EXPLORING CONVERSION OPPORTUNITIES IN HALIFAX REGIONAL MUNICIPALITY

3.27.24

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Commercial Conversions

What are Commercial Conversions?

- **Commercial to residential conversion refers to the process of repurposing a commercial and other non-residential property into residential.**
- **A way of reimagining the use of an existing building.**
- **Conversions of underutilized spaces to new uses, often called "adaptive reuse" projects.**

Governments across Canada are exploring commercial conversions as a way of helping solve the housing shortage

There are several factors driving conversions:

- **Very low residential vacancies** in several major cities across Canada and the US.
- **High commercial vacancy rates** in particular in downtown cores

2023 a Turning Point for Conversions, Opportunity for 22K Housing Units Across Canada

Uptick in Conversions in 2023

- **Governments are pursuing commercial conversions as a strategy to both increase residential capacity and decrease commercial vacancy.**
- **Several markets have either announced or have already begun converting certain office towers into residential spaces.**
- **Commercial vacancies in excess of 10% present an opportunity for conversion, however there are several other factors to be considered**

There is significant opportunity for conversions in Canada

- Avison Young 1/3 of office buildings in major cities
  - 923 in Toronto, 521 in Calgary and 286 in Ottawa.
- Canadian Urban Institute (CUI) 130 buildings **22,000 housing units**.
  - Opportunity for conversions in Halifax **625-840 units per CUI**
- According to McKinsey even if all vacant office buildings were converted to residential space in urban areas, available housing in the major cities would increase by only 3 %

Office conversions are not the panacea for housing shortages but they are part of the solution.

Source: McKinsey Article – No Quick housing Fix, August 28, 2023

If Conversions are a solution to the Housing Shortage…Why aren't there more Conversions?

Conversions have been slow to materialize

Complexity: It is often easier and less expensive for developers to build new than it is to convert an existing building.

Suitability: Not all buildings are suitable for conversion floor plate, size, age and amenities Must be considered.

Cost to Retrofit: Commercial buildings have different layouts often require all new plumbing electrical and HVAC.

High Risk: Conversions are not always straightforward and have unforeseen risks.

…..for a number of reasons

Building Code Requirements: Residential building code requirements (fire, energy efficiency, minimum room sizes, etc). are different than commercial building code.

Regulatory & Zoning Restrictions: Regularly environments are not always supportive of conversion.

Revenue: Commercial properties often command a much higher rental rate than residential properties.

Conversion Economics: Developers are often challenged to make the economics for conversions work.

https://alts.co/the-economics-of-office-to-residential-conversions/ The **Economics of Office-to-Residential Conversions**

https://www.theglobeandmail.com/business/industry-news/property-report/article-office-conversion-to-housing-costly-say-developers/

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In addition to Challenges, Conversions provide many Benefits

Benefits of Conversions

Speed: Conversions can be completed in 12-18 months less than new construction.

Environmental Benefits: Result in significant Green House Gas (GHG) savings over new construction.

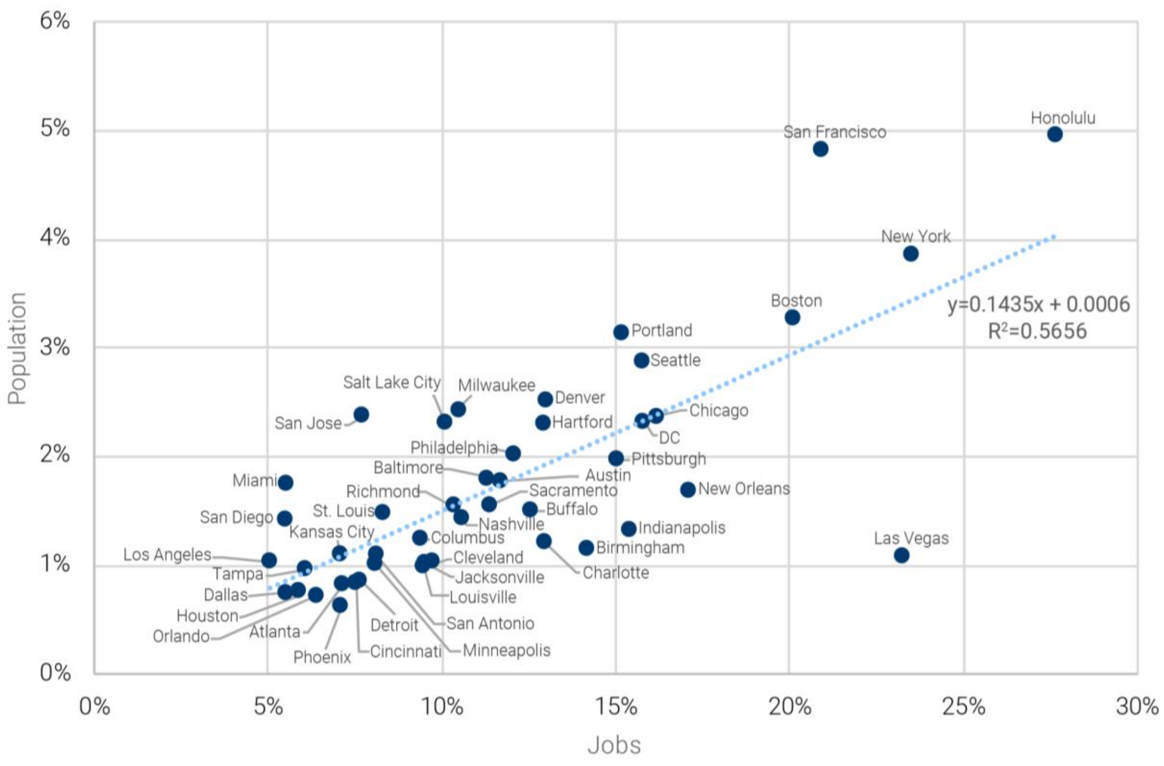
Optimize Assets: Conversions are a way of utilizing underutilized space/assets.

Increased Economic Activity: Conversions are important for downtown revitalization.

Every $1 invested in incentives in Calgary returned $4 in economic benefit.

Housing Strengthens Demand for Offices Rather than Replacing It

Regional shares of population and jobs, top 45 US downtowns by size (jobs), 2019



Source: Bookings analysis of 2019 LEHD Survey and 2020 Census

https://www.brookings.edu/articles/myths-about-converting-offices-into-housing-and-what-can-really-revitalize-downtowns/

Conversions are Being Encouraged with Incentives and Regulatory Changes Across North America

Direct Incentives

- **Calgary** committed $153 million to help turn offices into residential. Offering a **$75 sf (square foot) subsidy**. Under the program 1,472 units will be created (~$104K/unit)

Tax Incentives

- **New York** created the 421-g Tax Incentive provided a **100% tax incentive during construction (up to 3 years) and for the next 25 years**.
    - Program generated over 12,000 units, lower Manhattan between 1990 and 2020.
- **Philadelphia** provided a 10-year tax abatement that converted 8.2 million sf from over 40 office building between 2000 and 2020.
- **Washington, D.C.** introduced a 20-year tax abatement to property owners
- **Boston** recently announced a tax abatement of up to 75% of the standard tax rate up to 29 years for conversions.

Financing

- **Wisconsin** is granting interest-free state loans of up to $1 million for conversion office buildings into affordable housing.
- **Chicago** is offering $197 million in tax-increment financing to cover costs of conversion of underutilized office buildings.
- **California** approved $400 million in incentives for commercial-to-residential conversions, including $105 million for affordable and market-rate housing.

Process & Regulatory

- **Ottawa** passed a resolution to **reduce building permit** wait times for developers if 20% of the units are affordable.
- **San Francisco simplified the approval process** and requirements for conversions reducing processing time 6-12 months. They also provide for alternative paths for code compliance.
- **Minnesota** introduced a **deemed approval process** whereby applications are deemed to be approved under standard conditions when a decision does not meet mandated timelines.

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Conversion Criteria

What Makes Conversion Successful?

Criteria for Successful Conversions: old, vacant and floor plate size

Since 2016, CBRE has completed 89 conversions in the US.

Converting a building of any age is possible however because of challenging economics, developers tend to target older buildings.

Older, pre-war buildings are attractive targets Conversion costs are lower because the offices layouts are close to how apartments should be organized

- **They tend to fall in the Class B and Class C**

According to commercial real estate firm Avison Young , older buildings are candidates because they often have more equity built up which can be used to fund the renovations

	Median Year Built	Avg. Floor Plate (SF)	Avg. Building Vacancy Before Conversion
Conversions	1941	13,128	57%
All Office	1989	19,750	14.3%

* 2000-2022, all markets. Data from Dodge Data & Analytics. All office vacancy rate for Sum of Markets 2000 to 2022.

Source: https://www.usgbc.org/sites/default/files/2023-09/Commercial-to-Multifamily-Conversions-Anthology-September-Final.pdf

Criteria for Successful Conversions: Building Type, Location, Policy, Market & Economics

In its report, "Case for Conversions" Canadian Urban Institute (CUI) has identified several enabling conditions for conversions.

CUI's criteria focus on the policy and regulatory context, as well as building, financial and economic market conditions and provides a fulsome approach when considering conversions.

Building Types

- Shallow floor plates, historic character
- Operable windows or ease of replacement
- Updated or flexible mechanical systems
- Servicing, conducive building envelope (not requiring a reskinning)

Location of a Building

- Proximity to amenities
- Essential services
- Separated from incompatible

Policy/Regulatory Context

- Policy support
- Flexible zoning
- Downtown residential intensification goals
- Streamlined development approvals
- Climate goals

Financial, Economic and Market Conditions

- Programs
- Incentives
- Market conditions that support conversion (high housing demand and/or high office vacancy, aging or obsolete office buildings)

Criteria for Conversion: Building Conversion Potential

Gensler Architects has developed a tool that rates a building's conversion potential based on the weighted cost criteria. It was used by CUI

Evaluated over a 1,000 buildings across North America

Buildings that score >80% are ideal candidates for conversion.

This tool also estimates the Green House Gas (GHG) savings from conversion.

- ***Consider using Gensler's assessment tool to assess the conversion potential in HRM***

Floor Plate 30%	• Window to core distances between 24 to 50 ft • **40 ft** considered ideal. • One elevator per 100 units considered desirable.
Building Form 30%	• Floor plate dimensions impacts circulation, egress and unit layout • **Rectangular** floorplates most desirable
Servicing 20%	• Conversion potential increases with existence of: a loading area, parking & a centralized mechanical room
Site Context 10%	• **Walk and transit** scores assessed to understand compatibility of building location • Impact of surrounding properties such as: shadowing, view corridors & direct natural light

Envelope 10%	• **Façade:** Does it need to be replaced? While façade replacement does not prevent a conversion, it increases the **cost of projects** & extends project schedule
	• Buildings with curtain wall systems are less desirable than those with punched, operable windows.
	  • Window walls are built one floor at a time & are supported by the slabs above & below
	  • Curtain wall are structurally independent and are build outside the slab edge. Curtain walls aren't typically operable. There's also an issue with fire stopping & noise pollution.

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Criteria for Conversion: Financial Feasibility is often the Deciding Factor

Most analysis of conversion is based on the physical structure

…but the financial feasibility is often the deciding factor for conversions.

If economics don’t work, the project will not proceed.

If the building is not ideal for conversion but economics are favorable conversion can be completed.

While office-to-residential conversions seem attractive, they only make financial sense in certain situations.

