



## Key Factors for Commercial to Residential Conversions

# DC Has Location Specific Opportunities For Conversions

In 2020, OP evaluated the likelihood of commercial to residential conversions and found:

- Ward 3 has the greatest opportunity for both office and hotel conversions
- There may be targeted opportunities between Dupont Circle and Georgetown
- Opportunities in Central Washington are limited and most likely to occur in the West End and near Massachusetts Ave
- Some light industrial serving office buildings near the New York Avenue corridor may convert to residential in alignment with larger projects
- Hotel to residential conversions are most likely in the short-term for aging properties, such as the former Marriot Wardman Park Hotel

# Prior Work: Office to Affordable Housing Task Force

Between October 2018 and January 2019, DMPED convened the [Office to Affordable Housing Task Force](#)

The Task Force's final report found that:

- Office to residential conversions are uncommon in the District because most office buildings are only partially vacant, reducing the owner's incentive to convert.
- Conversions are most likely to occur outside of the central employment areas due to higher potential revenue for office uses in established submarkets.
- The commercial real estate industry's lack of familiarity with the residential conversion development model and its costs added uncertainty, reducing the likelihood of conversions.

# Commercial to Residential Conversions Describe a Range of Project Types That Offer Different Benefits

Type	Construction Cost Savings	Time Savings	Site Optimization	IZ Currently Applies
Office Adaptive Reuse				
Office Redevelopment				
Hotel Adaptive Redevelopment				
Hotel Redevelopment				
Retail Redevelopment				

# Macroeconomic Factors

## Indicate When Conversions Occur

Opportunity	Vacancy is high for commercial space and likely to remain high for the foreseeable future.
Demand	Vacancy rates are low for multifamily housing and likely to remain low.
Growth	Rents are increasing for multifamily housing, which justifies new supply.

# Microeconomic Factors

Indicate locations Where Conversions Occur

Commercial properties in an area have lost significant value	Residential rents are higher than commercial rents
Sites where land use regulations permit a larger building	Buildings with structure that are aligned with residential standards
Buildings with high vacancy rates or expiring lease for an anchor tenant	
New value overcoming construction costs	Risks associated with changing use

# Case Study of a Failed Conversion

- Property 1: Older office building in Central Washington
  - **Reason to Consider Conversion:** The building's single tenant occupant vacated the building and high office vacancy diminished the desirability of modernizing the building.
  - **Factors in the Failure to Convert:** The building's floor plate was too deep for enough daylight to reach apartments and nearby office buildings of similar height were too close to afford open views needed to secure high enough rents to justify conversion.

