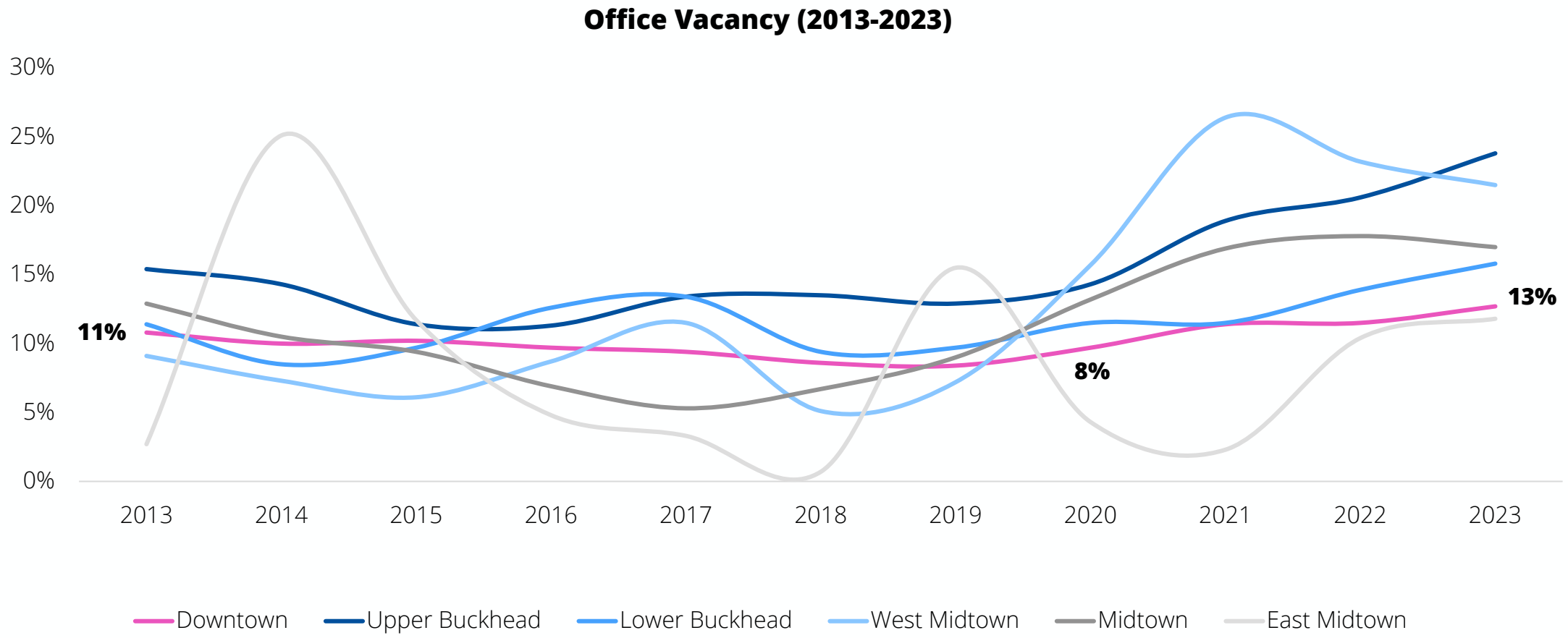
Downtown Atlanta has outperformed other major CBDs in terms of office vacancy, especially since the pandemic. Vacancy in Dallas and San Francisco is roughly twice as high.



Source: CoStar

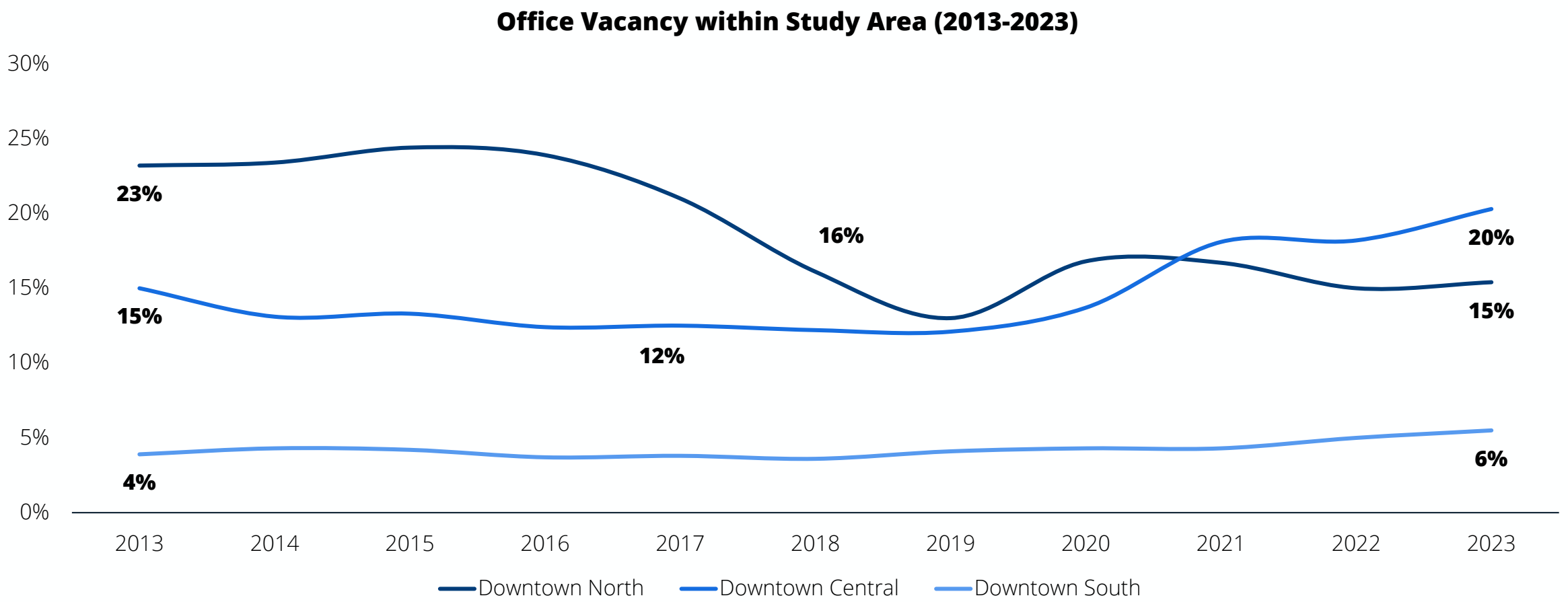
Office Market | Vacancy

Vacancy has generally been increasing since 2019; however, Downtown has a relatively healthy office vacancy compared to other markets. In Midtown, vacancies have started to decline again in the past year.



Source: CoStar

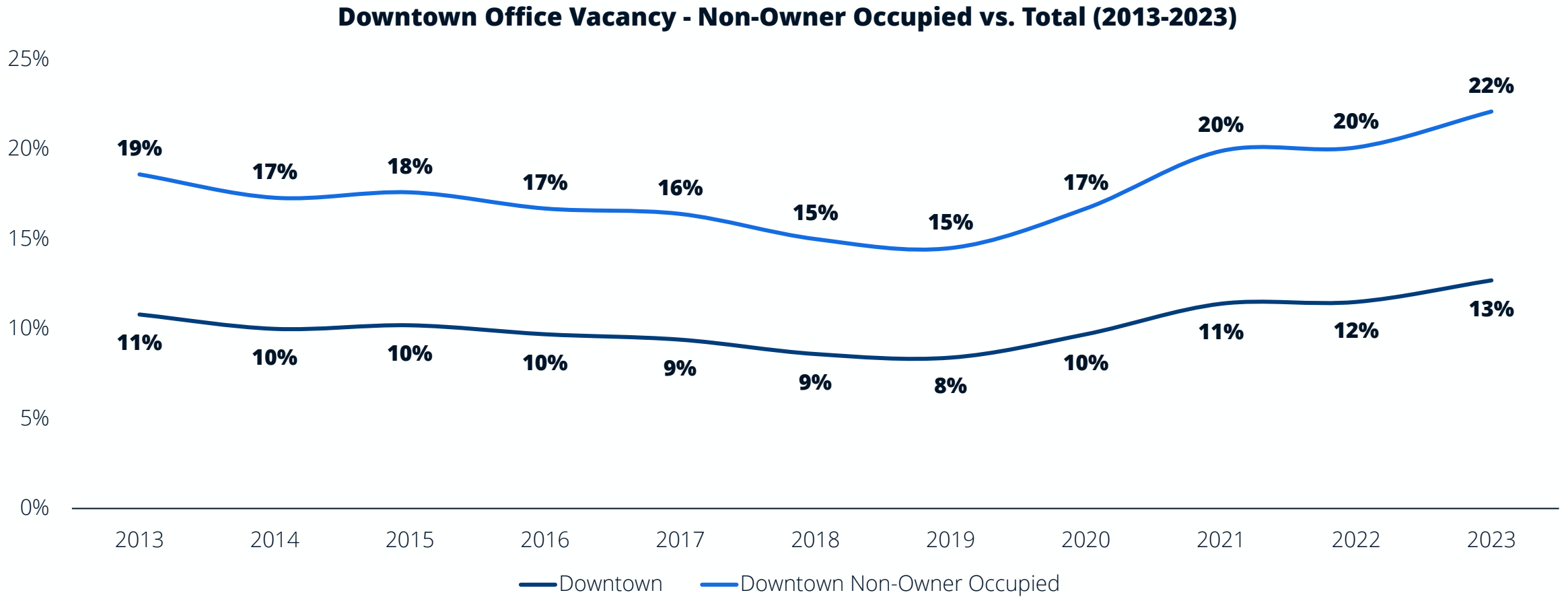
Vacancy has increased in Downtown Central since the pandemic while vacancy in Downtown North has decreased. Vacancy in Downtown South is low due to owner-occupied offices.



Source: CoStar

Office Market | Vacancy

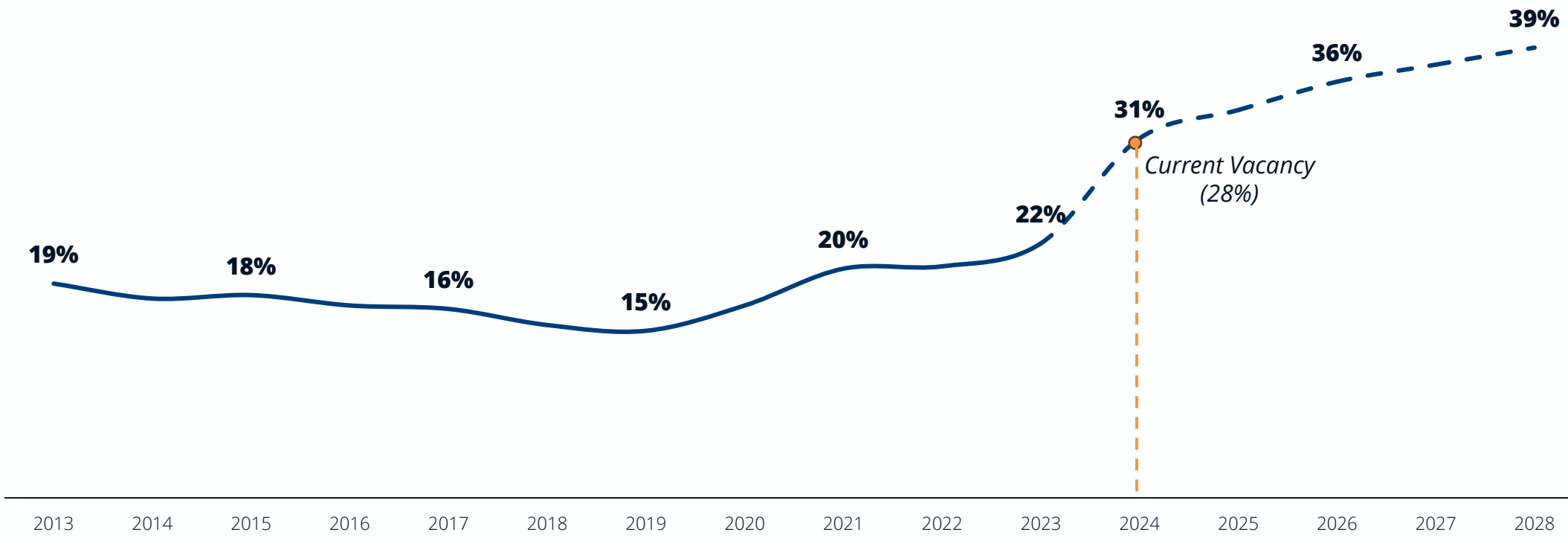
Through 2023, vacancy in non-owner occupied buildings has been 6% - 9% higher than the overall market. Non-owner occupied buildings Downtown, which make up approximately 60% of Downtown inventory, currently have vacancy of 22%.