Finding a suitable return on investment (ROI) for conversion project is critical.

To do so developers need to find assets with:

1. An attractive original cost basis
2. Low cost of conversion
3. High net operating incomes (NOI) for residential properties

Source: https://www.usgbc.org/sites/default/files/2023-09/Commercial-to-Multifamily-Conversions-Anthology-September-Final.pdf

Framework for Assessing Conversions

There are four key questions that need to be asked to assess conversion potential:

1. **Is it possible?**
   - Is regulatory environment favorable?
2. **Are market conditions favorable?**
3. **Are there suitable conversion candidates?**
   - Are there buildings with right characteristics?
4. **Is it financially feasible to convert?**
   - Does the project provide required ROI for investors?

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HRM Market & Conversion Opportunity

Applying Conversion Framework to HRM

1 Is it possible in HRM?: Regulatory Environment Favorable for Conversions

Halifax has been progressive in terms of removing restrictions for conversions in the Center Plan, allowing as of right conversions and removing parking restrictions.

HRM recently announced changes to support residential conversions in the Regional Center.

- **Commercial to residential conversions in Downtown Halifax (DH Zone) and Downtown Dartmouth (DD Zone) are exempt from the following:**
  - **Amenity Space.**
  - **Unit Mix.**
  - **Development permits (where the built form is not changing).**

- Generally, the environment is favorable for conversions.
- More can be done to remove regulatory and process burdens to facilitate conversions.
  - Current zoning restrict commercial conversions in suburban areas.
  - Reduce permitting timelines.
  - Reduce fees and taxes.

2 HRM Market is Favorable for Conversions with Low Residential Vacancy & High Rents

Very Low Residential Vacancy

Halifax's rental vacancy rate sits at one per cent, or the second lowest in Canada according to CMHC's annual report.

The city's turnover rate is 11 per cent, the second lowest nationwide.

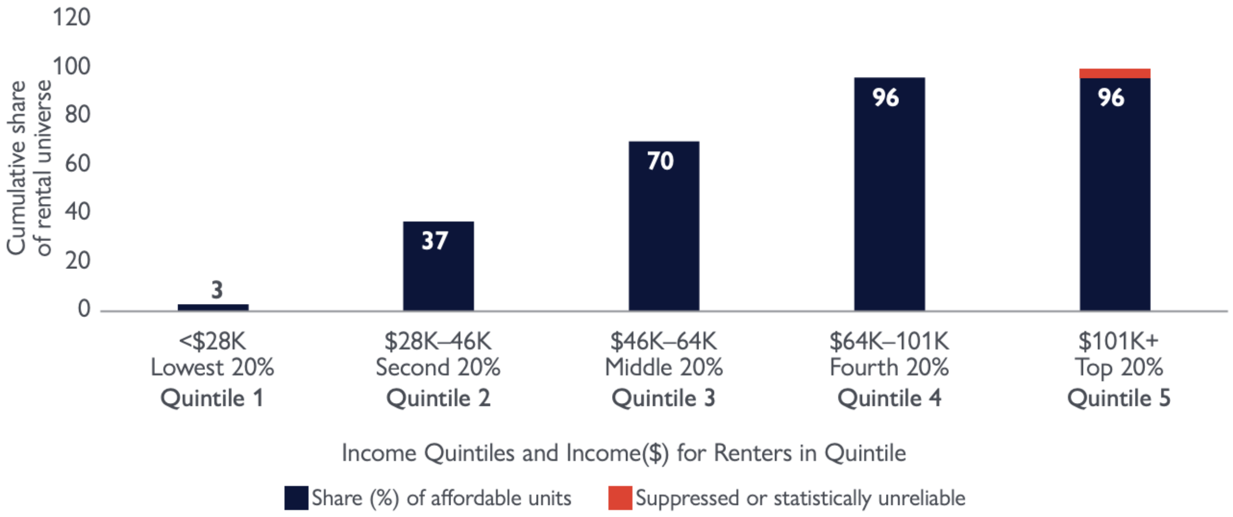
Rapid Increases in Rent

Halifax is the most expensive Canadian city to rent a one- or two-bedroom apartment anywhere outside of Greater Toronto or Vancouver according to the latest Rentals.ca report.

Lack of Affordability a Challenge Especially for Low Incomes

Only 3% of rentals available for 20% of population earning <28K

Figure 2 Percent of rental units in Halifax affordable for each income quintile, 2022



Source: CMHC, Statistics Canada

Market: And High Commercial Vacancy in Downtown Halifax and Dartmouth

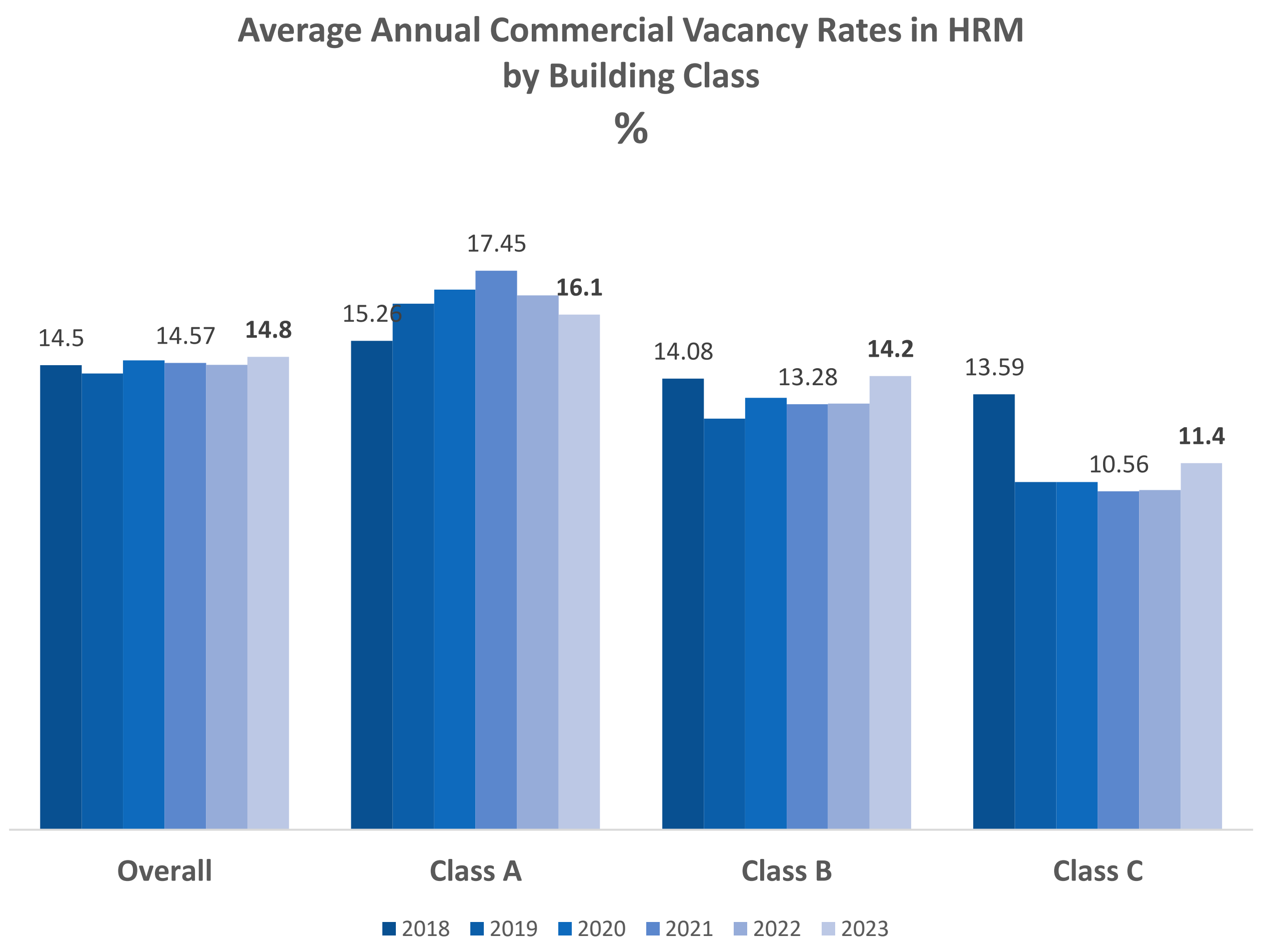
The Halifax office market has remained fairly stable over the last few years

Downtown Halifax Class A commercial vacancy rate high at 21.2% in Q1, 2023 or 576,060 sf in 14 buildings

- Class B vacancy was 14.1% or 327,095 sf across 34 buildings
- Class C vacancy low at 1.5% or 5,171sf in 10 buildings.

Dartmouth Class A commercial vacancy rate increased to 14.1% in Q1, 2023 to 257,895 sf in 28 buildings

- Class B vacancy was 10.4% or 128,613 sf across 27 buildings and
- Class C vacancy was 15.5% or 54,496 in 45 buildings.



Source: Colliers, Halifax Office Market Report Q1 2023.
Turner Drake & Partners Ltd, Office Market Survey, Greater Halifax, June 2023.

Market: Commercial is Market Small, but Opportunity Exists

2

Halifax commercial market is small relative to other cities.

Commercial building ownership is concentrated.

HRM has some of the oldest commercial real estate in the country and less density than other major cities.

Unlike the other cities across Canada, Halifax has high vacancy in Class A buildings, which may be less likely to be converted given the quality of the office space.

- Despite high commercial vacancy rate, **very few buildings have a vacancy of 50% in HRM**.
- There has been some **flight to quality** in market, likely more to come with high Class A vacancy in some buildings.
- High commercial vacancy rates is not deterring developers from considering **new developments in HRM particularly outside the downtown core**.
- **Expiring leases have potential to increase vacancy** in HRM. Brokers from the leading commercial real estate firms do not believe there will be significant increases in vacancy from expiring leases.
- Employers are **changing the way they utilize office space** allowing more flexible configurations and amenities to entice workers back to the office.

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2 Market: Conversions Happening Organically - 441 units completed /in process…

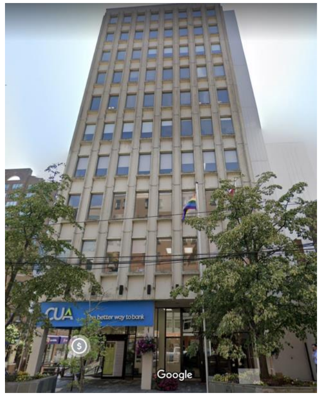
<u>Conversions are happening organic</u>ally in the market as opportunistic developers carve out a niche in this space and larger players with commercial and residential portfolios are opting to convert aging assets

<u>Six buildings totaling 441 units</u> are in the process /or have been converted in Halifax and Dartmouth.

Conversions have been completed in other jurisdictions in NS.

<u>Two more buildings</u> are in the planning stages, Unit count estimated to be 100+.

	Purchased	Completion	Status	Units
Agency Arts Lofts fka Centennial Building* 1660 Hollis Street, Halifax	2021	2025e	In process	141
The Muse CUA Building 5670 Spring Garden Road, Halifax	Owner Build	2023	Complete	85
The **Green Lantern** 1585 Barrington Street, Halifax	2015	2023	Complete	62
The Shuffle formerly Maranova Hotel 65 King Street, Dartmouth		2023	Complete	79
The Dillon 1619 Sackville Street, Halifax		2014	Complete	39
The Tramway 1598 Barrington Street, Halifax	Owner Build	2024e	In process	35



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2 Market: More opportunity for Conversions in Downtown Halifax and Dartmouth

Conversion Opportunity Overall Vacancy

The goal is to encourage residential conversions while maintaining a healthy commercial market.