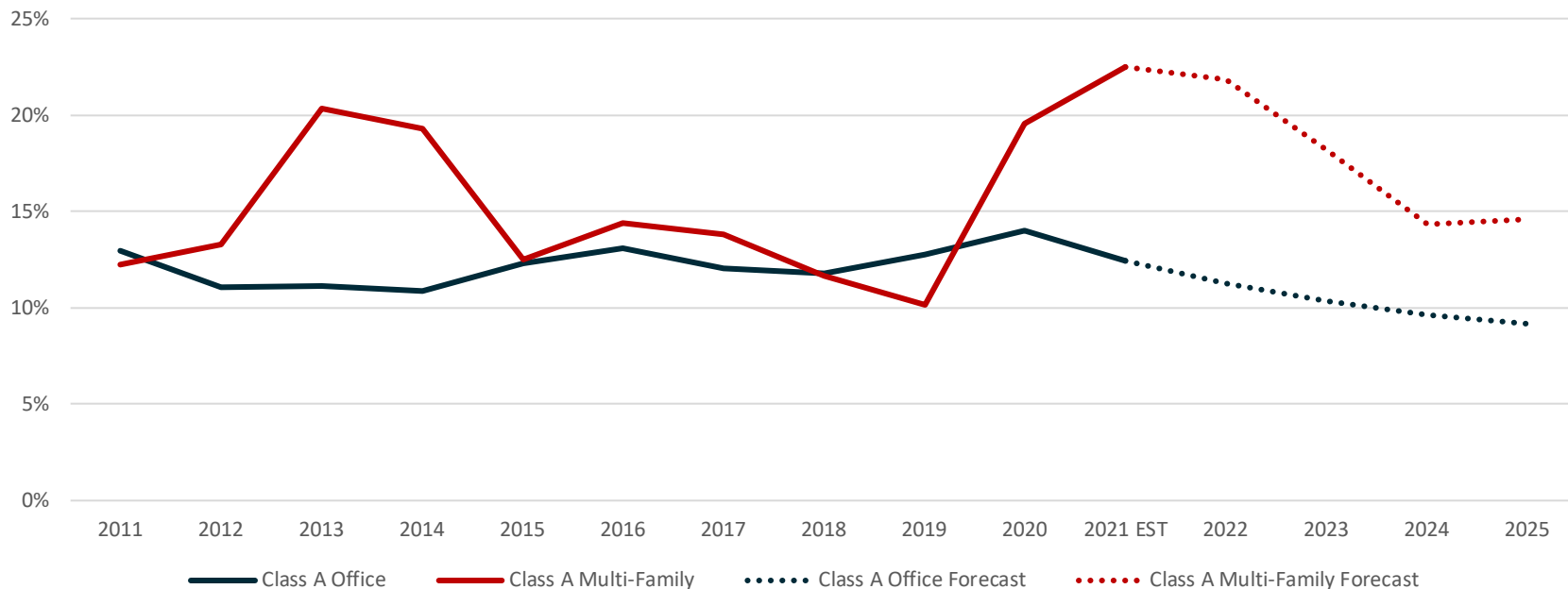
# Case Study of a Failed Conversion

- Property 2: A hotel in the Near Northwest Planning Area
  - **Reason to Consider Conversion:** The property was not meeting the owner's revenue expectations after a series of improvements designed to increase the property's value.
  - **Factors in the Failure to Convert:** Recent capital improvements had not amortized sufficiently to support a use change. A contributing factor was the property's lack of expansion options under the District's land use regulations.



# Low Short-Term Demand for Office Space and Apartments

Annualized Class A DC Office and Multi-family Housing Vacancy Rates

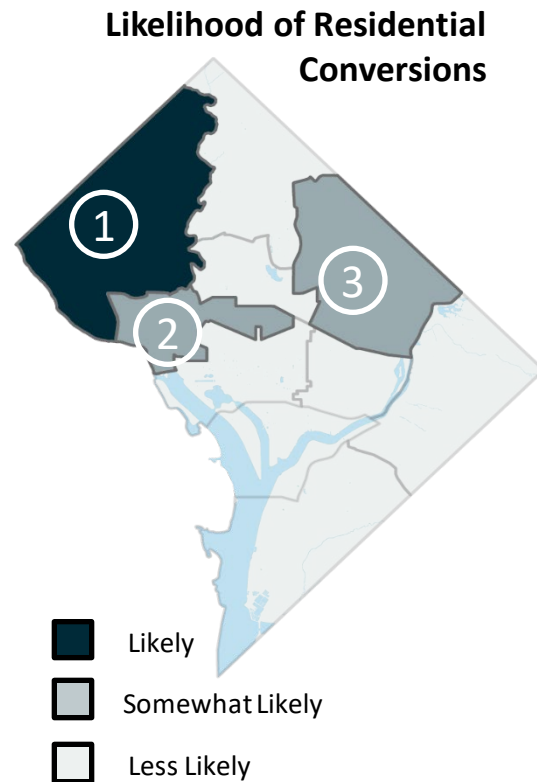


# Market Feasibility for Conversions by Planning Area

**1 ) Rock Creek West:** The spread between commercial and residential rents is most favorable for conversion in the Rock Creek West Planning Area, which also has a declining office market.

**2) Near Northwest:** has a slight residential price advantage and an office market experiencing strong competition to fill vacant space. Expansion capacity is often limited in the planning area reducing the likelihood of conversions.