Source: CoStar

Through early 2024, vacancy has risen to about 28% in non-owner-occupied buildings. Assuming no new leases were signed, vacancy could rise to as high as 39% by 2028, with over 3.5M SF of leases expiring.

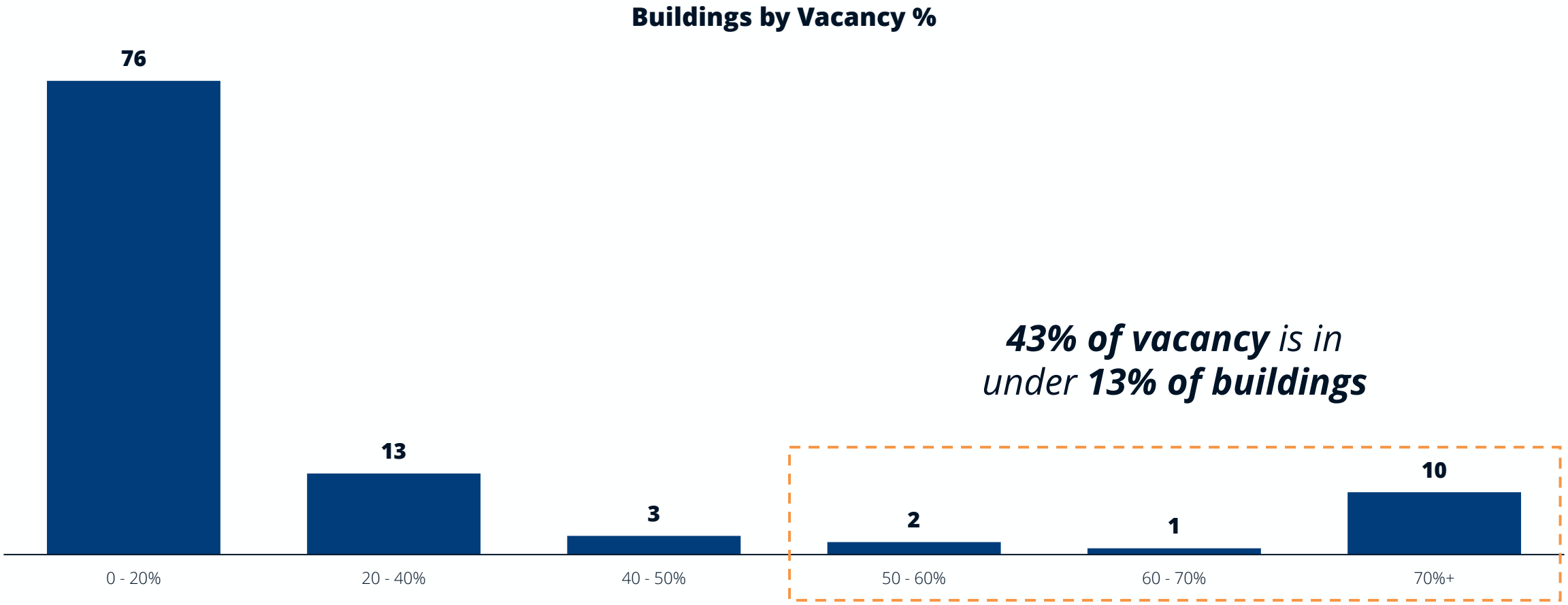
Downtown Atlanta Office Vacancy* (2013-2028)



*Non-owner-occupied buildings. Projected Vacancy assumes no new leases are signed, including those that are scheduled to expire.

Office Market | Vacancy

Most buildings have vacancy below 20%. However, there are 13 buildings that have 50%+ vacancy which account for 43% of the total market vacancy in non-owner-occupied buildings.

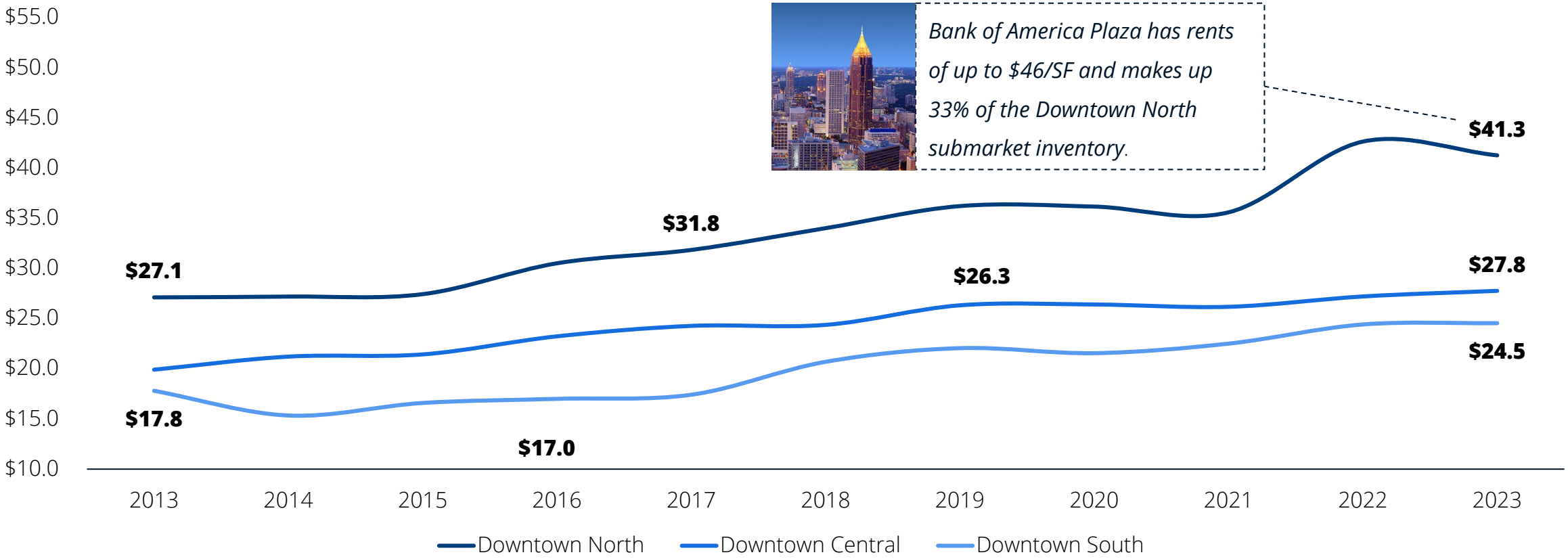


Source: CoStar

Within Downtown, rents in Downtown North are significantly higher than the other submarkets, primarily due to the performance of Bank of America Plaza.

Office Gross Rents within the Study Area (2013-2023)

Bank of America Plaza has rents of up to $46/SF and makes up 33% of the Downtown North submarket inventory.



Source: CoStar

Stakeholders have indicated that the office market could continue to deteriorate in coming years, especially in Class B&C buildings.

Office Value is Declining

The office market is likely going to continue to see very significant value destruction

- Vacancy increases
- Shadow vacancy
- Increases in Tenant Improvements, Commissions, Concessions
- Capital intensive and doesn't work with capital markets

Flight to Quality

Tenants are moving to buildings in better locations with better amenities

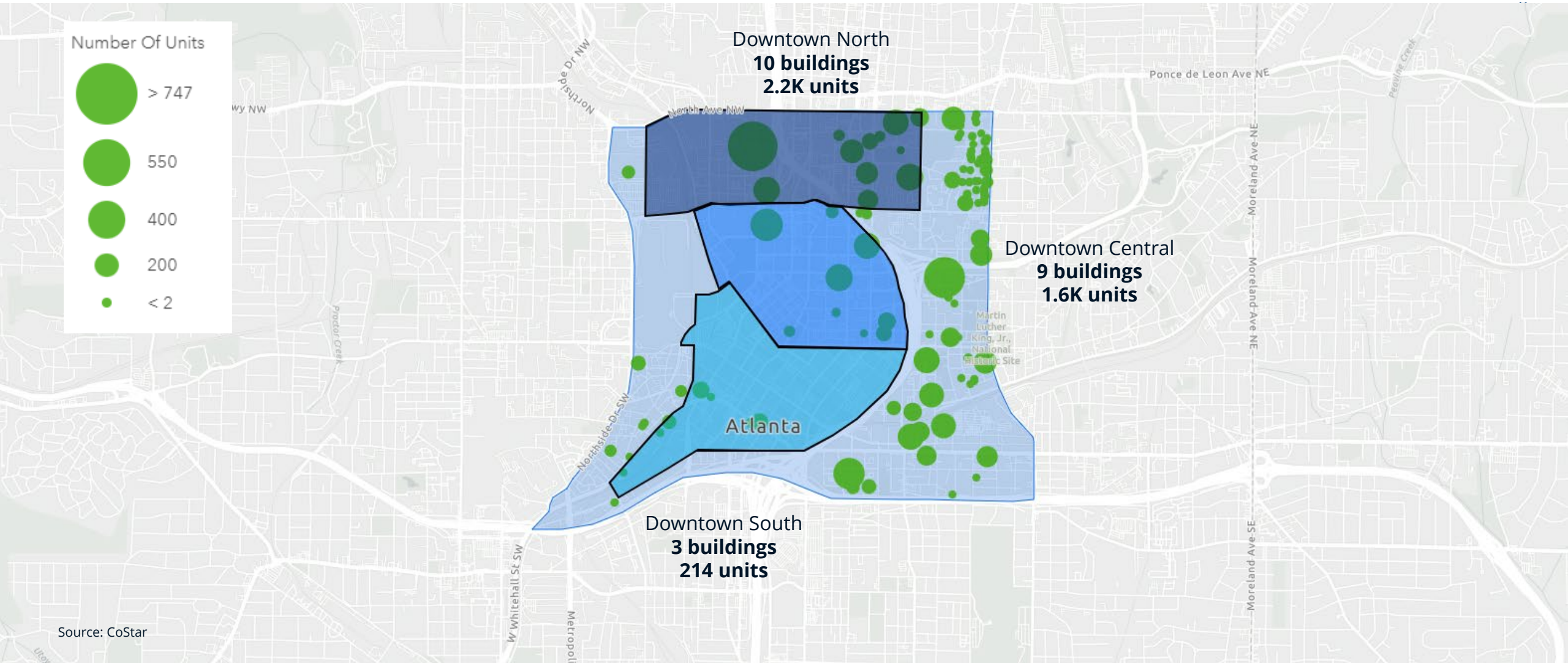
- Some demand among price conscious tenants for Class B&C space