The conversion opportunity looking at overall vacancy in commercial market is 255 to 340 units in Downtown Halifax and Dartmouth.

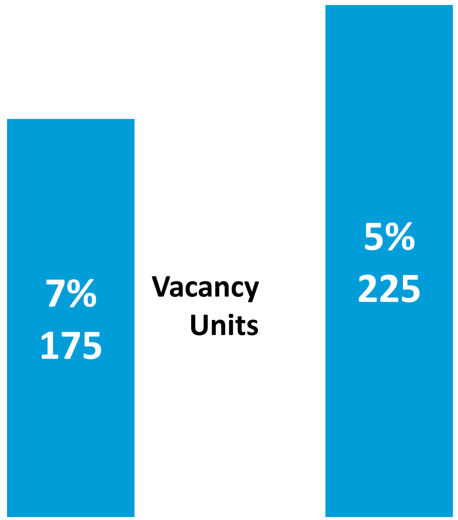
Additional opportunity may be created

- flight to quality.
- existing leases expire and market adjusts to new working conditions.

OVERALL MARKET OPPORTUNITY @ VACANCY of 5% - 340 UNITS.

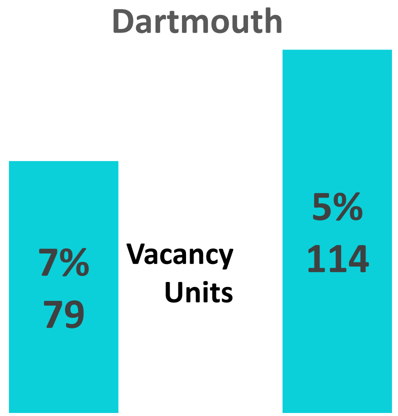
Downtown Halifax Class B

Total Market Class B: 2.3M sf
Vacancy: 14.1% Q1, 2023



Dartmouth Class B & C

Total Market Class B: 1.2 M sf
Vacancy: 10.4% Q1, 2023
Total Market Class C: 0.38 M sf
Vacancy: 15.5% Q1, 2023



The following assumptions were used in this analysis:

Assumptions:

- Healthy commercial market vacancy 5-7% based on interviews with top commercial brokerages and developers.
- Class B&C buildings only.
- Class C in Halifax had a vacancy of 1.5% in Q1, 2023 and was not included in this analysis.
- Utilization is 80%
- Average unit size is 750 sf
- Analysis does not include municipal, provincial or federally owned government buildings

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3 Suitable Buildings: CUI Identified 4 buildings for Conversion - 625-840 units,

In its report ”Case for Conversions”, the CUI quantified the opportunity for conversions as 4 potential buildings in Halifax

CUI evaluated 5 potential buildings for conversion representing 625-840 units.

Three of these buildings had a low suitability for conversion score.

This analysis did not include Dartmouth.

CUI’s analysis included Class A buildings and did not include building vacancy thus numbers needs to be confirmed. CUI’s analysis focused on overall opportunity.

Individual building vacancy information needs to be added to the analysis.

Building Types & Suitability for Conversion

Typology	Compatability	Floor Plate	Form	Services	Context	Envelope
Brutalist Concrete	82/100	9	10	4	9	7
Low-rise Concrete	72/100	5	10	3	8	8
Low-rise Concrete	70/100	8	8	6	7	6
Steel Frame	68/100	2	10	7	8	9
Challenging	53/100	2	10	6	9	2

Total building potential: 4-7 [1]
Total conversion potential (SF): 370,000-530,000 [2]
Total potential units: 625-840
Case examples: 3

1 1st number based on modelling by Gensler. 2nd number includes those identified by stakeholders.

2 As 2 buildings are below 70/100, buildings identified by stakeholders would need to have some feasibility to meet unit estimate. Includes buildings identified by stakeholders – have not been modelled for feasibility.

Canadian Urban Institute

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3 Suitable Buildings: Building Vacancy Target 50%...min Starting Point 25%

A building-by-building analysis was completed using vacancy as potential for conversions.

A vacancy rate of a minimum of 25% with the view that this number could be increased to 50% with expiring leases or by moving existing tenants.

Building attributes, amenities and location were then factored in to determine opportunity.

INDIVIDUAL BUILDING VACANCY

OPPORTUNITY ~312 ADDITIONAL UNITs

DOUBLE THAT IF BUILDINGS FULLY VACANT

As with the overall market analysis the goal is to encourage residential conversions while keeping the commercial market healthy.

There are a **limited number of buildings with vacancy greater than 25%** in Halifax and Dartmouth.

Those with high vacancy ere **generally larger buildings with > 100K sf**.

If all of the Class B & C Buildings with a vacancy greater than 25% and larger than 25,000 sf were converted the **opportunity would be 625 units**.

- Conversion of 625 units would result in very low commercial vacancy.

A more likely scenario is that **50% of the space** would be converted initially, representing ~**312 units.**

- The top 3-5 candidates for conversion could generate 300 units if converted.

4 Financial Feasibility: High Original Cost Basis. Conversion Costs & Favorable NOI

Finding a suitable return on investment for conversion project is critical.

Developers need to find or convert assets with:

1. An attractive original Cost Basis
2. Low Cost of Conversion
3. High Net Operating Incomes (NOI) for Residential Properties

Buildings in downtown Halifax have a **high original cost basis**.

- In **Calgary**, acquisition costs are in the range of **$40-$60 sf.**
- In **Halifax** costs range from **$110-140/sf.**

Conversion costs are high:

- Halifax's building construction prices for high-rise apartments increased 5.7% from Q2 2022-Q2 2023.[1]
- According to CBRE, in the US conversion costs range from $100 to $500/sf exceeding the cost of new construction.**$320/sf.**
- In Calgary, conversions costs in range from **$260-365 sf**.
- In downtown Halifax, new construction costs is **$500K-600K**

NOI for residential buildings is high

- Downtown apartments can command rents in excess of $3,500 per month for a 800 sf apartment.
- In HRM Class B rent avg of $14.13/sf net absolute rent with gross rent avg. of $27.67/sf. and taxes avg $4.08/sf.

https://alts.co/the-economics-of-office-to-residential-conversions/ The Economics of Office-to-Residential Conversions

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Halifax Potential for Conversion

1 Is it possible?	▪ Regulatory environment is favorable for conversions
2 Is market favorable?	▪ Market need strong but costs and labor in short supply. ▪ High residential rental with low vacancy.
3 Are there suitable conversion candidates?	▪ Commercial market small. Limited number of buildings ▪ Very few with high vacancy.
4 Is it financially feasible to convert?	▪ Cost of acquisition high. ▪ Conversion costs high. ▪ Rental operating income favorable.

❖ ***Incentives could expedite the conversion of remaining buildings***

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There many types of Incentives that could be Created to spur Conversions for Public Benefit

There are many different types of incentives which may be provided to facilitate conversions such as:

- Building feasibility assessments
- Tax abatements
- Direct subsidy
- Government grants of land and other assets
- Modernized zoning and accelerated permitting.
- Building fees waiver

<u>Tax Abatement</u>

- Offer property tax abatements for conversion projects:
  - Full tax abatement during construction.
  - Full or a % reduction for 20 years.

Criteria

- Short eligibility period: Projects started 2024 - 2026.
- Conversions must create a minimum of 25 units.
- Limit the number of projects to 5 or 500,000 sf.
- Simplify approval process and provide staff with authority to approve.

<u>Direct Subsidy</u>

- A meaningful incentive would be in the range of $30-50.
- At $30, the cost would be $9M with a target of 300,000 SF or creating 300 units. $30K/unit.
- Model after Calgary simple requirements & approval
- Short eligibility period: 2024-2026. Projects must begin within 6 months after approved application.
- Simple process. Small committee to approve application. Model after Calgary.
- Do not include affordability requirement.

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Questions & Feedback?

Framework for Assessing Conversions 1 Regulation

There are four key questions that need to be asked to assess conversion potential:

1 **Is it possible?**

- Is regulatory environment favorable?

2 **Are market conditions favorable?**

3 **Are there suitable conversion candidates?**

- Are there buildings with right characteristics?

4 **Is it financially feasible?**

- Does the project provide required ROI for investors?

:

Is it possible?

- Is policy & **r**egulatory environment supportive of conversions?
- Are waivers in place for common barriers for conversion – zoning, parking?
- Is the approval process fast and easy?
- Is there an effective process in place for code compliance?
- Are local staff knowledgeable about and supportive of conversions?

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Framework for Assessing Conversions 2 Market

There are four key questions that need to be asked to assess conversion potential:

1 Is it possible?

- Is regulatory environment favorable?

2

- **Are market conditions favorable?**

3 Are there suitable conversion candidates?

- Are there buildings with right characteristics?

4 Is it financially feasible?

- Does the project provide required ROI for investors?

Is the market favorable?

- Is there high commercial vacancy & decreasing lease rates and asset values?
- Is there low residential vacancy & high rental?
- Are Interest rates favorable & is lending environment favorable?
- Are there low material costs and consistent supply?
- Is there a sufficient, available labor pool and reasonable labor costs?
- Are tax rates favorable?
- Are there other global market conditions that might impact conversions?
- Is there a market opportunity?

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Framework for Assessing Conversions 3 Building

There are four key questions that need to be asked to assess conversion potential:

1 Is it possible?

- Is regulatory environment favorable?

2 Is there a market need?

- Are market conditions favorable?

3 Are there suitable conversion candidates?

- Are there buildings with right characteristics?

4 Is it financially feasible?

- Does the project provide required ROI for investors?

Is the building ideal for conversion?

- Building age: Was the building built pre-1990?
- Location: Is the building in a good location with access to transportation and other services?
- Building floor plate: Does the building have a floor plate of <15,000 sf? Is the floorplate layout conducive to good unit configuration and allow for good utilization? (optimize number of units)
- Vacancy: Is the building vacant? or at least 50% vacant?
- Building façade: Does it need to be replaced? Often façade replacement can impact feasibility.
- Can the electrical plumbing and mechanical features of the building be easily upgraded?
- Can the building be easily upgraded to new building code requirements?
- Does the building have good amenities and services?

Framework for Assessing Conversions 4 Return on Investment

There are four key questions that need to be asked to assess conversion potential:

1 **Is it possible?**
- Is regulatory environment favorable?

2 **Is there a market need?**
- Are market conditions favorable?

3 **Are there suitable conversion candidates?**
- Are there buildings with right characteristics?

4 **Is it financially feasible?**
- Does the project provide required ROI for investors?

Can the conversion provide the return on investment required for the developer business model?

- Equity investors require a significant return on equity.

Does the developer have the appetite for additional risks associated with conversions vs other projects?

Acquisition Costs

- What are the costs of acquisition for new or cost to service the debt for existing buildings?
- Is the current building vacancy favorable if not then what is required to reach a threshold (50%)?
- What are the terms of existing commercial leases? Are they prohibitive?
  - Can existing tenants be moved to another location? And if so what is the cost?

Construction Cost

- Can the building be renovated at reasonable cost?
- What is the cost of burrowing? Are there lending instruments available with right term and conditions?
- Is there Interest rate volatility?
- Are material costs reasonable and is there available supply?
- Is there sufficient labor and reasonable costs?
- What are the property tax rates and building fees? Are they reasonable?

