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## Downtown Works Report

# Downtown Los Angeles Office-to-Residential (OTR) Adaptive Reuse Study

*Converting Underutilized Office Spaces to Meet Urgent Housing Demands*

Dear Business and Community Leaders,

Downtown Works (DTWX) is pleased to share the findings from its latest study entitled, ***Downtown Los Angeles Office-to-Residential (OTR) Adaptive Reuse Study***, undertaken by BAE Urban Economics.

DTWX is the 501(c)(3) non-profit arm of Central City Association (CCA), created to advance CCA's mission of enhancing Downtown Los Angeles' (DTLA) vibrancy and increasing opportunity across the region.

DTLA has seen a steady increase in its residential population in recent years, along with sustained demand for more housing. Meanwhile, DTLA's office market has lagged in its post-pandemic recovery, leaving many office buildings underutilized. This shift in demand presents a key opportunity to revisit adaptive reuse strategies and help meet the growing need for housing.

Our report aims to fill the knowledge gap around OTR opportunities in DTLA and quantify the potential value of even limited conversions. Specifically, our study focuses on two objectives:

1. Evaluate the current DTLA office market and the economic impact of maintaining the status quo.
2. Identify the potential benefits of converting ten office buildings into residential spaces.

### **Key Findings:**

Without intervention, Downtown Los Angeles could see a \$69.5 billion loss in assessed property value for the office market, along with \$353 million in potential lost property tax revenue for the City and County over the next decade.

A targeted 10-building adaptive reuse plan could:

- › Recover \$12 billion in assessed property value
- › Generate \$2 billion in local economic activity
- › Unlock \$46 million in tax revenue
- › Support almost 17,000 jobs
- › Create thousands of new homes

When combining the projected \$70 billion loss from maintaining the status quo with \$14 billion in foregone gains due to limited adaptive reuse, the total economic loss could reach \$84 billion over 10 years.

Our findings aim to inform and impel decision-makers to host conversations to modernize building and planning codes and explore the potential for financial incentives to drive adaptive reuse. We would like to thank **Gensler**, **CBRE**, and **BAE Urban Economics** for their collaborative efforts to prepare this report.

Adaptive reuse has a strong precedent in DTLA, having played a central role in the area's earlier revitalization — a CCA-led movement that began in 1999. As major cities across the country partner with their local and state officials to adopt innovative approaches, it is time for DTLA to reinvest in a proven strategy.

Sincerely,



Nella McOsler  
Board member, Downtown Works  
President & CEO, Central City Association



Carmen Zella  
Chair, Downtown Works

## Adaptive Reuse: The Cost of Inaction

The Downtown Los Angeles (DTLA) office market has strong potential for conversion to housing. DTLA currently has 54 office buildings that are at immediate risk of devaluation and failing to act could result in nearly \$70B in losses for the entire DTLA office market. Of these 54 buildings, a subset of ten office spaces have been identified that are most suitable for adaptive reuse and could generate significant gains for the City to mitigate these losses including an increase in assessed property value, new housing, job creation and tax revenue.<sup>1,2</sup>

THE STATUS QUO

### ENTIRE DTLA OFFICE MARKET OVER 10 YEARS

**\$69.5 BILLION**

DECLINE IN ASSESSED PROPERTY VALUE



Total  
Economic  
Loss:  
**\$84  
BILLION**

**\$353 MILLION**

LOSS OF POTENTIAL PROPERTY  
TAX REVENUE<sup>3</sup>



GAINS FROM CONVERSION

### BY CONVERTING 10 VIABLE BUILDINGS

**\$12 BILLION**

BOOST IN ASSESSED PROPERTY VALUE



**\$2 BILLION**

IN ECONOMIC IMPACTS



**3,859**

NEW RESIDENTIAL UNITS



**\$46 MILLION**

IN TAX REVENUE



**16,925**

JOBS SUPPORTED



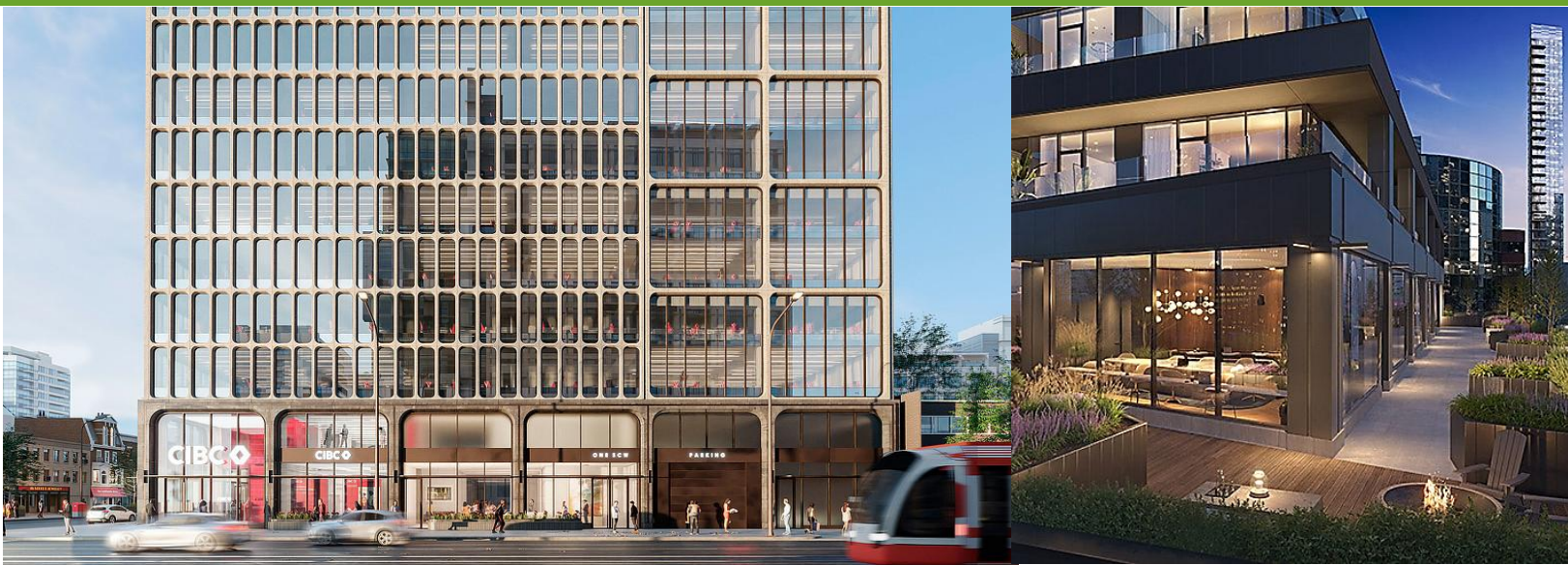
<sup>1</sup> The calculations were made over a ten-year span that correlates with the construction period of 10 "Targeted Conversion" offices in DTLA that are at immediate risk of devaluation.