Vacancies are clustered in a small number of large buildings

- In Downtown Atlanta, vacancy is concentrated in large buildings such as Bank of America and Georgia Pacific Center

Residential Market | Building Stock

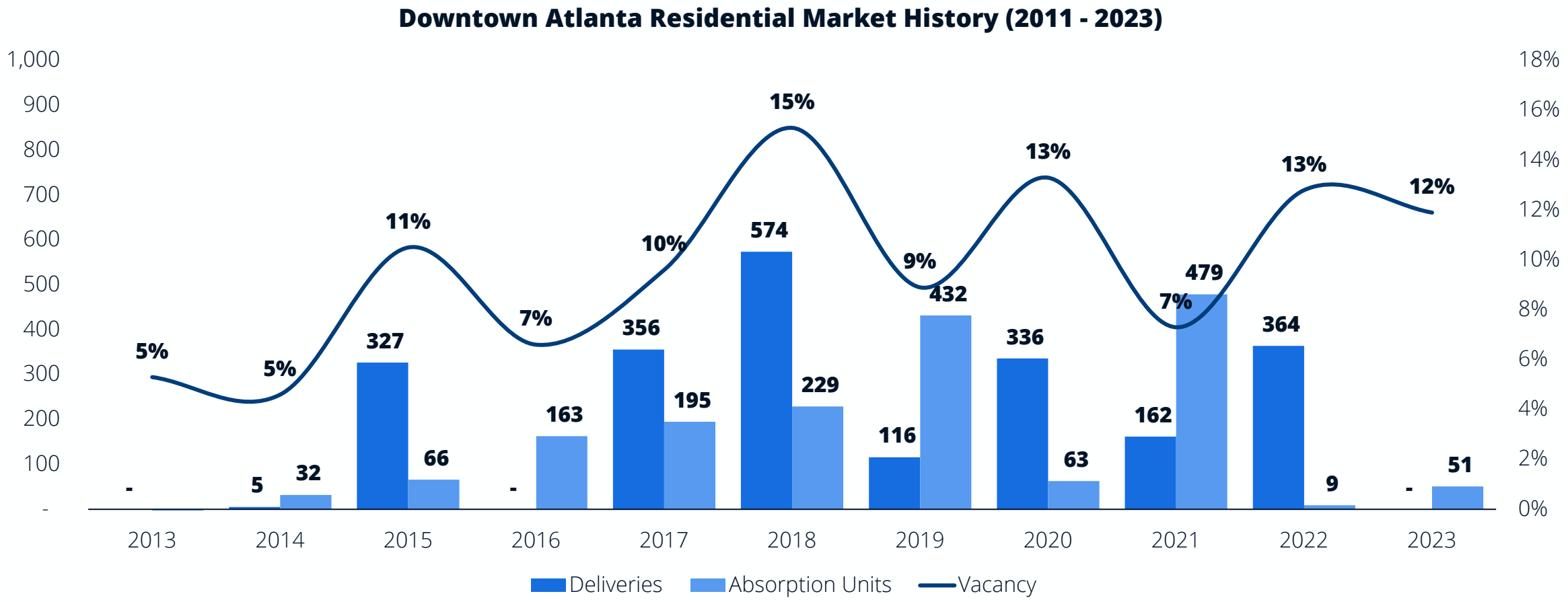
Much of the Downtown multifamily rental market is clustered in Downtown North and Downtown Central.



Source: CoStar

Residential Market | Vacancy, Absorption, and Deliveries

In Downtown Atlanta new deliveries have caused spikes in vacancy but are generally being absorbed, however over 500 new units added since 2021 and slower absorption has driven vacancy to 12%.

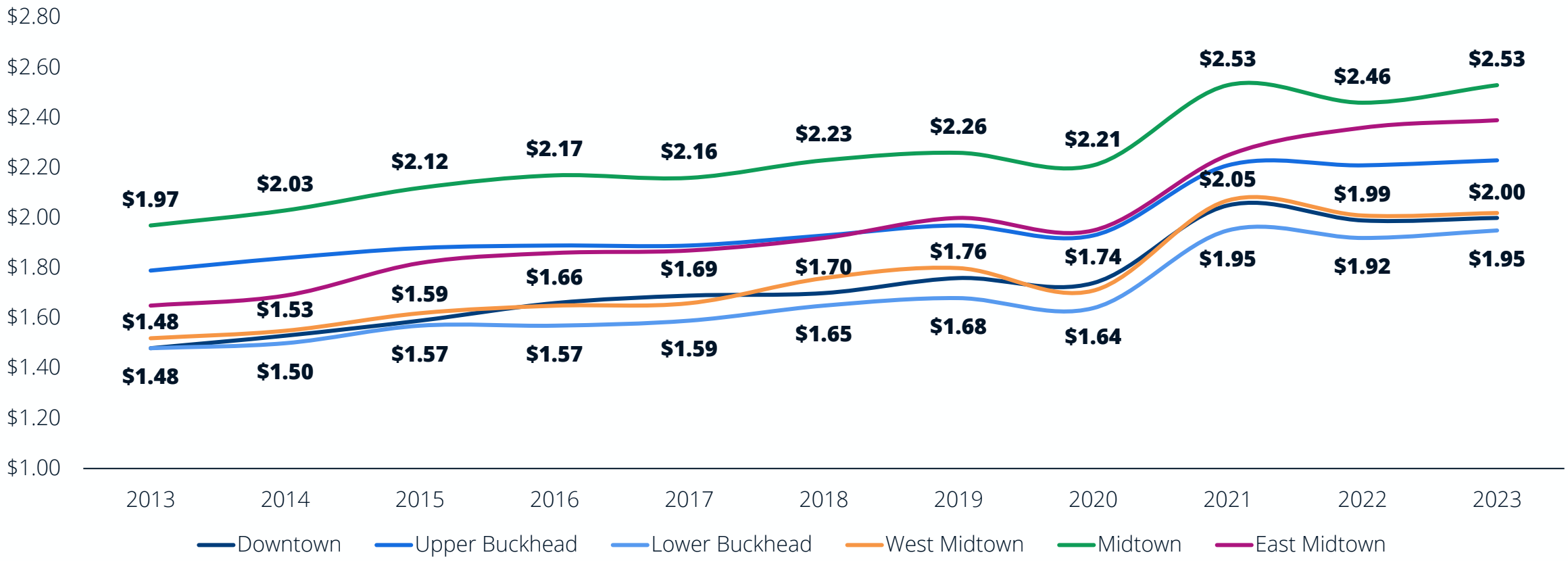


Source: CoStar

Residential Market | Rent

Rents in Downtown Atlanta are among the lowest at $2.00/SF, 25% lower than rents in Midtown. Downtown rents decreased during the pandemic and have not fully recovered.

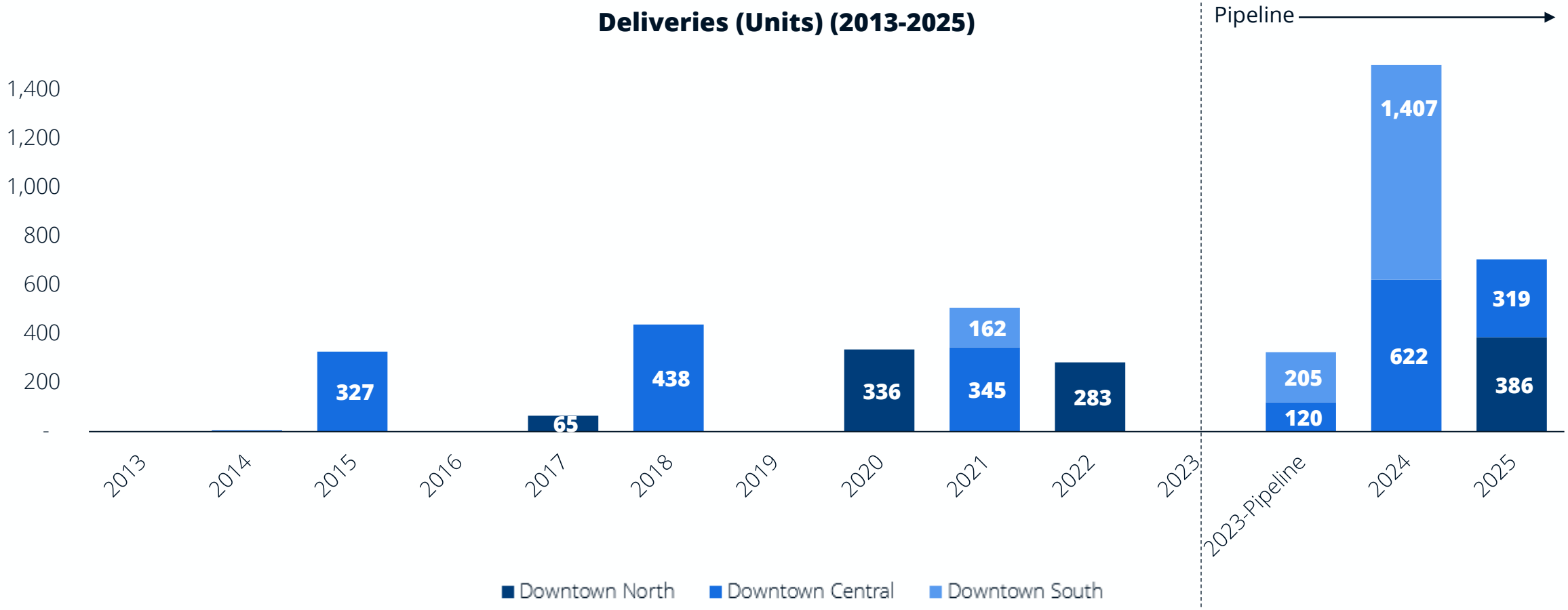
Residential Effective Rent (2013-2023)



Source: CoStar

Residential Market | Deliveries & Pipeline

Downtown Atlanta is expecting a significant uptick in residential construction, driven by new development in Centennial Yards.