Building Operation

- Are rental rates high enough to justify conversion?
- What are the ongoing operating costs and taxes?
- How long will it take to reach steady state?

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4 Financial Feasibility: Favorable NOI Possible Depending on Building Selected

Finding a suitable return on investment for conversion project is critical.

To do so developers need to find assets with:

1. An attractive original Cost Basis
2. Low Cost of Conversion
3. High Net Operating Incomes (NOI) for Residential Properties

High Net Operating Income (NOI)

Commercial real estate typically earns more per square foot than residential real estate.

- According to CBRE in the US in 2022, the average multi-family building had a 96.5% occupancy rate compared with an 83.7% occupancy rate for office buildings. And yet, the net operating income (NOI) per square foot was only $0.50 higher for apartments ($16 compared with $15.50.)
- In HRM Class B rent avg of $14.13/sf net absolute rent with gross rent avg. of $27.67/sf. and taxes avg $4.08/sf.
- Apartment rental rates have increased significantly in HRM since Covid. Downtown apartments can command rents in excess of $3,500 per month for a 800 sf apartment.
  - Further the taxation is less and the current lending environment is more favorable for residential construction.
- NOI for residential buildings is high and because of pent up demand buildings can be fully rented in a short period of time.

https://alts.co/the-economics-of-office-to-residential-conversions/ The Economics of Office-to-Residential Conversions

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4 Financial Feasibility: High Original Cost Basis

Finding a suitable return on investment for conversion project is critical.

Developers need to find or convert assets with:

1. An attractive original Cost Basis
2. Low Cost of Conversion
3. High Net Operating Incomes (NOI) for Residential Properties

Attractive Original Cost Basis:

The Halifax market is small with few vacant buildings and low turn-over. **The original cost basis is higher than some markets where conversions are happening.**

- In **Calgary**, where there is a surplus of vacant buildings, acquisition costs are in the range of **$40-$60 sf.**
- In **Halifax** , as an example the Centennial building was purchased in 2021 for **$16.65M for 151,628 sf or $110/sf.**
    - Other Class B buildings purchased downtown in the past 5-10 years were in the range of **$120-140 sf.**

Buildings in downtown Halifax have a **high original cost basis**.

Further the **current lending environment is unfavorable**, and cost of debt is at a 20-year high.

https://alts.co/the-economics-of-office-to-residential-conversions/ The Economics of Office-to-Residential Conversions

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4 Financial Feasibility: Conversion Costs High

Finding a suitable return on investment for conversion project is critical.

To do so developers need to find assets with:

1. An attractive original Cost Basis
2. Low Cost of Conversion
3. High Net Operating Incomes (NOI) for Residential Properties

Cost of Conversions

Construction costs have been increasing year- over-year in Halifax. Trades are in short supply and commanding premium prices.

- Halifax's building construction prices for high-rise apartments increased 5.7% from Q2 2022-Q2 2023.[1]

Conversion costs are high:

- According to CBRE, in the US conversion costs range from $100 to $500/sf. This can easily exceed the cost basis for developing an average new office building, which is about **$320/sf.**
- In Calgary, recent conversions costs in range from **$260-365 sf**.
- In Halifax, new construction costs in downtown range from **$500K-600K** per door, consistent with costs nationally.

The building carrying costs, costs to move tenants, and costs for leasehold improvements need to be added to construction costs.

Source: 1. https://novascotia.ca/finance/statistics/news.asp?id=19091
https://alts.co/the-economics-of-office-to-residential-conversions/ The Economics of Office-to-Residential Conversions

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4 Financial Feasibility: Favorable NOI Possible Depending on Building Selected

Finding a suitable return on investment for conversion project is critical.

To do so developers need to find assets with:

1. An attractive original Cost Basis
2. Low Cost of Conversion
3. High Net Operating Incomes (NOI) for Residential Properties

High Net Operating Income (NOI)

Commercial real estate typically earns more per square foot than residential real estate.

- According to CBRE in the US in 2022, the average multi-family building had a 96.5% occupancy rate compared with an 83.7% occupancy rate for office buildings. And yet, the net operating income (NOI) per square foot was only $0.50 higher for apartments ($16 compared with $15.50.)
- In HRM Class B rent avg of $14.13/sf net absolute rent with gross rent avg. of $27.67/sf. and taxes avg $4.08/sf.
- Apartment rental rates have increased significantly in HRM since Covid. Downtown apartments can command rents in excess of $3,500 per month for a 800 sf apartment.
  - Further the taxation is less and the current lending environment is more favorable for residential construction.
- NOI for residential buildings is high and because of pent up demand buildings can be fully rented in a short period of time.

https://alts.co/the-economics-of-office-to-residential-conversions/ The Economics of Office-to-Residential Conversions

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Exploring Incentives to Expedite Conversions

Are Incentives Required for Remaining Conversions?

Considerations for Incentives for Conversion in HRM

Discussion

- When thinking about incentives one must look at the what's happening in the local market.
- What are the current policies, rules and regulations for conversions?
- What is driving the need for conversions?
- For incentives to work, they need to be meaningful to the recipient and they should drive the desired behavior
- Incentive design needs to consider:
  - What is the intended benefit?
  - How long do these incentives, programs and policies have to be in place to achieve the desired goal?

Market Drivers for Conversion

- In the case of Halifax, the primary driver for conversions is the immediate need for housing.
- While increased vacancies in the commercial market are concerning, for Halifax these vacancies are primarily in Class A which are less likely to be converted.
- There is a delicate balance between the need for new housing units and the health of the commercial market.
- The Halifax market is small and it will not take much to shift the balance. For this reason, incentives should be targeted and limited in size and duration.

Preliminary Criteria for Incentives

- Create the maximum number of high-quality residential units with the right mix as fast as possible while maintaining a healthy commercial real estate market.
- Entice developers and building owners to actively pursue conversions in HRM.
- Consider the creation of affordable units if economically feasible; energy efficiency and accessibility.
  - Accessibility: The new building code will contain additional requirements for accessibility. Conversions will have to meet these requirements.
  - Conversions result in significant GHG savings vs. new construction. This combined with upgrades to meet Building Code requirements should meet energy efficiency requirements.

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There many types of incentives that could be created to spur conversions for public benefit

There are many different types of incentives which may be provided to facilitate conversions such as:

- Building feasibility assessments
- Tax abatements
- Direct subsidy
- Government grants of land and other assets
- Modernized zoning and accelerated permitting. Building fees waiver

Which incentives will drive the right outcomes and have the biggest impact on HRM given its unique market characteristics?

1. Building Conversion Feasibility Assessments

Building conversion feasibility assessments, assess a building based on a number of criteria which determines conversion potential.

Discussion

- Technical feasibility studies provide a cost-effective way to educate developers and building owners about conversions and to get them to consider conversion.
- Building feasibility assessments could be offered to developers and building owners free of charge.
  - They can be used as a tool to educate developers on conversions to increase interest in conversion.
  - They will enable the Panel to further quantify the conversion opportunity in Halifax.
  - Allow quantification of the GHG savings for conversion
- Assessments can provide detailed quantification of the conversion opportunity for the building.

Consideration:

- Offer building feasibility assessments to up to 10 building owners or developers
- Introduce building feasibility assessments in developer/building owner information session on conversions.
- SME to review 1-2 use cases from other markets to demonstrate the tool and demonstrate the factors that are important in conversion.

Preliminary Criteria

- Building vacancy rate of at least 25% with ability to reach 50% within 2 years.
- Building age: constructed before 1990.
- Building should be located in zones or in an area with amenities, access to transport.
- Create at least 25 new residential units.
- Buildings should be located anywhere in HRM.

Developer Responsibilities:

- Developer to provide detailed floor plans and information on building.
- Provide proof of ownership or intent to acquire.
- Commit to begin conversion in 12-18 months. Completion within 5 years.

2. Property Tax Abatement

Tax relief provided during construction and for a period after.

Discussion

- Property taxes are an ongoing operating expense for conversions. In the context of high interest rates and high unstable construction costs, and the high risks associated with conversions, property tax abatement can make conversion projects feasible.
- Tax abatement is a loss of tax income for the city but there are benefits.
  - More people in downtown core means more vibrancy in the city core and added revenue for merchants in the area.
  - Further increases in housing increases demand for offices.
  - These benefits offset the decrease in tax base for the city.
- The infrastructure is already in place for conversions, while there may be an increase in water consumption, traffic should be reduced as people work and live in the same area and conversion should not put a significant strain on the city.

Examples

Many cities in the US are announcing tax incentives to spur conversions.

- In the 1990s, New York City created the 421–g Program which generated over 12,000 units totaling over 40% of the growth in housing units in lower Manhattan between 1990 and 2020.
- In Boston, Mayor Wu recently announced a tax abatement of up to 75% of the standard tax rate for up to 29 years.
- In Boston, the city attached a 2% fee associated with the future sales of office-to-residential conversions; thereby providing a subsidy upfront but a mechanism to recoup the initial loss in tax revenue later.
- The LaSalle conversion in Chicago, the city stipulated that at least 30% of the new housing units must be affordable. Local leaders can also work to recoup their subsidy in creative ways.

Consideration

- Offer property tax abatements for conversion projects:
  - Full tax abatement during construction.
  - Full or a % reduction for 20 years.

Criteria

- Short eligibility period: Projects started 2024 - 2026.
- Conversions must create a minimum of 25 units.
- Limit the number of projects to 5 or 500,000 sf.
- Simplify approval process and provide staff with authority to approve.

3. Direct Subsidy - Government

Subsidies provide funding directly to developers and can be either a lump sum or a per square foot offering.

Discussion

- There are a small number of buildings available for conversion in HRM and subsidies may make those buildings that are more difficult to convert feasible.
- Sometimes incentives come with affordability requirements. If affordability is added as a requirement for the incentive, the incentive must be significant enough to offset the opportunity lost by offering reduced rent.
- The current rental market in Halifax has low to no vacancies. Rental rates particularly in the downtown core are high and well above the rates published by CHMC.
- To make the incentives work as designed the affordability metric must be easily monitored.
- Developers and building owners are in the business to make money and incentives that do not make financial sense and have a complex, onerous approval process are not likely to be converted.

Examples

- Calgary provided $75 sf subsidy per project which was 1/3 per square foot construction cost of $225 psf subsidy, to a maximum of $15M.
- To keep things simple the incentive program did not include requirements for affordable housing.
- Calgary has a streamlined approval process.
- Calgary has invested >$153M in 12 projects creating 1,472 units and removing 1.4M sf of office space.
- Every $1 invested in Calgary returned $4 in economic benefit.
- A full description of the incentive program, process and examples of buildings is included in Appendix A

Considerations

- A meaningful incentive would be in the range of $30-50.
- At $30, the cost would be $9M with a target of 300,000 SF or creating 300 units. $30K/unit.
- Model after Calgary simple requirements & approval
- Short eligibility period: 2024-2026. Projects must begin within 6 months after approved application.
- Simple process. Small committee to approve application. Model after Calgary.
- Do not include affordability requirement.

5. Innovative Uses Government Owned Land and Buildings

Provision of Government-owned land or buildings to facilitate conversions.

Discussion

- Local, provincial & federal governments own a considerable amount of property in NS. Land dispositions that make conversions possible and can reduce development costs.
- Local governments can use this to incentivize conversions. There are many options:
  - Joint ventures with investors and developers who agree to convert the office property. The partnership can have many forms including:
    - Transfer ownership outright to developers.
    - Sell these properties at a subsidized cost to developers.
    - Retain an equity ownership in the conversion.
    - Gift buildings to a not for profit for management and conversion in exchange for affordable housing.