**3) Upper Northeast:** Over time, office buildings serving light industrial uses are likely to convert to residential as part of larger projects.



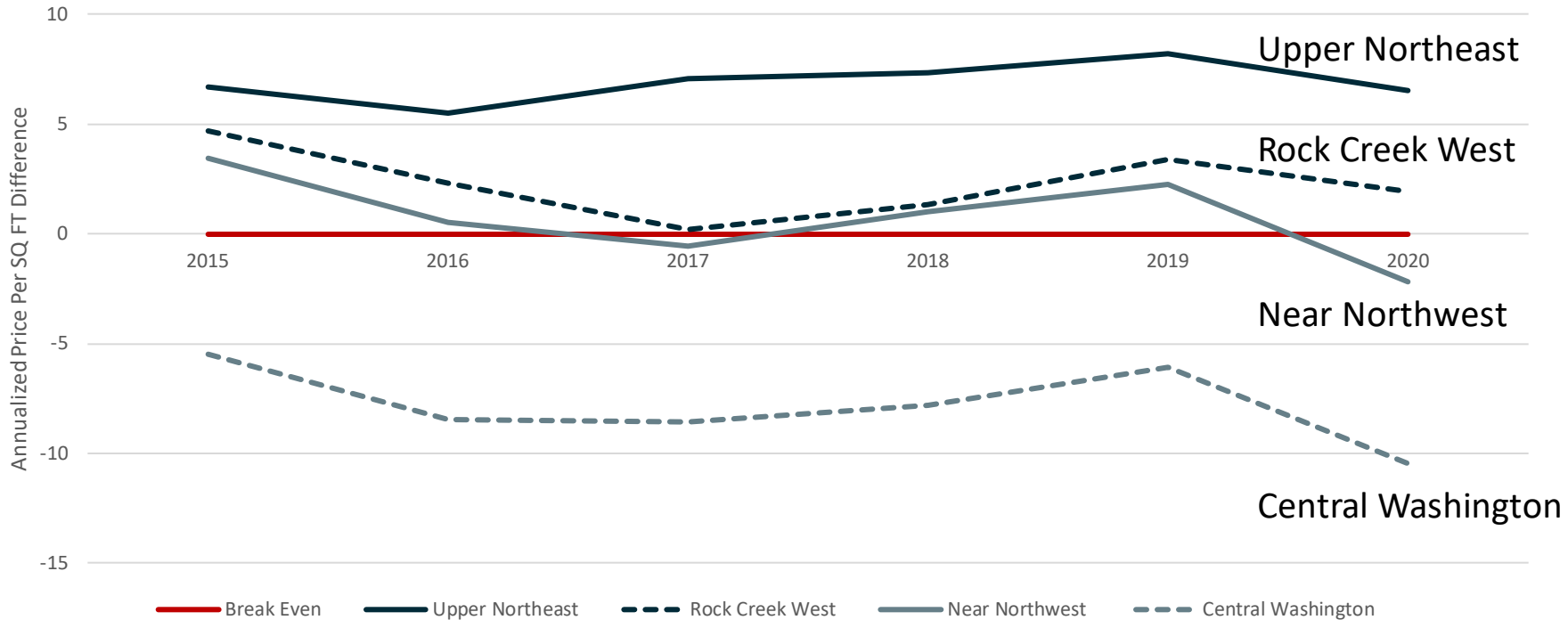
# Comparison of Multi-Family and Office Rents by Planning Area: Annualized on a Per Square Foot Basis

Planning Area	Rock Creek West	Near Northwest	Central Washington	Upper Northeast
Class A Multi-Family to Class A Office	(\$4.56)	(\$13.01)	(\$23.46)	N/A
Class A Multi-Family to Class C Office	\$1.95	(\$2.19)	(\$10.44)	\$6.55

Source: OP Analysis of CoStar Q4, 2020 data

# Class A Multi-Family and Class C Office

## Break Even Analysis of Rent by Planning Area

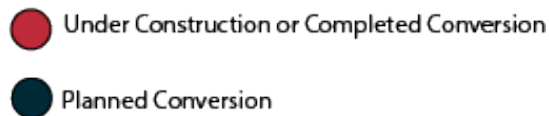


# Planned and Complete Conversions

Most planned commercial to residential conversions are in **Rock Creek West**

The 2 conversions in **Central Washington** were of historic buildings originally designed with narrow floor plates for light and air access.