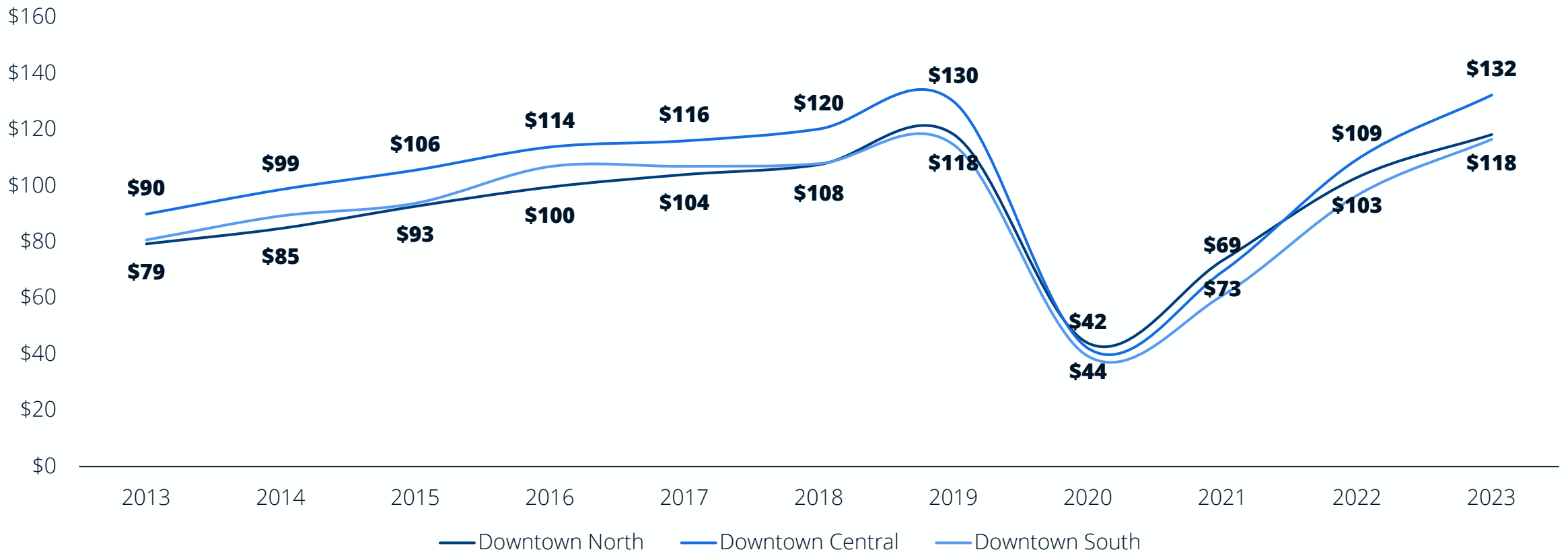


Source: CoStar

Hotel Market | Revenue per Available Room (RevPAR)

Within the Study Area, RevPAR declined significantly during the pandemic but has since recovered in all submarkets.

RevPAR within Study Area (2013-2023)



Source: CoStar

Key Market Findings | Key Findings by Submarket

Each submarket has unique characteristics that could impact the feasibility and need for conversion of commercial space.

Downtown Central

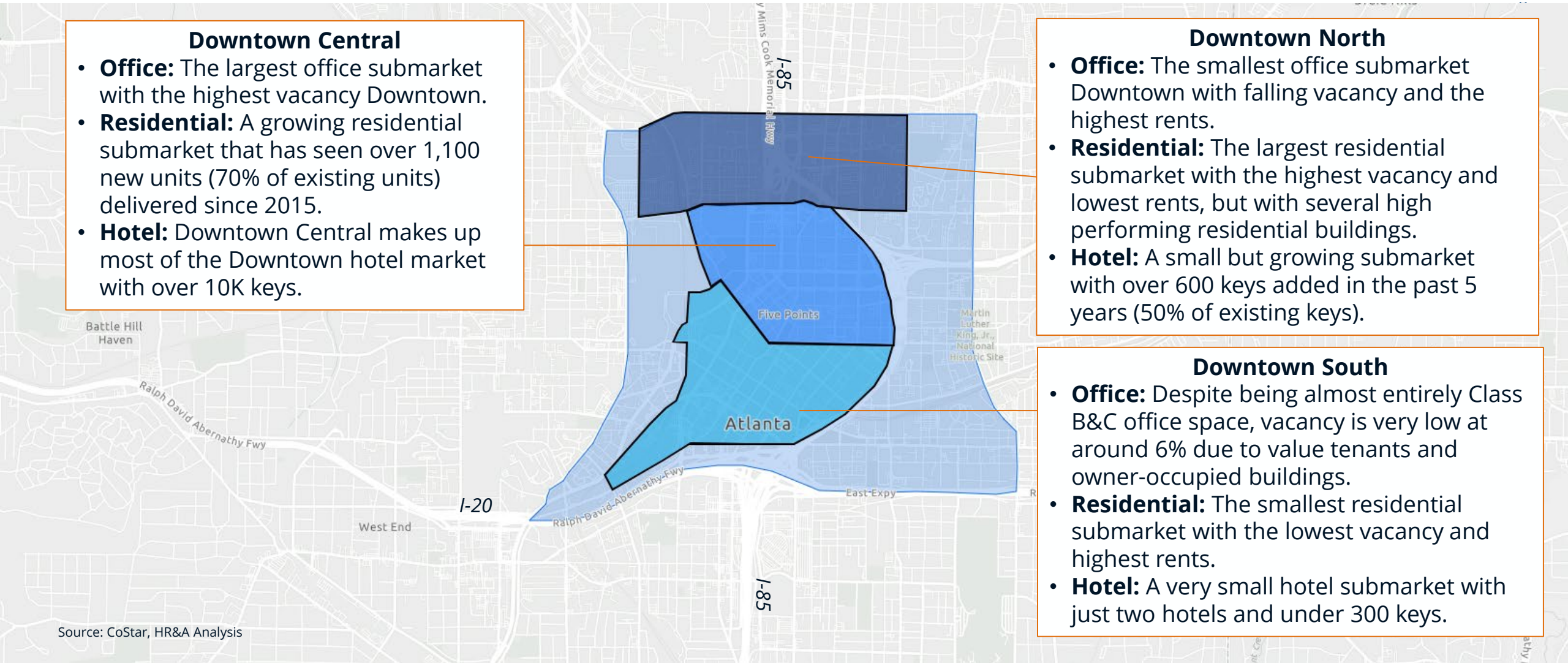
- **Office:** The largest office submarket with the highest vacancy Downtown.
- **Residential:** A growing residential submarket that has seen over 1,100 new units (70% of existing units) delivered since 2015.
- **Hotel:** Downtown Central makes up most of the Downtown hotel market with over 10K keys.

Downtown North

- **Office:** The smallest office submarket Downtown with falling vacancy and the highest rents.
- **Residential:** The largest residential submarket with the highest vacancy and lowest rents, but with several high performing residential buildings.
- **Hotel:** A small but growing submarket with over 600 keys added in the past 5 years (50% of existing keys).

Downtown South

- **Office:** Despite being almost entirely Class B&C office space, vacancy is very low at around 6% due to value tenants and owner-occupied buildings.
- **Residential:** The smallest residential submarket with the lowest vacancy and highest rents.
- **Hotel:** A very small hotel submarket with just two hotels and under 300 keys.



Source: CoStar, HR&A Analysis

Downtown Atlanta could benefit from office to residential conversions in a small set of buildings in select submarkets.

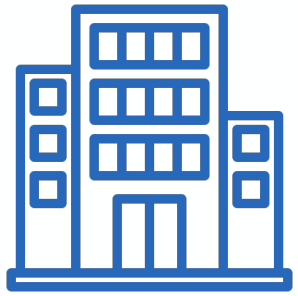
- **Downtown Atlanta continues to offer value to price-conscious office tenants**, taking advantage of access and adjacencies to government and institutional anchors, keeping overall vacancy lower than many cities.
- Although vacancy is relatively low overall, **owner-occupied buildings conceal the extent of vacancy challenges**, and tenants are increasingly seeking higher quality product in competitive submarkets.
- Some of the **buildings Downtown with the greatest vacancy are also the largest buildings** in terms of gross square feet, like Georgia-Pacific and Bank of America, **posing challenges to conversion**.
- **Residential product in Downtown performs reasonably well, but at a discount** to Midtown and other submarkets in terms of achievable rent which reduces conversion value.
- Downtown has structural advantages, like transit access and a walkable street grid, and disadvantages, like **widespread homelessness and a relative lack of amenities, that suppress both the office and residential markets.**
- **Downtown Central, from Peachtree Center to the State Farm Arena**, offers the greatest opportunity for conversions from an economic standpoint, with a weakening office market and growing residential market. Targeting conversions in Downtown Central would create the greatest impact in terms of right-sizing the office and residential markets and supporting a retail base in a historically office-dominated neighborhood.

Source: CoStar, HR&A Analysis

02

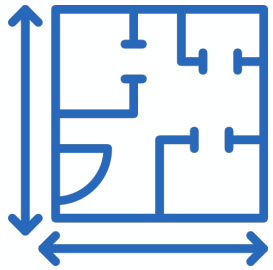
Building Inventory

Key factors to consider when evaluating a building's likelihood to convert include size and layout, adjacencies, façade, and class. These contributed to the development of typologies.



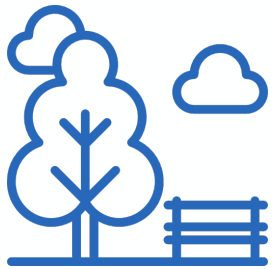
Total Building Size

- Target buildings with 200K – 350K total GSF to achieve economies of scale while reducing absorption risk.
- Small buildings lose efficiency as they still require the same lost space such as elevator cores and hallways.



Floorplate Size and Depth

- Deep floorplates create higher inefficiencies and lost space in the center of the building.
- Target buildings with 70' - 100' floorplate width.



Adjacencies

- Access to Transit
- Parks & Open Space
- Schools
- Food & Beverage
- Grocery

Building Facade

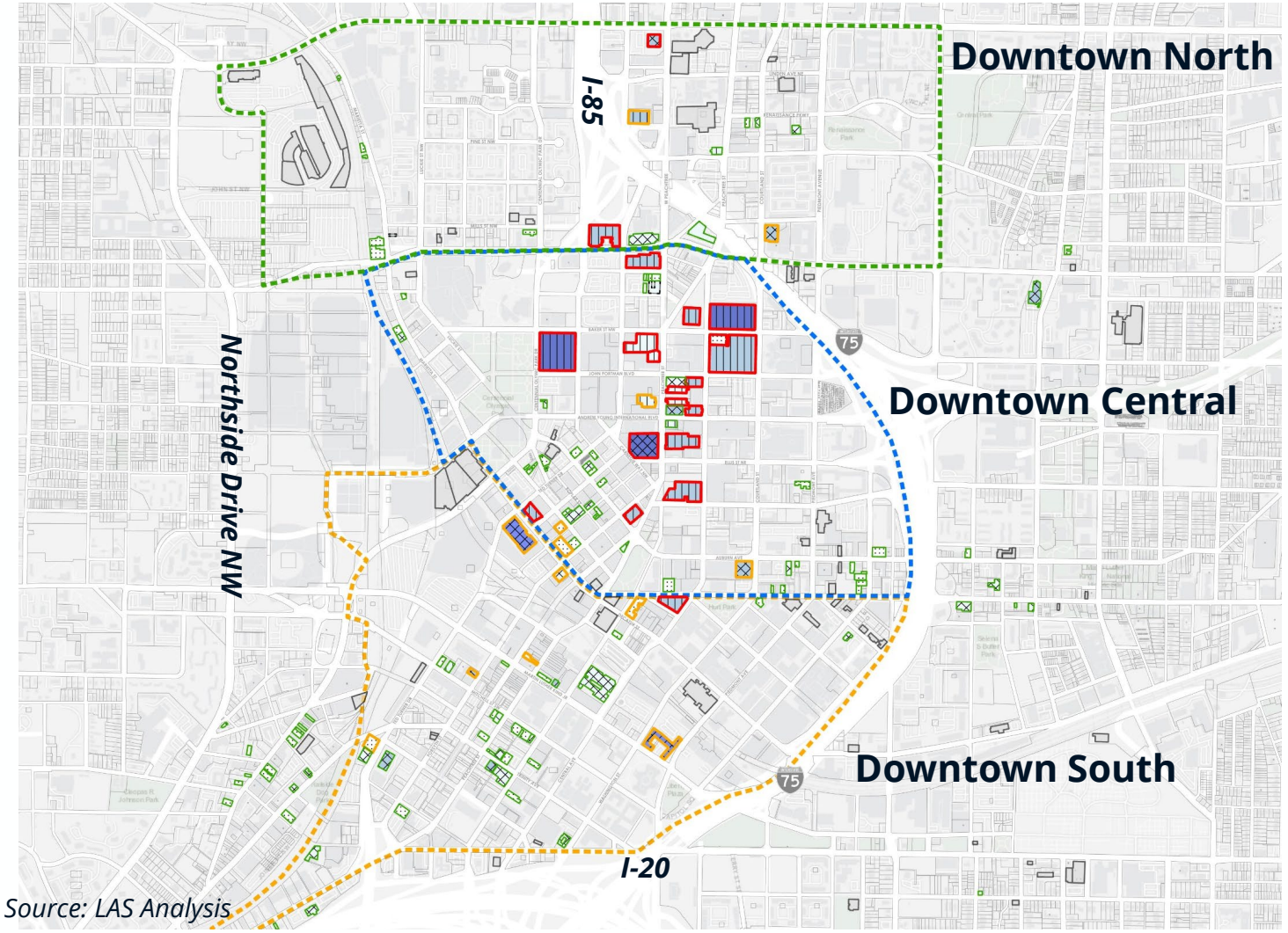
- Window location dictates unit layouts due to window to core depths
- Insulation for thermal comfort and operating efficiency.