Examples

- 176 Portland Street in Dartmouth is a federally owned building which has been deemed surplus by the Federal Government. This property could be transferred to a developer to develop in exchange for a percentage of affordable housing.
- In the US, the Department of Transportation recently announced it will allow the transfer of unused properties or buildings to local governments or non-profit organizations for conversion into affordable housing.
  - These buildings could be transferred to private developers at below-market prices, provided that those developers commit to including a negotiated percentage of affordable housing units.

Considerations:

- Develop model on an individual case basis.
- Do not limit to commercial buildings but include schools, long term care institutions and churches.
- As part of this report, requests were made to the province and HRM for a list of available assets that could be considered for conversion. A limited number of properties were available. Some opportunity in long term care facilities.

https://fortune.com/2023/10/27/biden-administration-supercharge-empty-office-conversion-affordable-housing/

8. Accelerated Permitting & Fees Waiver

Review local zoning, permitting processes, building codes and regulation to facilitate conversions.

Discussion

- Development costs and timelines can be reduced by exploring accelerated permitting for conversion. This has been done in other jurisdictions and often has an affordability requirement.
- Permitting fees waiver is another way to incent conversions. The infrastructure is already in place for conversions, while there may be an increase in water consumption, traffic should be reduced as people work and live in the same area and conversion should not put a significant strain on the city.
- HRM has been more progressive that other jurisdictions in removing minimum parking requirements. More opportunities exist.

Examples

- A resolution was passed by the Ottawa city council to reduce building permit wait times for developers. It only applies if 20% of the units are dedicated to affordable housing.
- Boston hired a "permitting ombudsman" to serve as a project manager for the various permitting approvals a conversion would require.
- San Francisco introduced legislation that simplified the approval process and requirements for converting existing commercial buildings into housing and streamlined the process for filling vacant space. These changes to reduce processing time 6-12 months. They are currently considering legislation to exempt eligible conversions from development fees.

Considerations:

Focus on Developer as Customer: Expedite Permitting

- Assign a conversion subject matter expert to act as a single point of contact (SPOC) for conversion applications to expedite them through the process.
- SPOC would facilitate alternative compliance requirements for building code for conversions at the beginning of the permitting process.

HRM could waive permitting fees. The infrastructure is already in place for building. Developers cite fees high fees as an issue.

Avail of the Trusted Partner Process

- When conversion plans include additional density. The Trusted Partner Program could be utilized. Consider a phased approval approach: existing building and additions

Consider zoning changes to allow conversions in suburban areas.

Summary

- **The environment for conversions in Halifax is ideal with low residential vacancy and high rents combined with high commercial vacancy.**
- **Conversions are happening organically in Halifax. 400 units have already been converted or are in process.**
- **Halifax is a small market, while it has high commercial vacancy, the vacancy is primarily in Class A buildings which are not ideal for conversion. There is vacancy Class B and C buildings, but no buildings were found to have a vacancy of 50% which is a target for successful conversions.**
- **Based on additional analysis the potential for remaining conversions is estimated to be ~ 300 units.**
- **The remaining conversions are expected to be more complicated as individual building vacancy rates are in the 20-30% range and will require leases to expire or tenants to move to begin conversion. Incentives could be considered to expedite these conversions.**

- Incentives have been successfully used to accelerate conversions in other jurisdictions and should be considered in HRM.
- Options for incentives for consideration include:
  - Adding a subject matter expert as single point of contact for developers to accelerate permitting and fees waiver for conversions.
  - Tax abatement during construction and for 10 years after completion.
  - A $30/sf direct subsidy, modeled after Calgary's incentive program. Half of the money could be contributed by the province and half by the city. In Calgary, every $1 invested resulted in $4 in economic benefit.

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APPENDICES

CUI Buildings Types Suitable for Conversion

Appendix A

CUI & Gensler have Categorized Buildings into 5 Types Based on Characteristics

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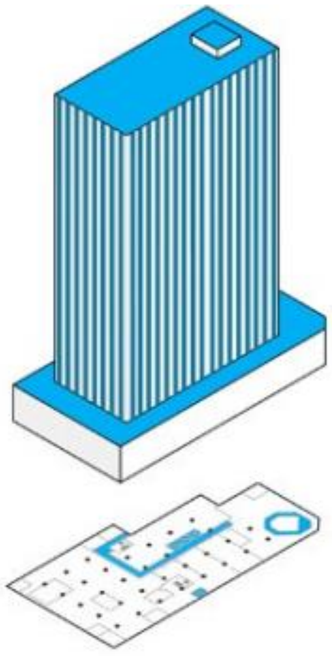
1 Brutalist High Rise

- Typically built in the **1960s-1980s of concrete and re-enforced concrete** in the architectural style of Brutalism.
- These mid-century buildings used the technologies of the time to create austere concrete structures with **few operable windows and smaller window to wall ratios than earlier heritage buildings**.
- **Internal structural columns** create some obstructions to interior layout.
- Buildings tend to be **large in floor plate** since they did not require natural light for interior spaces.
- As these buildings are often in need of physical and energy upgrades, they make up the bulk of conversions in the past two decades.



78/100
Avg Compatibility

Floor Plate	6/10
Form	10/10
Services	6/10
Context	8.75/10
Envelope	6.75/10

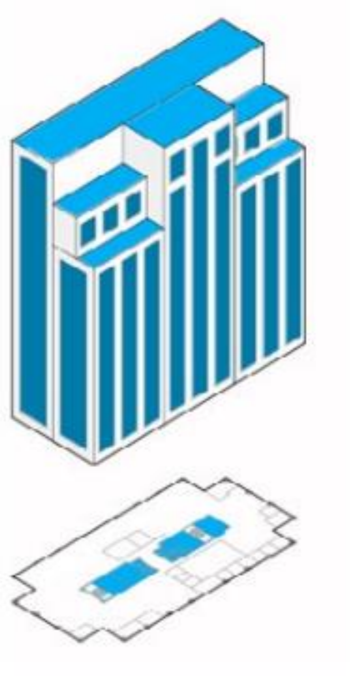
Based on methodology created by Gensler.

The brutalist typology has an average compatibility of 78 out of 100, the highest of the five building types.

Strengths of these buildings include
- configuration of floorplates,
- building form and context.
- The ‘podium and tower’ format of buildings of this era lend themselves to conversions with natural light on four sides

Source: Case for Conversions, CUI

2 Steel Frame High-Rise



76/100

Avg Compatibility

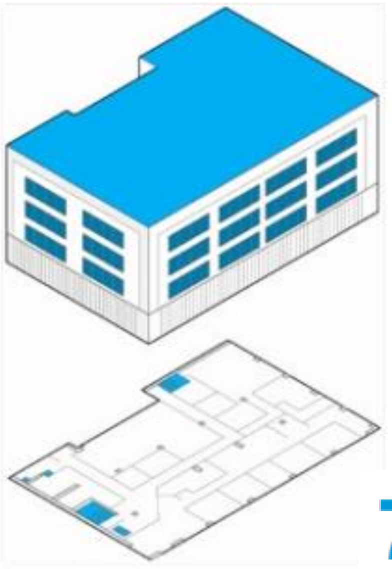
Floor Plate	6/10
Form	10/10
Services	7/10
Context	8.6/10
Envelope	6/10

Based on methodology created by Gensler.

- Typically built in **1990s and later**, the common characteristics of steel frame buildings are a **higher window-to-wall ratio** than the earlier brutalist structures a **structural system of external column supports**.
- As a result, these building do not have interior columns that interrupt the space.
- Buildings tend to be **large in floor plate** since they did not require natural light for interior spaces.
- These buildings show strengths in floor plate, building form and context.
- Steel-frame buildings modelled have an average compatibility of 76 out of 100, only slightly lower than brutalist buildings.

Source: Case for Conversions, CUI

3 Low-Rise Building



72/100

Avg Compatibility

Floor Plate	4.75/10
Form	10/10
Services	6.5/10
Context	7.6/10
Envelope	8/10

Based on methodology created by Gensler.

- This typology is defined less by the era of building and more by the **characteristics of the building**.
- These buildings tend to include **lower window-to-wall** ratio than the heritage building or the steel frame building.
- The buildings tend to be **squat with large floor plates** thus requiring more area for circulation (hallways, elevators, stairs)
- 27 buildings evaluated fall into the low-rise typology.
- Of the buildings modelled, examples have an average compatibility of 72 out of 100, lower than brutalist or steel frame buildings owing to larger floorplates.
- However, the **form and envelope of the buildings provide strengths if the size of the floor plate is manageable to allow a conversion or if interior space can be utilized for common amenities**

Source: Case for Conversions, CUI

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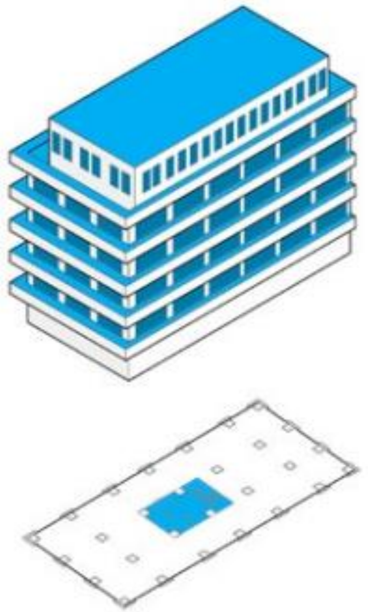
4 Heritage Mid-Rise



69/100

Avg Compatibility

Floor Plate	4.5/10
Form	10/10
Services	4/10
Context	8.25/10
Envelope	6.75/10

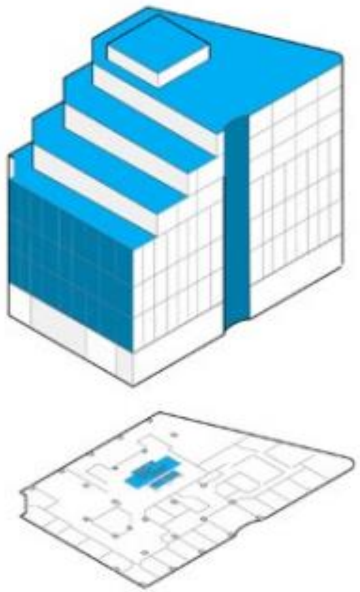
Based on methodology created by Gensler.

- Typically built from the **1800s through the 1940s**, these buildings' structural systems were either **masonry or concrete depending on the era of construction.**
- Needing to have an abundance of natural light, these buildings typically had **high window to wall ratios and high ceilings**
- **Interior columns** that provide structure interrupt the interior spaces.
- Many of these buildings were converted into **residential 'lofts'** as their use for light manufacturing declined in the mid-1900s.
- The average compatibility is 69 owing to larger floor plates and challenges of servicing.
- **The form and building envelope are strengths**, and the historic characteristics and location of heritage buildings lend themselves to **housing in core areas of the city.**
- Further, as many heritage buildings have historic designation, **demolition is not possible** and **adaptive re-use must be considered.**

Source: Case for Conversions, CUI

5 Challenging Mid-Rise

- This typology was used to classify buildings that were identified but **did not easily fit into one of the other categories** listed above.
- The buildings in this category scored lower based on the five criteria established by Gensler hence their description as "challenging".
- Characteristics of these buildings include **irregular floorplates**, a glazed façade and interior columns that follow the unusual shape.
- Only 3 buildings evaluated were in the challenging typology with average compatibility of 59 due to unusual building shapes or curtain wall systems.
- However, these buildings have other positive characteristics, typically newer construction and services, as well as staggered floor plates that could accommodate outdoor amenity space and may lend themselves to conversions on a case-by-case basis



59/100
Avg Compatibility

Floor Plate	2.5/10
Form	10/10
Services	7/10
Context	8/10
Envelope	3/10

Based on methodology created by Gensler.