The 3 conversions in the **Lower Anacostia** were of dated federal office buildings located beyond established office markets.



# Taking Action

The District is building a series of tools informed by ongoing research to maximize opportunities for affordable housing when conversions do happen.

These tools include:

- **IZ Plus** – Generates affordable housing when zoning changes
- **IZ XL** – *Pending Zoning Commission Review*. Includes affordable housing for conversions outside of downtown.
- **Tax Abatements for Affordable Housing in High-Need Areas** – Encourages affordable housing production in amenity-rich neighborhoods
- **Continued Monitoring** – To identify emerging opportunities for affordable housing production

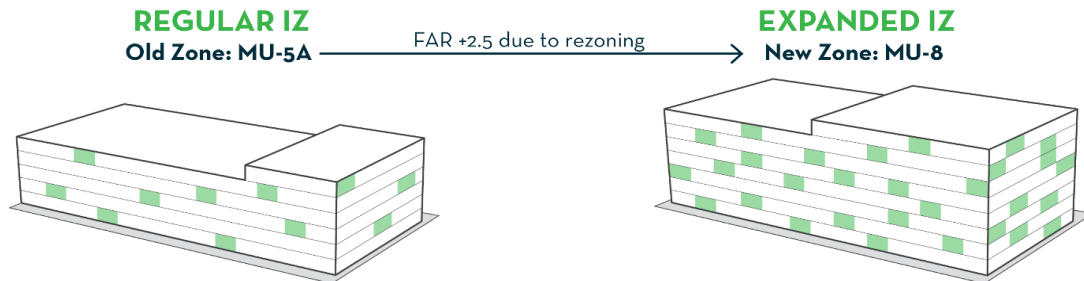
# Appendix

- IZ Plus
- IZ XL
- Downtown Residential Zoning
- List of Commercial to Residential Conversions
- Comparison of Rents by Planning Area

# How IZ Plus Works

Increasing percent affordability required based on density gained through rezoning

<u>Type of Map Amendment</u>		<u>Set-Aside Req't</u>
<u>PDR zone or unzoned to an ARTS, CG, D, MU, R, RA or RF zone</u>		<u>20%</u>
<u>Any zone other than PDR to a D zone without a prescribed residential FAR</u>		<u>20%</u>
<u>All Other Map Amendments - Percent Increase in Total FAR Utilized as defined in Subtitle C § 1003.5(b)</u>	<u>More than 20% up to 40%</u>	<u>14%</u>
	<u>More than 40% up to 60%</u>	<u>16%</u>
	<u>More than 60% up to 80%</u>	<u>18%</u>
	<u>More than 80%</u>	<u>20%</u>