Building Class

- Class A buildings are often too expensive to acquire.
- Class B&C are more likely to convert and are cheaper to acquire.

Source: LAS Analysis

Over 100* office buildings were analyzed by floor plate, total square footage, and other physical characteristics to establish representative typologies.



Legend

North Boundary
Central Boundary
South Boundary

Typical Floor Plate Area

Less than 15,000 sq.ft.
15,000 - 34,999 sq.ft.
35,000 - 55,000 sq.ft
Over 55,000 sq.ft

Approximate Total Building Area

Less than 100,000 sq.ft.
100,000 - 300,000 sq.ft.
Over 300,000 sq.ft.

Number of Floors

1 - 4 Stories
5 - 12 Stories
Over 12 Stories

Office Class Type

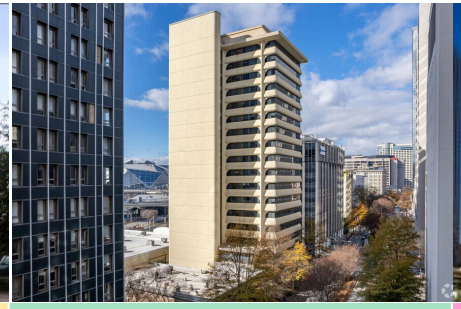
Class A
Class B
Class C
Unknown Class

Excluded Buildings

**Full inventory includes 208 office buildings. Inventory was sorted to include only buildings over 2 stories.*

Source: LAS Analysis

Buildings were divided into typologies based on overall size, floorplate size, height, and age. In general, Type 1 are the older and smaller while Type 4 are the newest and largest.

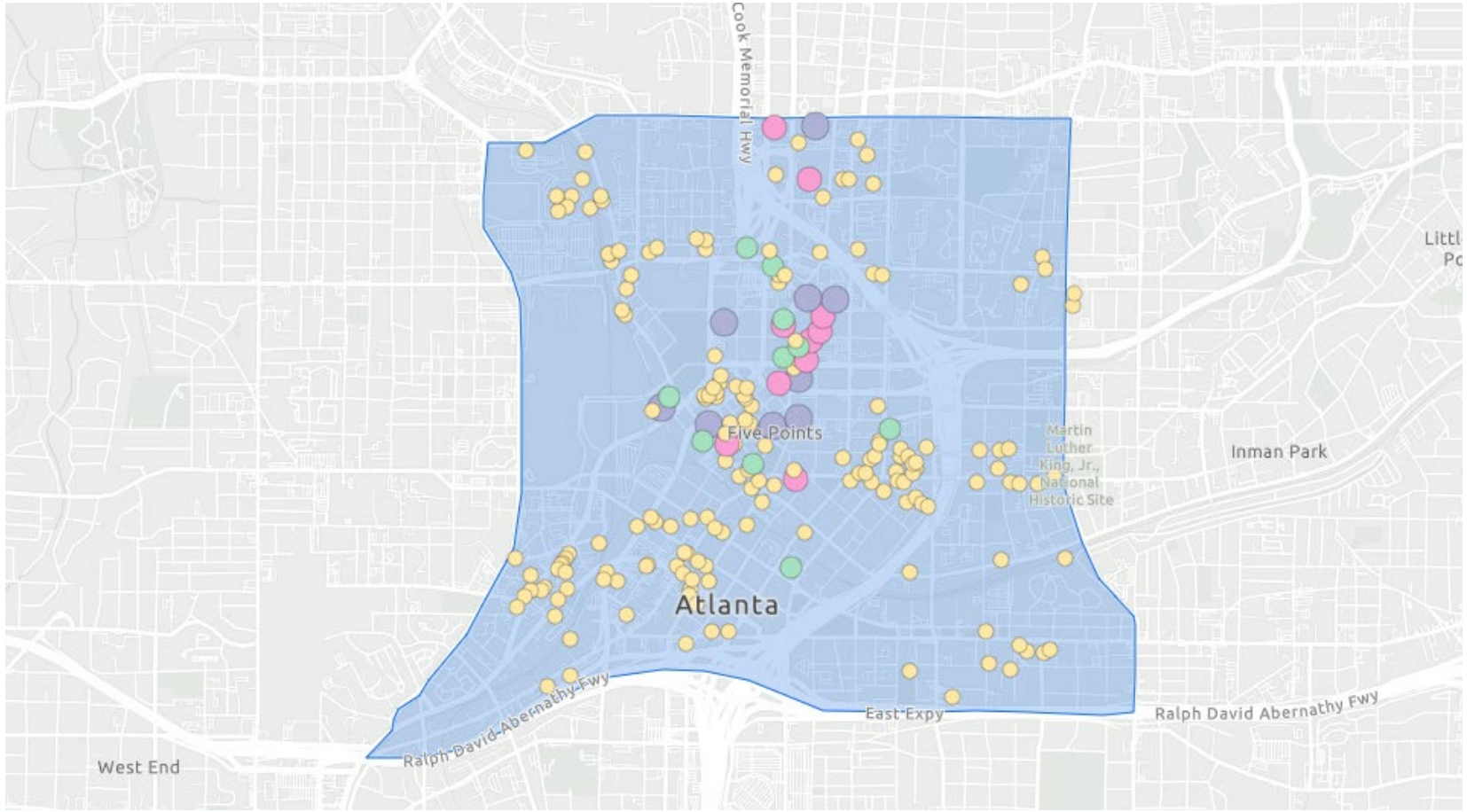



	Type 1	Type 2	Type 3	Type 4
Gross SF	<150K	150K – 350K	350K – 600K	600K+
Avg. Floorplate Size (SF)	10K	22K	24K	44K
Avg. Number of Stories	5	17	23	35
Avg. Age (Years)	88	51	57	38
Average Rent*	$24	$24	$25	$31
Average Vacancy*	N/A	16%	26%	20%
Applicable Buildings	74	11	11	9
% of Downtown Inventory (SF)	16%	16%	25%	44%

**Rent and Vacancy data at the building level is not reported in all buildings. Individual outliers can cause large variations in average.*

Source: CoStar, LAS Analysis, Palacio Analysis, Developer Conversations

There are 105 non-owner-occupied office buildings above 2 stories in Downtown Atlanta, most of which are Type 1 (<150K GSF). Types 2, 3, and 4 buildings are primarily clustered around Downtown Central.



- Type 1 (74 buildings)
- Type 2 (11 buildings)
- Type 3 (11 buildings)
- Type 4 (9 buildings)

Total = 105 buildings

Source: CoStar, LAS Analysis

LAS analyzed floorplans for representative buildings to create efficiency factors and a mix of uses for each typology. Generally, mid-sized buildings (Types 2 and 3) have the highest efficiency.

	Type 1	Type 2	Type 3	Type 4
GSF to RSF (Commercial)	85%	85%	85%	80 - 85%
Efficiency Factor (Residential)	61 – 72%	77 – 80%	77 – 82%	77 – 79%
Pre-Conversion Mix:				
% Office	90 – 95%	90 – 100%	99 – 100%	99 – 100%
% Retail	5 – 10%	0 – 10%	0 – 1%	0 – 1%
Post Conversion Mix:				
% Residential	90 – 95%	90 – 100%	85 – 98%	33 – 60%
% Office	0%	0%	0 – 12%	40 – 67%
% Retail	5 – 10%	0 – 10%	0 – 1%	0 – 1%

Source: CoStar, LAS Analysis, Palacio Analysis, Developer Conversations

Type 1 buildings have the lowest efficiency factor due to a lack of scale but are also a less expensive construction type while larger typologies have higher efficiency but also higher costs.

	Type 1	Type 2	Type 3	Type 4
GSF to RSF (Commercial)	85%	85%	85%	80 - 85%
Efficiency Factor (Residential)	61 – 72%	77 – 80%	77 – 82%	77 – 79%
Hard Costs/GSF*	$175-$225	$225-$230	$215-$225	$215-220
Soft Costs as % of HC	22%			
Time to Vacate Office	2 Years			
Loan to Cost	55%			
Construction Interest Rate	9%			
Discount Rate	12%			

**Cost reflects typical finishes seen in new construction and only includes interior build-out.*

Source: CoStar, LAS Analysis, Palacio Analysis, Developer Conversations

While other markets have had to contend with FAR caps, window requirements, and zoning barriers, flexible zoning and code in Downtown Atlanta creates minimal barriers for conversions.

Zoning

- Most buildings in Downtown Atlanta are zoned as SPI-1.
  - Matching residential and commercial FAR limits allows for 1-to-1 conversions.
  - Zoning allows for office and residential uses
  - Additional open space is required in conversions of office buildings without usable open space.
  - No parking required. Parking capped at ratios close to market standard.