Source: Case for Conversions, CUI

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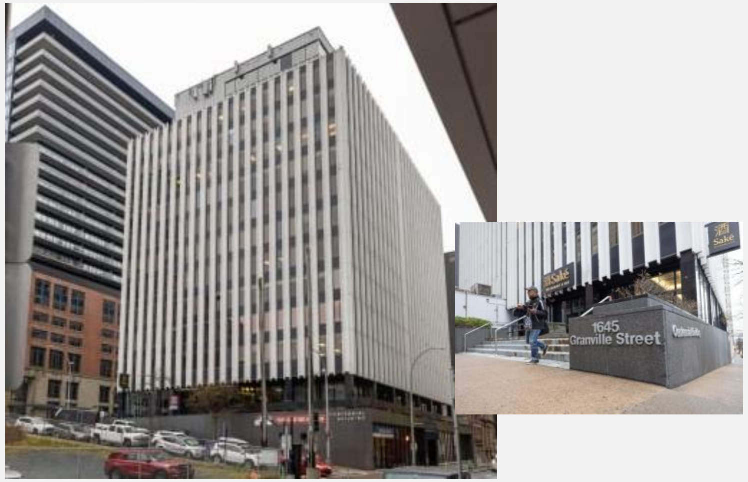
HRM Planned and Completed Conversions

Appendix B

Agency Arts Lofts fka Centennial Building



Name:	Agency Arts Lofts
Address:	1660 Hollis St
Owner	Sidewalk Real Estate Dev't
Purchase Price:	$16.65M
# Units:	141
Size:	163K 75Kretail & office 11 storeys
Purchased:	Aug 2021
Estimated Completion:	Summer 2024
Construction Time:	18 -24months

https://sidewalkred.ca/projects/centennial/

Background Info

- 1660 Hollis St., a 54-year-old office tower known as the Centennial Building.
- Built in the 1970s, it was one of Halifax's first high rises.
- Being developed by Sidewalk Real estates and is one of its largest redevelopment or adaptive reuse projects. It's new name agency Art Lofts.
- The building will have 75,000 sq feet retail and office space and 175,000 square foot will be converted to residential units.
- About half the building will be renovated renovated into one-, two- and three-bedroom loft apartments.
- 30 per cent of the building was vacant when purchased and developer expected rate to increase to about 50 per cent within a year.

Financing & Subsidies

- The building was bought in August 2021 for $16.65 million.
- According to the owners $1.9 million from the province is the only government funding the project has received so far; it is otherwise funded by "an appreciated group of investors."
- As part of the provincial deal, Sidewalk agreed, for the first 20 years, to rent 38 of 100 apartments for at least 20 per cent below the average rate reported by CMHC. Joe Nickerson, VP of Sidewalk said there will be no design differences between the units designated for affordability and the other 62 apartments.

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The Muse, 5670 Spring Garden Road

Name: The Muse

Address: 5670 Spring Garden Road

Owner & Operator: Universal Realty

Purchase Price: Owner conversion

Renovation Cost: Unknown

 # Units: 85

Size: 10 storeys

Opening: 2023

Background:

- Conversion of iconic office tower, 5670 Spring Garden Road, located at the corner of Brenton Street and Spring Garden Road
- Universal Realty Group completed the conversion to apartments.
- Universal Realty has a portfolio of commercial and residential buildings
- The building was converted into 85 – 1 & 2 bedroom apartments.
- Currently 2 bedroom, 2 bath 1,040 sf apartments rent for Rent: $3,337to-$3,613/Month
- All units were rented as of September, 2023.

https://muse.universalgroup.ca/floorplans

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The Green Lantern aka Keith Building 1585 Barrington St

Name: The Green Lantern

Address: 1585 Barrington Street

Owner & Operator: Grafton Devt

Purchase Price: Unknown 2015

 # Units: 62

Size: 8 storeys

Opening: May 2020

Background

- 1585 Barrington Street has a rich history. It originally was Keith Furniture Company building, a place of industry 1896. Then was a popular restaurant called The Green Lantern from 1917 until the 1960s.
- Its history is one of the reasons Jason Ghosn, with Grafton Developments, saw potential. He bought the property with his brother Jordan in April, 2015.
- Their goal was to restore & add onto the building to create a 62-unit apartment building.
  - The old Keith Building has a main floor commercial space and three storeys of apartments on top. A three-storey addition now sits above and behind the Barrington Street façade.
  - On the Granville Street side, old additions were removed, and a new nine-storey addition was added with ground-floor commercial space, a penthouse and underground parking.
- "It was pretty dilapidated when we got ahold of it and there was a lot of work to be done. It definitely wasn't easy," Ghosn said. It was a large project. There wasn't an adaptive reuse of a non-government building on that scale anywhere in Atlantic Canada, he said.[1]
- The commercial frontage was restored to look like what it looked like 100-years ago
- When buildings are in such terrible shape it's just easier and far more cost effective to demolish and start over.[1]
- The project received approval from HRM in 2016 to alter the building which is a heritage property inside the Barrington Street Heritage Conservation District.
- Received a $100,000 grant from the Barrington Street Heritage Conservation District Incentive program and a tax credit of $1M.

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Source: 1.https://www.saltwire.com/atlantic-canada/news/green-lantern-shines-again-exclusive-look-inside-the-restored-historic-downtown-halifax-building-100690041/

The Shuffle fka Maranova Hotel

Name:	The Shuffle
Address:	65 King Street, Dartmouth
Owner & Operator:	Sidewalk
# Units:	79 Units
Size:	9 storey – 2 added
Opening:	Spring 2023
Construction Time:	months

https://sidewalkred.ca/projects/the-shuffle/

Background:

- Brutalist seven-story 80-unit building was a long-term-stay hotel - Maranova Hotel
- Construction exposed a 6 storey atrium and an eight floor and a ninth-floor greenhouse bar will be added.
- Seventy-nine unit micro-apartment building
- Rents for apartment:
  - Studio: 230-434 sf rents at $1,350-$1,600
  - 1 bedroom 1 bath $381-536 sf $1,600-1,800 – all rented,
  - 2 bedroom 1-2 bathroom 540-720 sf $2,000-$2,200.
  - Plus underground parking available at $150.
  - Renting December 2023

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The Dillon, 1619 Sackville Street

Name:	The Dillon
Address:	1619 Sackville St, Halifax
Owner:	Mosaik Properties
Purchase Price:	Unknown
Renovation Cost:	Unknown
# Units:	39 Condos
Size:	8 storeys
Opening:	2014

Background

- The Dillon is an 8 storey mixed-use development is located on the corner of Market St. and Sackville St. in downtown Halifax.
- The building was originally constructed in 1860’s by the Dillon family of Halifax. The developer Mosaik Properties kept the historic building and incorporated it into the development.
- The developer was The building consists of 39 one and two bedroom condo units.
- Building amenities include a rooftop gym, private balconies, stainless steel appliances, floor-to-ceiling windows, and a terraced green space, rooftop terrace
- Commercial space are available on the ground level.

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Calgary Downtown Development Incentive

- Appendix C

CALGARY ENVIRONMENTAL & MARKET CONDITIONS

Market Conditions in Calgary

The City of Calgary – currently experiencing one of the highest vacancy rates for offices in the country

- The downturn in the oil industry around 10 years ago, depressed the commercial building market in Calgary
- Impact of Covid further exacerbated vacancies in the downtown core as companies adopt new working models
- Large amount of commercial space vacant
- Office buildings in downtown Calgary have lost about $16 billion in property value since 2015, resulting in a loss of tax revenue that impacts the entire city

Little Activity in Calgary's Downtown Core After 5

- Calgary's downtown is primarily commercial space with little activity after 5:00. The city wants to create a more vibrant downtown with a balanced mix of residential, office, culture and tourism
- "Calgary's success relies on our downtown shifting to a place where people want to live, and where businesses want to set up shop, now and for decades to come," according to Mayor Jyoti Gondek.

- With about a third of the office space downtown sitting vacant—some 14 M sf —the city set a goal of removing 6 million square feet of office inventory over the next 10 years, through conversions.
- City officials worked with developers, businesses, and other partners to come up with a plan.

In response Calgary Developed the Downtown Development Incentive Program

- Calgary committed $153 million to help building owners turn offices into residential through the Program
- Calgary's goal is to eliminate 6 Million square feet of office space.
- Calgary is providing a $75 per square foot subsidy to developers for conversions up to a maximum of $15M. $75 was estimated to be 1/3 of the cost per SF ($225)
- To keep things simple the incentive program does not include requirements for affordable housing
- The program was recently revised to support office space and conversions to, hotels, schools and performing arts centers in addition to residential units

Calgary has invested >$100M in 12 projects creating 1,472 units and removing 1.4M sq ft of office space

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Source: Turning empty offices into housing is a popular idea. Experts say it's easier said than done James Dunne · CBC News · Posted: Feb 06, 2023 5:00 AM AST

Downtown Calgary Development Incentive Program

- The Downtown Calgary Incentive Program is a cornerstone of The City's Downtown Strategy and a major driver of the vision and goals of Calgary's Greater Downtown Plan.
- The program supports downtown property owners to redevelop or remove underused office space and bring in a greater mix of amenities and services that support a thriving and resilient downtown community.
- **The $100M invested was delivered in three rounds.**
  - Phase 1: 2021 August to December
  - Phase 2: 2022 January to July
  - Phase 3: 2023 - April
- **The Program has a Simplified Approval: The Incentives Approval Committee consists of two members:**
  1. General Manager of Planning & Development; and,
  2. Chief Financial Officer or other Finance designate.