# Revisiting Inclusionary Zoning: IZ XL

## Apply IZ to previously exempt zones and buildings

**Previously Exempt Zones** – due historic character, height, or federal interest

- Set Down: January 28, 2021
- Public Hearing: April 26, 2021

**Conversions Outside Downtown** – Non-Residential to residential

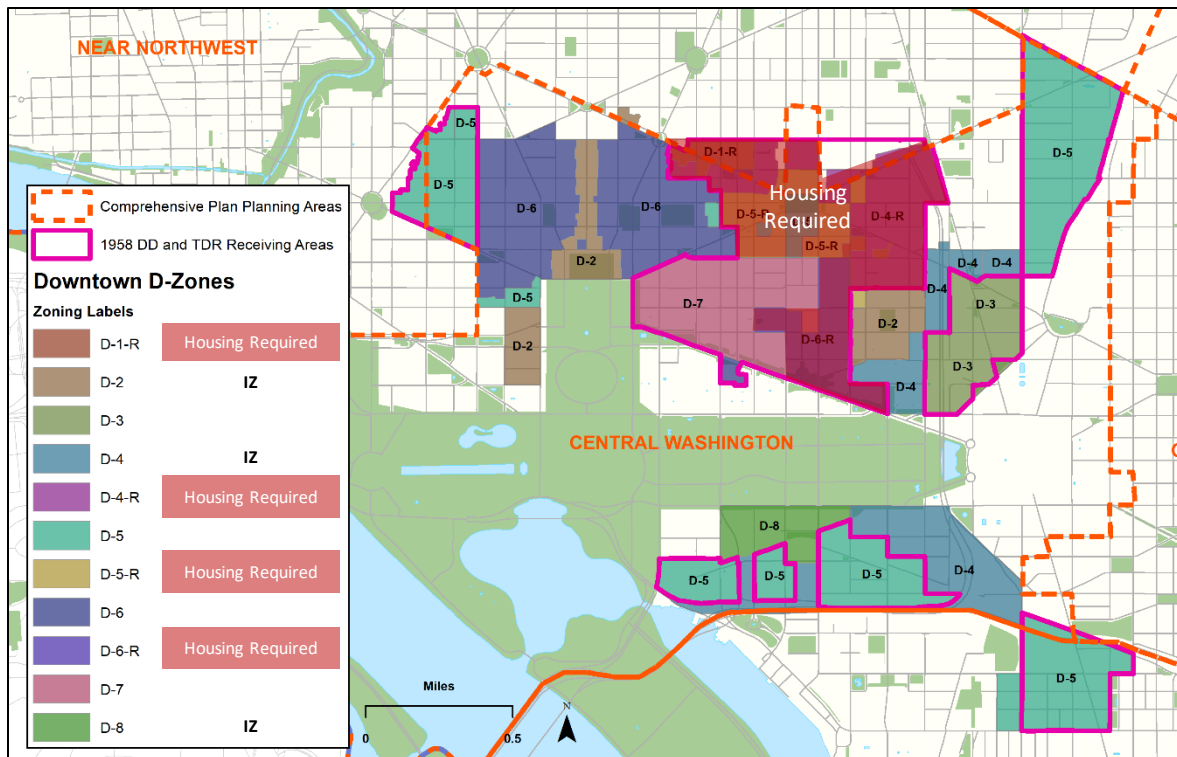
- Set Down: Expected March 11, 2021
- Public Hearing: TBD

**Downtown:** – Complex zoning and Height Act limitations

- Set Down: Expected Late Spring/Early Summer
- Public Hearing: TBD

# Downtown Housing Zoning Incentives

## Central Washington D-Zone Areas



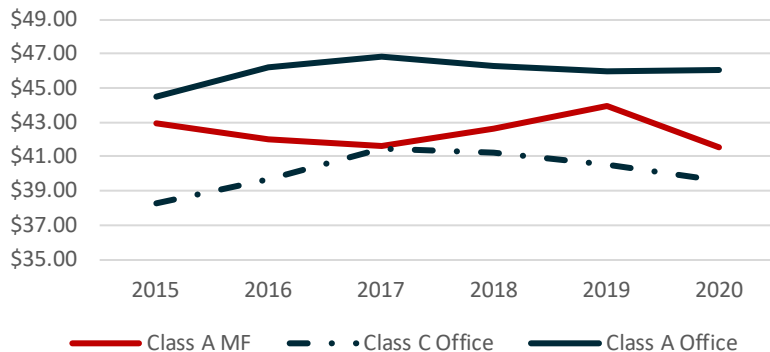
- D-Zones permit more housing than commercial
- Housing minimums required in core of Old Downtown
- Housing permitted saleable 'Credits' to permit more office density
- 2x credits for affordable projects