Building Code

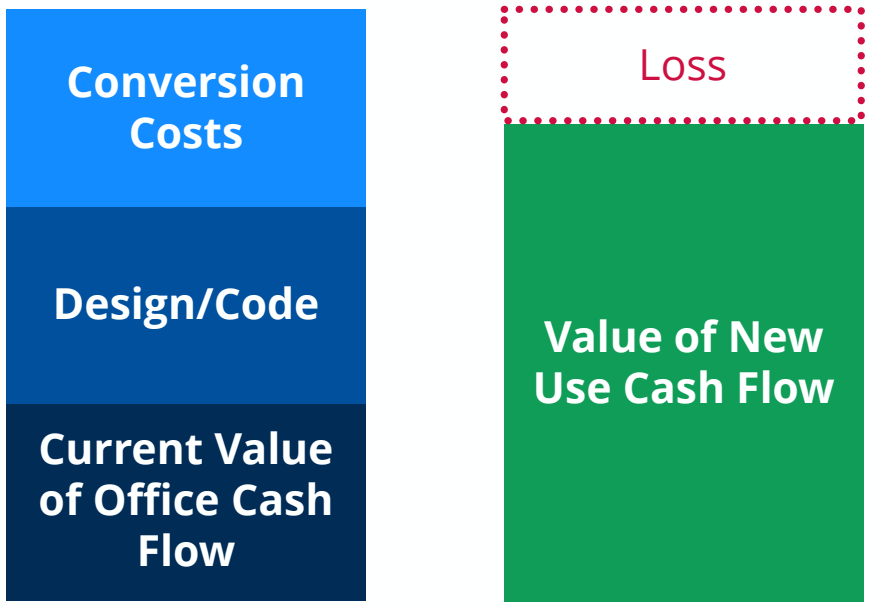
- Upgrades potentially required in older buildings (included in cost estimates):
  - Thermal envelope
  - Load bearing
  - Electrical
  - Fire protection
  - Accessibility
  - Hazardous materials remediation
  - Egress components

03

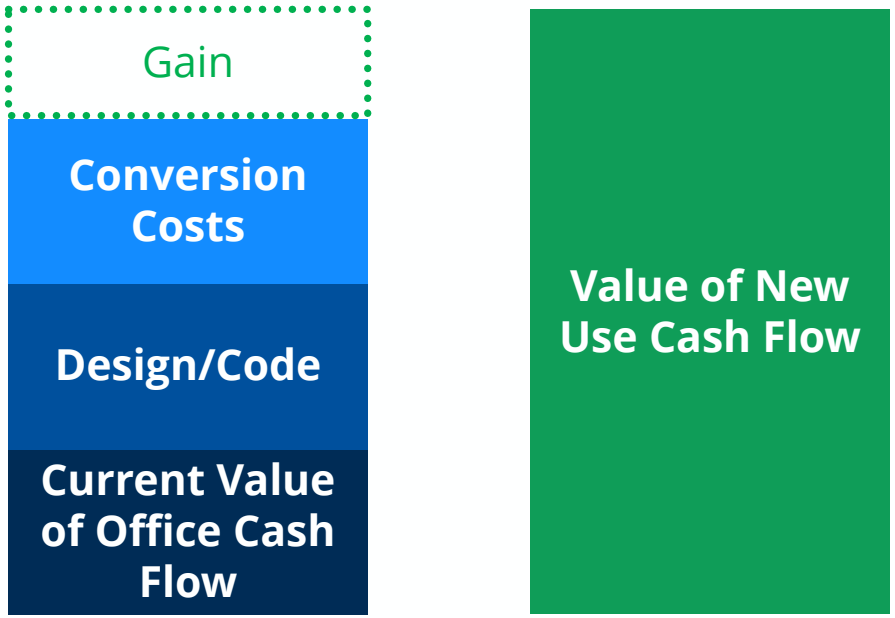
Financial Analysis

Our analysis assumes that **office buildings face two paths forward**: remain as office or convert to residential. Conversions only happen when **the cost of conversion plus the existing office value is less than the future value of a residential building***.

Remain as Office if...



Convert if...



**Individual owner decision making will be driven by this and countless other building specific factors*

The decision to convert an office building to residential use is highly dependent on five key inputs.

Market Conditions

- Current and projected performance of both the office and residential markets

Physical Attributes and Location

- Floorplate size and depth
- Window walls
- Window operability and location

Cost to Convert

- Hard and soft costs
- Time to vacate
- Construction and lease-up period
- Interest rates and capital markets

Residential Building Performance

- Occupancy levels
- Rents
- Efficiency factor (Net SF / Gross SF)

Regulatory Requirements

- Electrification standards
- Affordability requirements

The following market assumptions were used as baseline inputs in the model and reflect average market conditions in Downtown Atlanta. The residential market has slightly lower annual rents but has stronger growth.

	Office	Residential
Rent (Annual per Sq. Ft.)	$24.00	$26.40
Vacancy (After lease-up)	25%	7%
Concessions	8.3%	0%
Operating Expenses*	$9.00/SF	30% of Revenue
Rent Growth	2.5%	4.0%
Cap Rate	12.0%	6.5%

**Not including property taxes, which are calculated separately*
Source: CoStar, Developer Conversations

First, HR&A calculated the comparative value of a building's cash flows to understand scenarios in which an owner would rationally convert their building based on Net Present Value.

- For each typology, modeled a **scenario in which the building remains as office** and a **scenario in which the building converts to residential use**.
- Calculated the **Net Present Value (NPV) of the cash flows over 20 years,** including the time to empty and convert the building, using different discount rates for maintain vs. convert.
- **Compared the NPV of the cash flows** to determine if the residual value of office cash flows is less than or greater than the residual value of the converted building.

Sensitivity Table Legend

Rational	Residential conversion scenario is $10 or more **greater per SF** than the office scenario **(NPV/GSF)**
Potentially Rational	Conversion scenario is between ($10) and $10 lower/higher per SF than the office scenario **(NPV/GSF)**
Not Rational	Conversion scenario is $10 or more **lower per SF** than the office scenario **(NPV/GSF)**

Key Takeaways

Rational conversions will require a combination of weak office performance, strong residential performance, and the ability to take advantage of new or existing incentives.

Baseline

Under current conditions, conversions would not be rational without incentives unless building office vacancy exceeds 70%. This is true across a range of residential rents and construction costs.

Existing Incentives

Existing incentives are mostly limited to Historic Preservation Tax Credits which are oversubscribed and can add project costs but help lower the barrier to conversions to office buildings with 50% vacancy or higher for most typologies. However, a limited number of buildings (80), mostly Type 1, would be eligible.

Typologies

Types 2 and 3 buildings tend to be the most cost-effective buildings due to scale while Type 1 are cost-effective due to lower hard costs. Type 4 buildings could be more feasible if tenants can remain in building during conversion.

Conversions of Types 1, 2, and 3 buildings only make sense when the office building reaches 70% vacancy or higher. Type 4 buildings may require and even higher vacancy threshold.

	10% Office Vacancy	30% Office Vacancy	50% Office Vacancy	70% Office Vacancy	90% Office Vacancy
Type 1	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 2	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 3	Not Rational	Not Rational	Not Rational	Rational	Rational
Type 4	Not Rational	Not Rational	Not Rational	Potentially Rational	Rational

Results show the gap in NPV between the case where the building is converted and the case where it remains as office space.
Assuming $24/SF office rents and $26.40/SF residential rents.

Assuming office vacancy and rates remain at submarket averages, developers would need to achieve residential rents of $3.75/SF to make conversion rational, higher than current top-of-market rents.

	$1.75 Residential Rent	Baseline Rent: $2.20		Top of Market Rent: ~$3.00	
		$2.25 Residential Rent	$2.75 Residential Rent	$3.25 Residential Rent	$3.75 Residential Rent
Type 1	Not Rational	Not Rational	Not Rational	Not Rational	Potentially Rational
Type 2	Not Rational	Not Rational	Not Rational	Not Rational	Rational
Type 3	Not Rational	Not Rational	Not Rational	Potentially Rational	Rational
Type 4	Not Rational	Not Rational	Not Rational	Not Rational	Not Rational

Results show the gap in NPV between the case where the building is converted and the case where it remains as office space.

Assuming 25% office vacancy and $24/SF office rents.

With historic tax credits, conversions begin to make sense in Types 1, 2, and 3 office buildings with 50% vacancy or higher.

	10% Office Vacancy	30% Office Vacancy	50% Office Vacancy	70% Office Vacancy	90% Office Vacancy
Type 1	Not Rational	Potentially Rational	Rational	Rational	Rational
Type 2	Not Rational	Not Rational	Rational	Rational	Rational
Type 3	Not Rational	Not Rational	Rational	Rational	Rational
Type 4	Not Rational	Not Rational	Potentially Rational	Rational	Rational

Results show the gap in NPV between the case where the building is converted and the case where it remains as office space.
***Assuming $24/SF office rents and $26.40/SF residential rents**.*

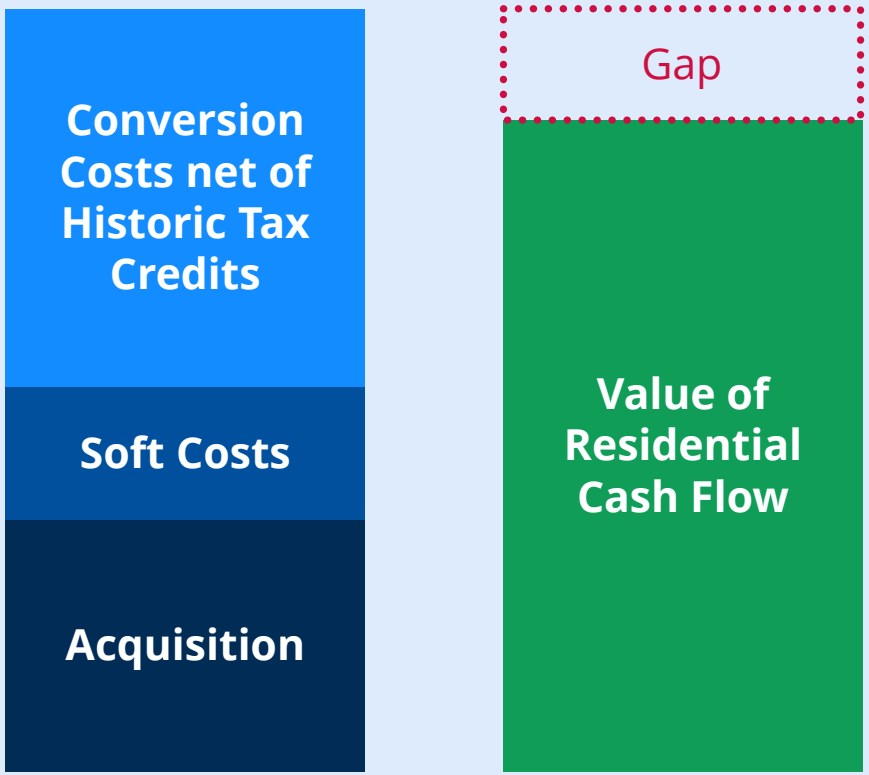
With historic tax credits, conversions could make sense if they achieved top of market residential rents.

	Baseline Rent: $2.20			Top of Market Rent: ~$3.00	
	$1.75 Residential Rent	**$2.25 Residential Rent**	**$2.75 Residential Rent**	**$3.25 Residential Rent**	**$3.75 Residential Rent**
Type 1	Not Rational	Not Rational	Potentially Rational	Rational	Rational
Type 2	Not Rational	Not Rational	Potentially Rational	Rational	Rational
Type 3	Not Rational	Not Rational	Potentially Rational	Rational	Rational
Type 4	Not Rational	Not Rational	Not Rational	Potentially Rational	Rational

Results show the gap in NPV between the case where the building is converted and the case where it remains as office space.

Assuming 25% office vacancy and $24/SF office rents.

Next, to understand the financial gap for each building, HR&A calculated the gap between capitalized value of the converted building and total conversion costs.



- For each building, **acquisition cost was estimated using the Net Present Value (NPV)** of the cash flows from the existing office building – the "opportunity cost" for property owners.*
- The value of Residential Cash Flows was estimated using stabilized revenues and costs to determine **Net Operating Income (NOI)**. NOI was divided by a Capitalization Rate to determine the future value of the converted building.