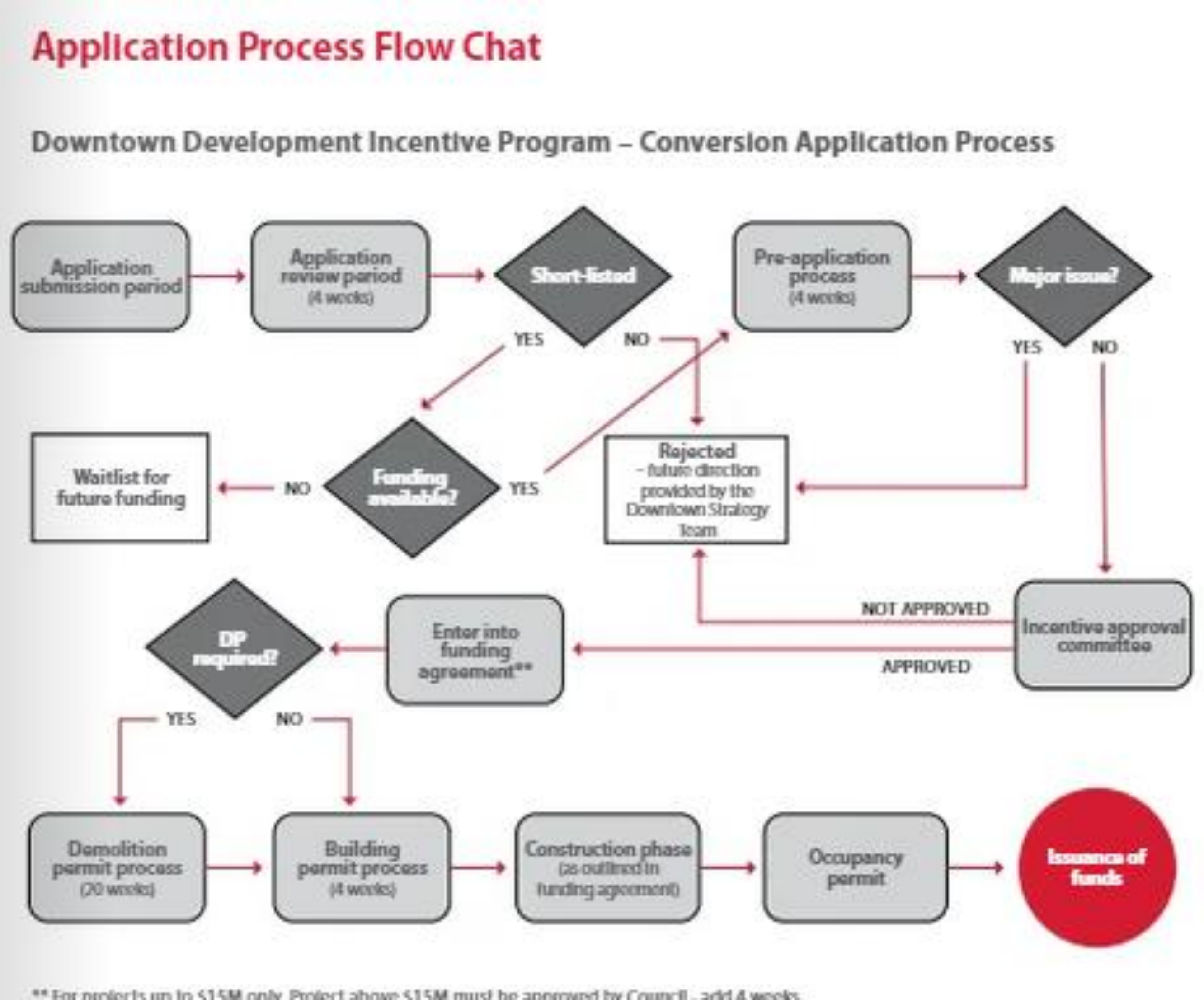
  Approval Limit: $10M
  - They incentive Approval Committee can approve up to $10M in incentives, incentives greater than $10M must be approved by Council.

- More than double the city's investment has come from real estate partners
  - "For these 10 projects with a municipal investment of $86 million provided by the city for the conversion program, we have generated private sector investment of $189 million," Mayor Jyoti Gondek said.
- "Every project that is coming online through this program is doing more than just converting office to residential," Marchut says. "We've got a few that are going to be doing affordable housing . . . we have others that are doing additional public realm improvements—and this is all optional. We don't require it, but applicants are coming to the table with really solid proposals, because they know the program is so competitive, and so they're kind of bringing their A game."

Source: https://globalnews.ca/news/9637005/calgary-office-towers-to-be-converted-homes/
Source: https://www.calgary.ca/development/downtown-incentive.html

Downtown Calgary Incentive Program Application Process

- **Applications review:** The Downtown Strategy Team reviews applications based on the criteria within four weeks. Timeline may be extended.
- Collaboration required between applicant & the Downtown Strategy Team for timely review
- **Incentive Approval Committee:** Following review by the Downtown Strategy Team, application(s) will be brought forward to the Committee for decision (approval or refusal) within two weeks. Preapproval!
- Applicants will be informed by the Downtown Strategy Team of decision of the Incentives **Pre - Approval**
- **Application Approval:** Requires financing commitment from financial institution or if self-financed evidence of internal financing is required within 6 months
- **Funding Agreement:** Final commitment for the Incentive Program.
    - A Funding Agreement will lay out the responsibilities and obligations of both parties.
    - A building permit needs to be in place when funding agreement signed
- **Progress Reports:** Applicants must provide regular reports on progress towards completion
- **Payment:** The grant will be payable upon fulfilment of the terms of the Funding Agreement, completion of construction, and receipt of occupancy permit
- **Rollover of Applications:** For applicants that submit viable conversion proposals, but where funding is not available applications will be rolled over & prioritized for future phases



Approved Projects

Twelve projects have been approved, three more under consideration

creating 1,472 units

removing 1.4M sq ft of office space

Calgary

Downtown Calgary Development Incentive Program
At a Glance

● Downtown Development Incentive Program Projects

Other City-Supported Office Conversion Projects

A Barron Building (Strategic Group)
610 8 Avenue S.W.
Municipal investment: $8.5M
Scope of conversion: ~109,000 sq. ft.
Number of homes: 118 homes

B Neoma (Home Space)
706 7 Avenue S.W.
Municipal investment: $5.5M
Scope of conversion: ~95,000 sq. ft.
Number of homes: 82 homes

1 The Cornerstone 909 5 Avenue S.W.
Municipal investment: $7.8M
Scope of conversion: ~104,000 sq. ft.
Number of homes: 112 homes

2 Canadian Centre 833 4 Avenue S.W.
Municipal investment: $12.375M
Scope of conversion: ~163,000 sq. ft.
Number of homes: 225 homes

3 United Place 804 4 Avenue S.W.
Municipal investment: $6.6M
Scope of conversion: ~88,000 sq. ft.
Number of homes: 81 homes

4 Palliser One 125 9 Avenue S.W.
Municipal investment: $15M
Scope of conversion: ~200,000 sq. ft.
Number of homes: 176 homes

5 Teck Place 205 9 Avenue S.E.
Municipal investment: $8.2M
Scope of conversion: ~110,000 sq. ft.
Number of homes: 113 homes

6 The Loft 744 4 Avenue S.W.
Municipal investment: $3.9M
Scope of conversion: ~52,550 sq. ft.
Number of homes: 55 homes

7 Eau Claire Place I 525 3 Avenue S.W.
Municipal investment: $6M
Scope of conversion: ~79,400 sq. ft.
Number of homes: 90 homes

8 Eau Claire Place II 521 3 Avenue S.W.
Municipal investment: $11.9M
Scope of conversion: ~158,000 sq. ft.
Number of homes: 195 homes

9 Taylor Building 805 8 Avenue S.W.
Municipal investment: $4.8M
Scope of conversion: ~64,000 sq. ft.
Number of homes: 85 homes

10 Petro Fina Building 736 8 Avenue S.W.
Municipal investment: $9.7M
Scope of conversion: ~130,000 sq. ft.
Number of homes: 105 homes

Source: https://www.calgary.ca/development/downtown-incentive.html

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Snapshots of Approved Projects in Calgary

Appendix A

NEOMA

Name:	Neoma
Address:	705 7th Avenue
Owner & Operator:	HomeSpace
Construction:	PCL Construction
Purchase Price:	$4.7M
Renovation Cost:	$30M
Cost per SF:	$ 315
# Units:	82 Affordable
Size:	95,000 sf
	10 storeys
Opening:	Sept 2022
Construction Time:	14 months

Background

- Neoma is managed by HomeSpace Society, a charity that builds and maintains affordable housing in Calgary
- HomeSpace evaluated many buildings before selecting this location
- **The 10-storey building features a family emergency center**, transitional housing and 82 affordable one, two and three-bedroom units, which are geared towards families.

Project Financing

- The project was funded by the federal and Alberta governments and the City of Calgary, among other public and private donors. CMHC $16.8M, City of Calgary $5.5M, Govt of AB: $2M, and Collaborative Fundraising: $5.7M
- Property was purchased in 2020 from Artis REIT (AX-UN.TO) for $4.7M. The building sat empty for two years before HomeSpace purchased it.

Construction

- Construction was a fast-tracked 14-month renovation and completed by PCL."I would say it was a long, kind of, experimental process to gut the building.“ according to PCL special projects manager Ryan Kuntz
- "So we were simultaneously removing the outside of the building, reinstalling the outside of the building at the same time, floor by floor, gutting the inside of the building, demolition top down and then also starting construction all simultaneously Building Features
- “(We had) phased authorization from HomeSpace on critical procurement items, notably envelope materials, mechanical equipment and electrical equipment. Even before those designs were done, we were ordering those materials, securing those materials, and that ended up paying dividends throughout the project. Things that would have caused schedule delays down the road were never an issue because of how we tackled those risks upfront,” Kuntz said.

Source: https://canada.constructconnect.com/joc/news/projects/2023/01/pcl-transforms-calgary-office-building-into-affordable-housing

PetroFina Building

Name:	Petro Fina Building
Address:	736 Eight Ave S.W.
Owner & Operator:	Peoplefirst Devt
Purchase Price:	$7.2M ($41 sf)
Renovation Cost:	$ 1.9M permitting & $43.7M Construction ($260 sf or $301 sf including bldg.)
Incentive:	$9.7M (18.4% of ttl
Future Value:	$ 58M fully occupied
# Units:	105
Size:	130,000 sf residential 175,403 sf total
Announced:	April 23, 2023

Background

- Petro Fina Building is also listed on The City's Inventory of Evaluated Historic Resources and its original identity and characteristics will be preserved through this project.
- The Property is 175,400 SF and is classified as a Class "C" office building that was constructed in 1959
- It consists of 3 retail units on the main floor with additional commercial space on the 2nd floor.
- There are an additional 9 floors of office space above the 2nd floor.
- The project will convert approximately 130,000 square feet of office space to 105 homes. Almost half of the homes will be offered at below market rental rates.
- The developer PeopleFirst have completed three developments in two years.

Construction

- The project will be executed in three phases:
  - **Phase 1:** creation of architectural plans and the acquisition of necessary development and building permits. This phase is expected to span through the remaining part of 2023. ($1.9M)
  - Presently, the building has a 45% vacancy rate, but existing tenants will stay in place during Phase I to assist in supporting the pre-construction costs.
  - **Phase 2:** Construction, will commence early in 2024 and at that time commercial tenants will be removed on floors 3 to 11.This phase will be twelve months.
  - **Phase 3:** Finally, a six-month stabilization and lease-up phase will follow the conclusion of construction.

Financing

- PeopleFirst raised capital through real estate crowdfunding platform Addy Investment - 771 people invested with a $641.20 avg. investment $494,365 raised. It was fully subscribed.
- Current Market Value appraised value of $12.3M including an underlying land value of $4.8M. Building purchased for $7.3M.
- Upon full occupancy and successful lease-up of all units, the property is estimated to be valued at approximately $58M

The Cornerstone

Name:	The Cornerstone
Address:	905 5th Avenue
Owner & Operator:	Peoplefirst Dev't Company
Purchase Price:	\$6.5M (\$62,5 sf)
Renovation Cost:	\$38M ~ 365 sf
Incentive:	\$7.8M (20.5% of ttl)
# Units:	112
Size:	104,000 sf
Opening:	end of 2023

Background

- Building Purchase: Building was purchased from foreclosure. for \$6.5M in January 2022. The property had been vacant for 8 years.
- 10-storey office building with 112 two and three bedroom apartments includes units priced below market rates.
- 40% of the units will be affordable, starting at \$1,600 per unit
- The second floor will be home to a co-working space for up to 16 independent beauty businesses.
- The company raised \$495K through crowdfunding platform Addy with 801 people invested avg \$617.98. https://addyinvest.ca/properties/
- Renovation Cost: \$38 million renovation
- City of Calgary Contribution: \$7.8M (20.5%)
- Construction Costs: ~\$365SF
- City Role: government support will be critical to many conversion projects. "I think you need that type of partnership, as well as zoning changes, for this to work." Maxim Olshevsky , PeopleFirst Managing Director.