# List of Commercial to Residential Conversions

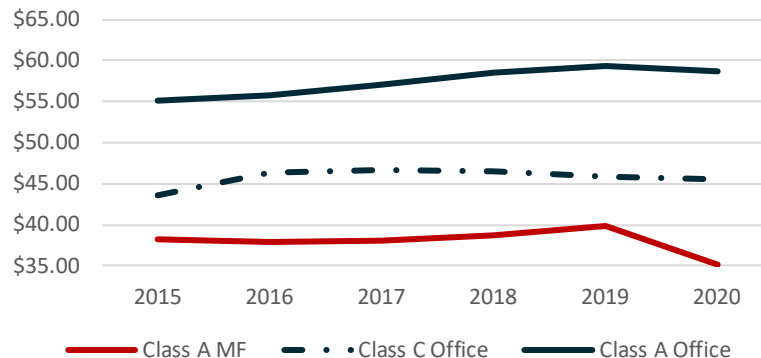
Year	Address	Name	Status
2006	4101 Albemarle St NW	Cityline	Complete
2008	733 15th St NW	The Woodward Building Apartments	Complete
2009	1255 25th St NW	West End 25	Complete
2013	1151 Fourth St SW	Lex at the Waterfront	Complete
2014	1150 Fourth St SW	Leo at the Waterfront	Complete
2017	2501 M St NW	2501 M	Complete
2018	1255 22nd St NW	Legacy West End	Complete
2018	4000 Brandywine St NW	Frequency	Complete
2018	1108 16 St NW	Adele	Complete
2021	2100 2nd St SW	River Point	Complete
2021	1900 Half St SW	Watermark at Buzzard Point	Complete
2021	3900 Wisconsin Ave NW	City Ridge	Under Construction
2022	4620 Wisconsin Ave NW	Broadcast	Under Construction
2021	515 22nd St NW	The Wray	Under Construction
TBD	4000 Wisconsin Ave, DC		Planned
TBD	5151 Wisconsin Ave, DC		Planned
TBD	1724 Kolorama Rd NW, DC		Planned
TBD	300 12th ST SW, DC		Planned
TBD	2225 Georgia Ave NW		Planned

# Commercial Rents by Planning Area

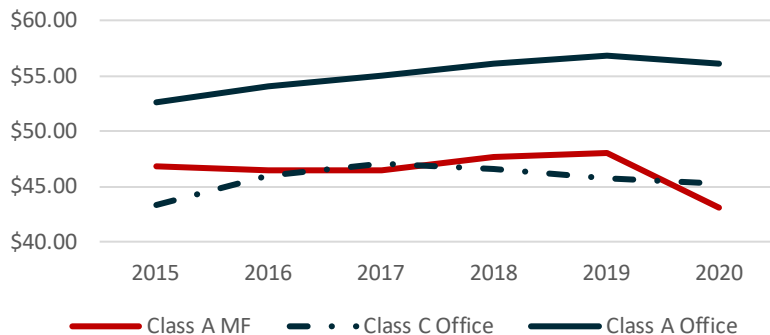
## Rock Creek West Rent Spreads



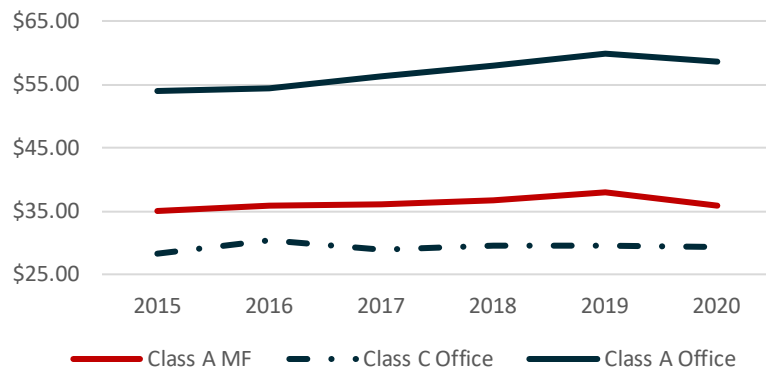
## Central Washington Rent Spreads



## Near Northwest Rent Spreads



## Upper Northeast Rent Spreads



Source: OP Analysis of CoStar data