** Avg opportunity cost – the lowest value an owner should reasonably be willing to accept – across typologies is roughly $50/SF. Opportunity cost reflects a minimum of $0, even for properties experiencing negative cash flow. Recent Atlanta commercial transactions have sold for $180/SF with transactions as low as $40/SF. Actual acquisition costs and owner decisions will be informed by evolving market conditions, as well as existing debt.*

Financial Analysis | **Type 1 Example Pro Forma**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	($0.2M)	$0	($4,000)
Conversion	($12M)	($210)	($304,000)
Historic Tax Credits	$0M	$0	$0
Financing Costs	($1M)	($20)	($24,000)
Net Project Costs	**($13M)**	**($230)**	**($331,000)**
Revenue:			
Total Converted Revenues	$21M	$360	$526,000
Total Converted OpEx	($7M)	($110)	($167,000)
Lost Office Value	($1M)	($10)	($19,000)
Total NOI	**$13M**	**$230**	**$340,000**
Annual NOI	$1M	$20	$23,000
Cap Rate	6.75%		
Capitalized Value	**$13M**	**$230**	**$335,000**
Capital Costs*	($1M)	($10)	($17,000)
Transaction Costs	($1M)	($20)	($24,000)
Gap/Surplus**	**($1M)**	**($20)**	**($37,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	57,236
Total Residential Area	54,603
Efficiency	61.0%
Net Residential Area	33,308
Units	39

Financial Analysis | **Type 2 Example Pro Forma**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	$0	$0
Conversion	($34M)	($280)	($306,000)
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($300)**	**($329,000)**
Revenue:			
Total Converted Revenues	$53M	$430	$474,000
Total Converted OpEx	($18M)	($150)	($165,000)
Lost Office Value	($2M)	($10)	($14,000)
Total NOI	**$33M**	**$270**	**$296,000**
Annual NOI	$2M	$20	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$270**	**$304,000**
Capital Costs*	($1M)	($10)	($10,000)
Transaction Costs	($2M)	($20)	($21,000)
Gap/Surplus**	**($6M)**	**($50)**	**($56,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

Financial Analysis | **Type 3 Example Pro Forma**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	$0	$0
Conversion	($94M)	($270)	($283,000)
Historic Tax Credits	$0M	$0	$0
Financing Costs	($7M)	($20)	($21,000)
Net Project Costs	**($100M)**	**($290)**	**($304,000)**
Revenue:			
Total Converted Revenues	$162M	$460	$492,000
Total Converted OpEx	($55M)	($160)	($166,000)
Lost Office Value	($4M)	($10)	($13,000)
Total NOI	**$103M**	**$300**	**$313,000**
Annual NOI	$7M	$20	$21,000
Cap Rate	6.61%		
Capitalized Value	**$104M**	**$300**	**$316,000**
Capital Costs*	($4M)	($10)	($12,000)
Transaction Costs	($7M)	($20)	($22,000)
Gap/Surplus**	**($8M)**	**($20)**	**($23,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	349,488
Total Residential Area	342,498
Efficiency	82.0%
Net Residential Area	280,849
Units	330

Financial Analysis | **Type 4 Example Pro Forma**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	$0	$0
Conversion	($107M)	($160)	($288,000)
Historic Tax Credits	$0M	$0	$0
Financing Costs	($8M)	($10)	($21,000)
Net Project Costs	**($115M)**	**($170)**	**($309,000)**
Revenue:			
Total Converted Revenues	$231M	$350	$622,000
Total Converted OpEx	($62M)	($90)	($167,000)
Lost Office Value	($8M)	($10)	($22,000)
Total NOI	**$161M**	**$240**	**$433,000**
Annual NOI	$11M	$20	$29,000
Cap Rate	8.70%		
Capitalized Value	**$123M**	**$180**	**$332,000**
Capital Costs*	($26M)	($40)	($69,000)
Transaction Costs	($8M)	($10)	($23,000)
Gap/Surplus**	**($26M)**	**($40)**	**($69,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	666,432
Total Residential Area	399,859
Efficiency	79.0%
Net Residential Area	315,889
Units	371

Atlanta has a limited incentive set that could support conversions today. Tax tools provide insufficient benefit while Historic Tax Credits only apply to a limited subset of buildings.

Historic Preservation Tax Credits	Tax Allocation Districts	Lease Purchase Bond
Benefits: Freezes property tax assessment and provides up to 45% of project costs as tax credits **Challenges:** • Limited number of buildings qualify • Very competitive at the State level • Limits renovation scope	**Benefits** Upfront direct grant funding for conversions **Challenges:** • Incentive is too small to support affordable housing in conversions • Fund is oversubscribed	**Benefits:** 10-year tax abatement allocated annually or upfront **Challenges:** Abatement term is too short to support affordable housing in conversions
Recommendation: *Target buildings that can leverage Historic Preservation Tax Credits*	***Recommendation:*** *Create a larger grant funding source by enhancing TAD*	***Recommendation:*** *Create a larger grant funding source by increasing duration of Lease Purchase Bond*

Source: Invest Atlanta, City of Atlanta, City of Atlanta

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($296)**	**($329,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.0M	$0	$0
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$296,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$273**	**$304,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**($6M)**	**($50)**	**($56,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

**Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

Project is not feasible without incentives

Financial Analysis | **Type 2 Example Pro Forma – Historic Tax Credit**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$9M	$77	$85,000
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($27M)**	**($219)**	**($244,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($17M)	($141)	($157,000)
Tax Abatement	$0.0M	$0	$0
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$34M**	**$273**	**$304,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$35M**	**$280**	**$312,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**$4M**	**$33**	**$37,000**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

Project becomes feasible with Historic Tax Credits

Financial Analysis | **Type 2 Example Pro Forma – Westside Tax Allocation District Grant**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($274)	($305,000)
Grant	$1M	$6	$6,000
Historic Tax Credits	$0M	$0	$0
Financing Costs	($2M)	($20)	($22,000)
Net Project Costs	**($36M)**	**($288)**	**($320,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.0M	$0	$0
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$296,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$273**	**$304,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**($5M)**	**($43)**	**($47,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A $60,000 per affordable unit grant through TAD ($720K total) is not enough to incentivize conversions

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($296)**	**($329,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.4M	$3	$3,000
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$270**	**$299,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$276**	**$307,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**($6M)**	**($47)**	**($53,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

**Value Gap, not necessarily equal to required funding

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A partial tax abatement through the Lease Purchase Bond Program is not enough to incentivize conversions

Financial Analysis | **Type 2 Example Pro Forma – AUDC Tax Abatement**

Assuming market average rents and 50% vacancy. ***20% of units at 50% AMI.***

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($34M)	($275)	($306,000)
Grant	$0M	$0	$0
Historic Tax Credits	$0M	$0	$0
Financing Costs	($3M)	($20)	($23,000)
Net Project Costs	**($36M)**	**($296)**	**($329,000)**
Revenue:			
Total Converted Revenues	$49M	$400	$444,000
Total Converted OpEx	($17M)	($139)	($154,000)
Tax Abatement	$2.3M	$19	$21,000
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$297,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$274**	**$305,000**
Capital Costs*	($1M)	($8)	($9,000)
Transaction Costs	($2M)	($18)	($20,000)
Gap/Surplus**	**($6M)**	**($48)**	**($53,000)**

*Leasing Costs, Tenant Improvements, and Capital Reserve

**Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A permanent, 100% tax abatement through the AUDC is not enough to incentivize conversions, especially given increased affordability requirements which lower residential value

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($33M)	($265)	($295,000)
Grant	$6M	$46	$51,000
Historic Tax Credits	$0M	$0	$0
Financing Costs	($2M)	($16)	($18,000)
Net Project Costs	**($29M)**	**($236)**	**($262,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$0.0M	$0	$0
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$33M**	**$267**	**$296,000**
Annual NOI	$2M	$18	$20,000
Cap Rate	6.50%		
Capitalized Value	**$34M**	**$273**	**$304,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**$1M**	**$10**	**$11,000**

*Leasing Costs, Tenant Improvements, and Capital Reserve

**Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A $46/SF grant is required to close the initial $50/SF gap and incentivize conversions with no other incentives at 50% office vacancy

Financial Analysis | **Type 2 Example Pro Forma – $31/SF Grant + Tax Abatement**

Assuming market average rents and 50% vacancy. 10% of units at 60% AMI.

Pro Forma	Total	Per SF	Per Unit
Costs:			
Owner's Opportunity Cost	$0.0M	($0)	$0
Conversion	($33M)	($269)	($299,000)
Grant	$4M	$31	$34,000
Historic Tax Credits	$0M	$0	$0
Financing Costs	($2M)	($18)	($20,000)
Net Project Costs	**($32M)**	**($256)**	**($284,000)**
Revenue:			
Total Converted Revenues	$53M	$427	$474,000
Total Converted OpEx	($18M)	($148)	($165,000)
Tax Abatement	$2.5M	$20	$22,000
Lost Office Value	($2M)	($12)	($14,000)
Total NOI	**$35M**	**$287**	**$318,000**
Annual NOI	$2M	$19	$21,000
Cap Rate	6.50%		
Capitalized Value	**$36M**	**$294**	**$327,000**
Capital Costs*	($1M)	($9)	($10,000)
Transaction Costs	($2M)	($19)	($21,000)
Gap/Surplus**	**$1M**	**$10**	**$11,000**

*Leasing Costs, Tenant Improvements, and Capital Reserve

***Value Gap, not necessarily equal to required funding*

Rounded Values

Building Characteristics	
Building GSF	123,336
Total Residential Area	123,336
Efficiency	77.0%
Net Residential Area	94,969
Units	111

A $31/SF grant is required to close the initial $50/SF gap and incentivize conversions when used with a tax abatement of 100% for 15 years.

04

Case Studies

In conversations with developers and a review of Atlanta's regulatory environment, tax relief and direct grants may be most impactful for Atlanta to consider.

Tax Tools

Tax abatements have frequently been used to enable conversion feasibility, often in exchange for the inclusion of affordable housing units, by reducing the tax bill of the converted building.

Financing/Funding Tools

Different financing and funding sources such as Tax Increment Financing (TIF), tax credits, and grant funding provide upfront capital to developers to convert buildings.

Process Tools

Process tools include streamlining the permitting process, reducing fees, or updating building standards to make it easier for developers to convert.

LaSalle Street Reimagined will provide necessary gap funding to projects selected by the City in a concentrated geography to replace vacant office space with mixed-income housing.

Background

LaSalle Street, the historic center of Chicago's Central Business District, experienced significant increases in office and retail vacancy rates during the pandemic as investment shifted to the West Loop.

Program

The City of Chicago issued an RFP offering grants funded by accumulated tax increment for the conversion of underutilized commercial spaces to mixed-income residential buildings and public amenities. TIF sizing was based on negotiations with the developers. Example projects will receive around $200K per residential unit or roughly $60M per project.

Goals

- Revitalize underperforming office space
- Extend uses beyond 9-5 workday
- Create affordable housing (30% of new units)
- Public realm enhancements and neighborhood amenities
- Renovate historic buildings.

Target Outcomes

- Five conversion proposals were selected
- 1,600 mixed-income residential units with 600 affordable at 60% AMI
- 2.3M SF of vacant office space removed
- $1B in total investment

Sources: City of Chicago, Urbanize Chicago

Case Studies | **Calgary**

The Downtown Calgary Development Incentive Program was designed to combat rising office vacancies while creating a greater mix of uses and mixed-income housing.

Background

Due to a 2015 economic downturn and the COVID-19 pandemic, Downtown Calgary currently has an office vacancy rate of over **30%** and climbing. To remove vacant office space while creating new housing, City Council approved $200M for office conversions.

Program

The Downtown Calgary Development Incentive Program supports the redevelopment of underused office space to create a greater mix of uses downtown by offering up to **CAD $75/SF (USD $56/SF)** for conversions in the form of discretionary grants. The City set aside **CAD $153M (USD $114M)** to support conversions to residential units, hotel, schools, and performance centers. Conversions to residential units are required to provide at least 25% of the units as affordable.