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Teck Place The Hat at Arts Common

Name:	Teck Place
Address:	205 9 Avenue SE
Owner & Operator:	Cidex Group of Companies
Purchase Price:	$TBC
Renovation Cost:	$TBC
# Units:	108
Size:	110,000 sf
Incentive:	$8.2M
Opening:	
Construction Time:	TBC

Background

- Built in 1965 the conversion of Teck Place will uphold its historical significance by preserving its design. preserved design and will further enhance the lifestyles and arts and cultural aspects of the
- A feasibility study was completed by NORR to convert the underutilized 11-story office building into livable spaces. The results pointed to characteristics and structure suited for a conversion – with a pro forma that was achievable through smart design.
- The project will convert ~110,000 square feet of vacant office space, into a mixed-use residential building with 113 new homes.
- The ground floor will feature studio space for artists, indoor and outdoor amenity areas, and secure bicycle storage rooms. EV charging stations will be installed onsite to meet the demands of tenants with electric vehicles.
- Floors 2-10 will feature 108 market rate rental, one- and two-bedroom units, each with a private recessed balcony.

Construction

- The conversion will preserve the existing skeletal structure and its modernism features such as the vertical fins and the prefab concrete pillars and arches.
- A new curtain wall system will be fully recessed to the depth of strategic locations in each of the units to minimize thermal energy loss. The curtain wall works integrally with the addition of balconies and energy efficient glazing replacements on all windows and doors.
- Simplicity of the building will remain intact by maintaining the verticality of the new elements, and the overall proportions and materiality, similar to the original design.

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Barron Building

Name: Barron Building

Address: 620 8th avenue

Owner & Operator: Strategic Group

Purchase Price: Acquired 15 years before reno

Incentive: $8.5M

 # Units: 118

Size: 109,000 sf

Opening: 2024

Background

- Barron Building was Calgary’s first skyscraper, and it heralded the city’s future as an economic powerhouse.
- Originally built in 1951, the Barron Building will be transformed from an empty, derelict heritage office tower into a modern, vibrant residential community.
- “The rebirth of this beautiful and historic art deco building has been a passion project of ours since we acquired the building 15 years ago,” said Mr. Mamdani, Strategic Groups CEO.
- Strategic Group is the first to complete modern office-to-residential conversions in Alberta, and the company continues to share its conversion expertise across Canada.
- “Calgary City Council sees the incredible value of the rebirth of The Barron Building as homes for Calgarians and the addition of street-level retail that adds to the vitality of our downtown,” said Mayor Gondek. “By investing $8.5 million in this project, we are investing in the future of our city centre while honouring and maintaining an important part of our history. Our downtown revitalization strategy is working and remains critical to seeing assessed property values continue to rise."
- The company estimates that the conversion will prevent 4,175 tons of greenhouse gases from entering our atmosphere. By converting the Barron Building, Strategic Group expects to save more than 11,000 tons of demolition material from going to landfill.
- "This redevelopment is complicated and challenging," adds Mr. Mamdani. "For example, work is underway to create an underground parkade with the historical building in place. The experience, creativity, and ambition of our team makes developments like this possible."
- The Barron Building will have 118 new modern residential rental suites and street-level retail are built within the building. The total square footage of the residential is 100,688 sq. ft. and the retail is 8,580 sq. ft. The project will be complete in 2024.

Source: https://www.strategicgroup.ca/post/work-begins-on-historic-barron-building-conversion

Canadian Centre

Name:	Canadian Centre
Address:	833 4th Ave SW
Owner & Operator:	PBA Group of Companies
Incentive:	$12.375M
# Units:	225
Size:	163,000 sf
Const Start:	Fall of 2022
Opening:	End of 2024

Background

- Office building constructed in 1982.
- PBA Group of Companies along with its partner Concord Hospitality
- Roughly 163,000 square feet of office space will be transformed as a part of the Canadian Centre conversion.
- The conversion will include fully furnished apartments and short-term rental units on lower floors, and rental apartments on upper floors. When complete, the Canadian Centre will create 225 new downtown homes.
- The project contains a main floor café and patio, bicycle parking and repair facilities, a second-floor restaurant and gathering area, along with outdoor gathering spaces on the 10-12 floors.
- “PBA is honoured to contribute to such a meaningful revitalization program that will bring life back to an area of our city that has no doubt felt its challenges,” said James Scott, VP of Corporate Development, PBA Group of Companies.

Eau Claire Place 1

Name:	Eau Claire Place 1
Address:	525 Third Ave SW
Owner & Operator:	Cidex Group of Companies
Incentive:	$6M
# Units:	90
Size:	79,400 sf
Announced:	April 23, 2023

Background

- Eau Claire Place I is a 7-storey office building located at 525 3rd Avenue SW, Calgary, AB 12. It was built in 1979 and renovated in 1998.
- Eau Claire Place I will convert approximately 79,400 square feet of office space to 90 homes.
- In addition, this project will include indoor and outdoor amenity spaces for residents, along with a gym.
- The building is adjacent to the Eau Claire residential area and the Eau Claire Promenade, Eau Claire Plaza and Prince’s Island Park, providing an abundance of natural recreation opportunities in the surrounding neighborhood.
- The City of Calgary has approved a project to convert the commercial office space of Eau Claire Place I into residential units. The project is expected to cost $6.0 million and is part of the Downtown Calgary Development Incentive Program 1.

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Eau Claire Place 2

Name:	Eau Claire Place 2
Address:	523 Third Ave SW
Owner & Operator:	Pacific Reach Properties
Purchase Price: converting	Existing owner
Incentive:	$11.9M
# Units:	195
Size:	158,000 sf
Announced:	April 23, 2023

Background

Pacific Reach owned the building and decided to convert

- Eau Claire Place II sits immediately adjacent to the Eau Claire Place I office conversion project and offers similar access to the Eau Claire neighbourhood and natural recreation opportunities along the Bow River.
- This project will convert approximately 158,000 square feet of office space to 195 homes. Indoor and outdoor amenity spaces for residents will include bicycle storage, electric vehicle charging stations, a gym and a rooftop patio.
- Developers were criticized for leasing commercial spaces just days prior to the announcement of the conversion.
    - Weston signed her lease eight days before the building's owner, Vancouver-based Pacific Reach, publicly announced it was taking part in the office to residential conversion program.
    - She said her broker had mentioned the building was also in the early stages of considering conversion, but Weston assumed the existing leases would be honoured, since they were still actively looking to lease out the building.
    - Don Dibadj, senior director of investments with Pacific Reach, said the company is doing everything "above bar" and that they are notifying people as each lease requires. That date can vary.
    - "These conversions are not straightforward, right?" he said. "Converting an office building to a residential building, there's a lot of nuances," he said. "And we have to go through a variety of different reports and engineering and drawings to finalize this, and when it was finalized, and we could announce it, we did".

Source: https://calgaryherald.com/news/local-news/tenants-raise-concerns-about-downtown-office-to-residential-conversion

United Place

Name:	United Place
Address:	804 4th Ave SW
Owner:	United Canadian Investments Inc.
Incentive:	$6.6M
# Units:	81
Size:	88,000 sf
Opening:	2024
Construction Time:	12-24 month

Background

- The United Place conversion will convert 88,000 sf of office space into 81 units which will have a mix of studio, one, two and three-bedroom units.
- "United Canadian Investment Inc. is excited to transform this property located at such a prominent corner of the west end of downtown into a residential building and to offer a great mix of residential units, and community amenities like a daycare, café and outdoor plaza space," said its CEO Sahota.
- United Canadian Investment Inc. will lead the United Place conversion. Mandeep Tathgur, a company spokesman, said the building is in a prime location and a perfect fit for a residential conversion.
- It will also have space for EV charging stations for both bikes and cars.

Construction

- United Canadian Investments Inc. CEO Sarbjeet Sahota said they hope to begin construction in early 2023.
- In ideal conditions, they will complete and start welcoming tenants in 2024.

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Taylor Building

Name:	Taylor Building
Address:	805 Eight Ave. S.W.
Owner & Operator:	Cressey Developments
Incentive:	$4.8M
# Units:	85
Size:	64,000 sf
Announced:	April 23, 2023

Background

- Located on Stephen Avenue, the Taylor Building (known historically as the Petro Chemical Building) is listed on The City's Inventory of Evaluated Historic Resources and is one of downtown's last remaining buildings constructed in Alberta's 1940s and 1950s oil boom.
- This project will convert approximately 64,000 square feet of office space to 85 homes and will include indoor and outdoor rooftop spaces, including a social lounge, dining room, barbeque area and fire pits.

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The Loft

Name:	The Loft
Address:	744 Fourth Ave SW
Owner :	Institutional Mortgage Capital
Incentive:	$3.9M
# Units:	55
Size:	52,550 sf
Announced:	April 23, 2023

Background

- The Loft is a conversion of approximately 52,550 square feet of office space to 55 homes.
- Amenity spaces for residents that are being considered for this project are a gym and a rooftop greenhouse and patio.
- The building's location provides easy access to Eau Claire Promenade, Peace Bridge, West Eau Claire Park and the 7 Street SW cycle track, providing an abundance of natural recreation opportunities right at the building's doorstep.

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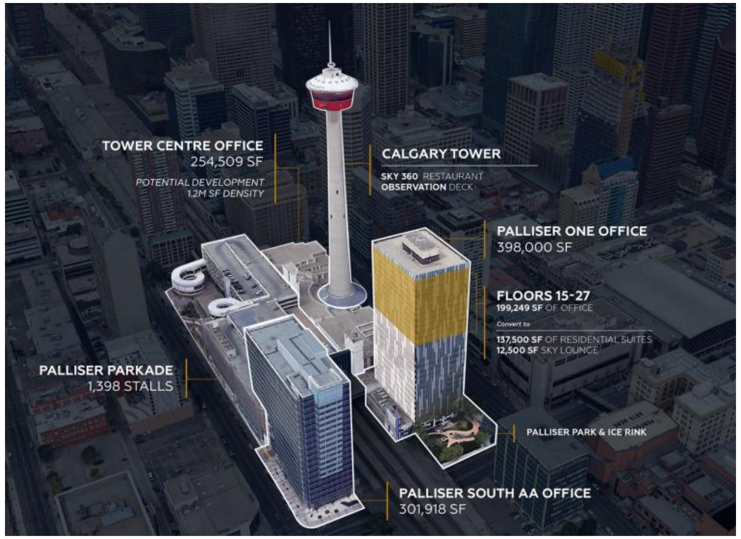
Palliser One

Name:	Palliser One
Address:	125 9 Avenue SE
Owner & Operator:	Aspen Properties
# Units:	176
Size:	200,000sf
Renovation Cost:	$60M
Incentive:	$15M
Opening:	Early 2024

Background

- 27 Storey 393,400 sf building, 200K sf will be converted to 196 one and two bedroom units for a cost of $60M Building Size
- Floor plate size: 16,700 square feet
- Expected completion early 2024



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