Goals

- Remove 6M SF of vacant office space by 2031
- Create new housing, including student housing
- Increase downtown population by 20%
- Revitalize Downtown Calgary with a mix of uses
- Total City investment of $1B by the end of the program

Outcomes (To Date)

- To date, have funded 13 projects with 4 under review
- 2.3M SF of vacant office space removed
- 2,300 new residential units
- $567M of total investment in Downtown Calgary

Sources: City of Calgary, CBC, Calgary Herald

The Downtown Boston Office to Residential Conversion Pilot Program is intended to create a healthier mix of uses in Downtown Boston while providing affordable housing in sustainable buildings.

Background

Downtown Boston, a neighborhood historically dominated by office use, has been losing tenants to the newer Seaport for the past decade. Vacancy increases were exacerbated by the pandemic and the Central Business District saw vacancy increase from 7% to 14% in the past 4 years.

Program

The 1-year pilot allows developer to apply for a 75% property tax abatement on the full property tax bill for up to 29 years, in addition to fast-tracked review and permitting processes. Projects are targeted in Downtown Boston, but the City will review any project within City limits on a case-by-case basis. Conversion projects must include 20% affordable units and be built to new electrification standards.

Goals

- Support a declining office market by removing excess space
- Create new, mixed-income housing
- Turn old office assets into 100% electric buildings
- Support a more vibrant mix of uses in Downtown Boston to compete with the Seaport and Back Bay

Outcomes (To Date)

- 4 projects have already applied for the Program, which was announced in July 2023
- These projects would create 170 units of residential housing and over 30 units of affordable housing
- Applications will be accepted through June 2024

Sources: BPDA

Tax, process, and financing tools can each be used in different ways depending on the goals of the City.

Financing Tools

- Direct grants and favorable financing could **potentially have the greatest impact on the financial feasibility** of conversion, especially as construction costs increase and developers seek gap financing.

Tax Tools

- Property taxes make up about 15-20% of operating expenses of the converted building.
- **Eliminating or reducing property taxes** for a period following the conversion **can allow more buildings to feasibly convert.** The term of the abatement will have a significant effect on the financial impact.

Process Tools

- Process tools **can encourage developers** to pursue conversions by **lowering the perceived level of difficulty.**
- These tools can lower barriers for developers and **create the perception that the City will work with developers to make the process easier.**

Disbursement

- An RFP or application process allows for the greatest level of City control over the process and enables funding to be tailored to individual building needs.
- Providing funding as-of-right would result in a faster process and potentially increase utilization of the incentive by developers.

05

Policy Considerations

Upfront benefits, such as a grant or tax credit, have bigger impacts on convertibility than benefits that accrue overtime like an abatement, due to the time value of money. All findings below are based on representative typologies and their associated assumptions.

Existing Incentives

Historic Preservation Tax Credits can typically incentivize conversions in eligible office buildings with 20% vacancy or higher in Types 1, 2, and 3 while Type 4 will still require subsidy.

New Incentives

Grant funding of around $20 - $55/SF would incentivize conversions in most underperforming office buildings*, without any other incentives. Types 2 and 3 buildings would be the least expensive to incentivize on a per unit basis due to scale and efficiency. For underperforming buildings receiving Historic Preservation Tax Credits, less subsidy would be needed.

Affordability

A $30 - $65/SF grant would also enable 10% of units to be affordable at 60% Area Median Income (AMI)** in most underperforming office buildings.

*50% vacancy or higher and $20/SF rent or lower.

**10% of units at 60% AMI is required for projects receiving public subsidy.

With no affordability requirements and no Historic Preservation Tax Credits, all typologies require some level of subsidy at all office vacancy rates to convert feasibly.

	Office Vacancy					
	0% - 20%	**20% - 40%**	**40% - 50%**	**50% - 60%**	**60% - 70%**	**70%+**
Type 1	$95	$45	$25	$20	$20	$20
Type 2	$95	$70	$40	$40	$40	$40
Type 3	$75	$30	$20	$20	$20	$20
Type 4	$120	$65	$55	$55	$55	$55

Grant is sized to create a $10/SF project surplus.

Adding in Historic Preservation Tax Credits (but no affordability), Types 1, 2, and 3 can covert without subsidy if vacancy exceeds 20%. However, regardless of vacancy, Type 4 buildings will require a minimum of $15/SF.

		Office Vacancy				
	0% - 20%	**20% - 40%**	**40% - 50%**	**50% - 60%**	**60% - 70%**	**70%+**
Type 1	$45	$0	$0	$0	$0	$0
Type 2	$35	$0	$0	$0	$0	$0
Type 3	$35	$0	$0	$0	$0	$0
Type 4	$85	$20	$15	$15	$15	$15

Grant is sized to create a $10 gap in NPV/SF between residential and office uses.

Without Historic Preservation Tax Credits and 10% of units required to be affordable at 60% AMI, all buildings will require some level of subsidy, with Type 3 requiring the least on a per square foot basis.

	Office Vacancy					
	0% - 20%	**20% - 40%**	**40% - 50%**	**50% - 60%**	**60% - 70%**	**70%+**
Type 1	$100	$55	$30	$30	$30	$25
Type 2	$105	$55	$50	$50	$50	$50
Type 3	$85	$40	$25	$25	$25	$25
Type 4	$125	$70	$65	$65	$65	$65

Grant is sized to create a $10 gap in NPV/SF between residential and office uses.

With Historic Preservation Tax Credits and 10% of units at 60% AMI, Types 1, 2, and 3 can convert without subsidy above 20% vacancy while Type 4 will always require at least $20/SF.

		Office Vacancy				
		0% - 20%	**20% - 40%**	**40% - 50%**	**50% - 60%**	**60% - 70%**	**70%+**
Type 1	$55	$0	$0	$0	$0	$0
Type 2	$45	$0	$0	$0	$0	$0
Type 3	$45	$0	$0	$0	$0	$0
Type 4	$95	$30	$20	$20	$20	$20

Grant is sized to create a $10 gap in NPV/SF between residential and office uses.

A focus on Type 2 and 3 buildings has the potential to generate the most units per building at the lowest cost per unit to the City while Type 1 has more buildings that can convert without subsidy. Type 4 buildings are inefficient to convert but would have the largest impact by way of units created and vacant office space removed.

	Historic Tax Credits Alone			New Incentive with Affordability Requirement			Total Impact					
	Applicable Buildings	**Vacant Office SF**	**Housing Units Created**	**Applicable Buildings**	**Vacant Office SF**	**Housing Units Created**	**Applicable Buildings**	**Vacant Office SF**	**Housing Units**	**Affordable Units (10% at 60% AMI)**	**Total Cost of Incentive to City***	**Incentive Cost per Unit**
Type 1	8	323K	400	3	305K	230	11	628K	630	20	$10M	$16K
Type 2	1	199K	250	4	852K	1,050	5	1.1M	1,300	110	$60M	$46K
Type 3	1	153K	400	5	1.6M	1,810	6	1.7M	2,210	180	$50M	$23K
Type 4	0	0	0	3	1.8M	1,750	3	1.8M	1,750	180	$210M	$120K
Total	**10**	**675K**	**1,050**	**15**	**4.6M**	**4,840**	**25**	**5.2M**	**5,890**	**490**	**$330M**	**$56K**

**Sized by applying the typology gap by vacancy to the vacancy level of each building.*

Takeaways & Policy Considerations for Downtown Atlanta

CONVERSION IS NOT THE SILVER BULLET, BUT OPPORTUNITIES EXIST

With the right tools, certain buildings *can* convert, delivering more housing and increased affordability in Downtown, an area well poised for growth. The top 10 opportunities could yield around **1,500 units of mixed-income housing** and a reduction of 1.6M square feet of vacant office space at an estimated public subsidy cost of $48 million.

NEW OR EXPANDED FUNDING TOOLS ARE NEEDED

Conversions are still cost-prohibitive for most developers, and existing incentive tools fall short in meeting the funding gaps of many conversion candidates. Historic tax credits provide tangible benefits but are capped at the state level, lessening their effectiveness. A grant in the range of $25 - $65 per sq. foot could unlock convertibility in most underperforming buildings and enable a percentage of units to be affordable.

PUBLICLY-OWNED PARKING CAN BE A CATALYST

Parking is a significant hard cost for conversion projects due to lender requirements. Explore ways that the City to play **a more direct role in managing parking** Downtown, reducing conversion costs and unlocking more units.

TARGETED APPROACH WILL YIELD BIGGEST IMPACT

Peer cities have used an **RFP process** to target an incentive program for specific properties, enabling the City to remain in control of program scale, the ability to layer other funding sources, and the achievement of specific, policy goals.

Stakeholders have indicated that, aside from financial incentives, an expedited permitting process and investment in neighborhood amenities could make conversions more feasible.

Parking

- Despite no parking requirements in Downtown's SP-1 zoning, projects typically require on-site parking to obtain financing.
- While many office buildings in Downtown Atlanta have dedicated parking, others do not.
- Consider a City-owned parking structure for shared parking for conversions as well as City revenue.

Adjacent Investments

- Downtown Atlanta has historically been an office and government district with a focus on tourism, conferencing, and entertainment.
- Consider additional **investment at the street-level** can create a more vibrant, 24/7 neighborhood such investment in schools, daycare, grocery, small businesses, public safety, and open space.

Expedited Permitting

- A long permitting process increases developer risk and reduces likelihood of conversion.
- An expedited permitting process would reduce the amount of time before construction which would better control cost increases.
- Determine legality of a **fast-tracked permitting process for conversions** and potentially waiving the permit fee to signal a willingness to work with developers.

06

Appendix

The following initial assumptions were used as inputs in the model. Findings are currently based on these assumptions and are subject to change.

	Downtown North	Downtown Central	Downtown South
Office Rent (per SF per year)	$41.12	$26.11	$21.56
Vacancy	21.90%	24.50%	26.50%
Concessions	8.3%	8.3%	8.3%
OpEx as % of Revenue	30%	30%	30%
Rent Growth	1%	4.1%	0.54%
Cap Rate	12%	12%	12%

Source: CoStar, Developer Conversations

The following initial assumptions were used as inputs in the model. Findings are currently based on these assumptions and are subject to change.

	Downtown North	Downtown Central	Downtown South
Residential Rent (per SF per month)	$2.05	$2.17	$2.23
Vacancy	17.0%	9.0%	10.0%
SF/Unit	850	850	850
Concessions	0%	0%	0%
OpEx as % of Revenue	30%	30%	30%
Rent Growth	3.7%	2.4%	2.9%
Cap Rate	6.5%	6.5%	6.5%

Source: CoStar, Developer Conversations

The following initial assumptions were used as inputs in the model. Findings are currently based on these assumptions and are subject to change.

Unit Size	30% AMI	50% AMI	60% AMI	80% AMI
Studio	$453	$755	$906	$1,208
1 BR	$485	$808	$970	$1,294
2 BR	$582	$970	$1,164	$1,552
3 BR	$672	$1,120	$1,344	$1,793
Average*	**$548**	**$913**	**$1,096**	**$1,462**

Source: Invest Atlanta

The White House recently released a playbook summarizing existing and expanded programs that can be used to help fund office to residential conversions.

Department of Transportation (DOT)	Environmental Protection Agency (EPA)	Housing, Urbanization, and Development (HUD)
• Transportation Infrastructure Finance and Innovation Act (TIFIA) • Railroad Rehabilitation and Improvement Financing (RRIF) • Thriving Communities Program • Neighborhood Access and Equity Program	• Solar for All • National Clean Investment Fund • Clean Communities Investment Accelerator	• Community Development Block Grants • Housing Trust Fund • HOME Investment Partnerships

Downtown Atlanta Commercial-to-Residential Conversion Feasibility Study

January 2024