<sup>2</sup> The projected numbers are estimates that have been rounded for ease of comprehension. Exact values may be obtained within the study document itself.

<sup>3</sup> This calculation includes both City and County revenue.

bae urban economics

Downtown Los Angeles Office-to-Residential (OTR) Adaptive Reuse Study  
Prepared for Downtown Works (DTWX)  
January 2025



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# EXECUTIVE SUMMARY

Downtown Works (DTWX) is currently leading research on initiatives to help revitalize Downtown Los Angeles. One DTWX research area includes adaptive reuse policies to help convert vacant, underperforming office buildings into more vibrant uses such as new housing.

The threat that the declining office market poses to central business districts is not unique to Los Angeles. Indeed, other cities and jurisdictions with high concentrations of office space have faced similar pressures, such as increasing vacancy rates, reduced daytime populations, less rent revenue available for building upgrades and maintenance, public-safety perceptions, and declines in assessed value.

This Study aims to help local stakeholders and policymakers better understand the unique pressures faced by the Downtown Los Angeles (DTLA) Office Market. The Study also highlights the potential fiscal, social, and economic ramifications of *not* intervening to help meet this critical challenge sooner rather than later.

## Study Background and Objectives

This Study aims to provide actionable insights and recommendations to help inform stakeholders as they deliberate on policy interventions that are focused specifically on Los Angeles. Key objectives include the following:

- Assess the overall vulnerability of the DTLA Office Market to declining asset values based on current assessed valuations.
- Calculate the likely fiscal impact to the City and County of Los Angeles if declining asset values in the office sector are not mitigated.
- Identify the universe of buildings in DTLA that could be candidates for a first wave of office-to-residential (“OTR”) conversions, and estimate the number of housing units that might be created.
- Analyze the economic benefits that could accrue to the City and County if these candidate buildings (e.g., “Targeted Conversion” buildings) are adapted to higher-performing uses over a 10 year period.
- Calculate the total assessed value (and General Fund revenue) that could be recuperated if targeted revitalization efforts are successful.
- Outline preliminary policy considerations and next steps to begin facilitating this “Targeted Revitalization” scenario.

## Study Partners

For the Downtown Los Angeles Office-to-Residential (OTR) Conversion Study, DTWX partnered with Gensler, a global design and architectural firm with offices in Downtown Los Angeles, BAE Urban Economics, a land use and real estate advisory firm, and CBRE, a commercial brokerage firm.

As a first step, Gensler and CBRE assisted the Project Team with identifying a subset of ten (10) office buildings in Downtown Los Angeles that could be candidates for conversion to residential space based in part on a scoring tool developed by Gensler. BAE Urban Economics then utilized this “Targeted Conversion” dataset to estimate the potential economic and fiscal impacts of their OTR conversion.

## Study Geography and Definitions

This Study organizes the DTLA office market into the following categories:

- **“All DTLA Office”:** The DTLA Office Market includes all DTLA office buildings, excluding government buildings, and comprises approximately 56.5 million square feet.
- **“At Risk” Office Sample:** The **“At Risk” Office Sample** includes 54 office buildings in the DTLA Office Market with a combined footprint of 27.8 million square feet. Criteria for these properties include vacancies exceeding 30 percent, broker interviews, and other factors. The At-Risk Sample faces a high vacancy rate of 31.3 percent, and a baseline assessed value of approximately \$346/sf, which is significantly overvalued based on recent sales.
- **“Targeted Conversion” Office Sample:** This sample includes a subset of **10 office buildings within the “At Risk” Office Sample** that could be candidates for conversion to residential space based in part on a scoring tool developed by Gensler. The “Targeted Conversion” Sample comprises approximately 4.85 million square feet.
- **“Rest of DTLA” Office Sample:** This sample includes 298 office buildings in DTLA with a total footprint of 28.6 million square feet, and **excludes** government buildings and all buildings in the “At Risk” Sample. With a combined vacancy rate of 21.2 percent, these properties are healthier overall than properties in the “At Risk” Sample, but are still likely currently overvalued with a baseline assessed value of \$286/sf.

## Targeted Conversion versus No Intervention

The OTR Conversion Study compares the net tax environment for the City and County of Los Angeles under two OTR scenarios: the “No Intervention” Scenario and the “Targeted Conversion” Scenario.

- **“No Intervention” Scenario:** Under the “No Intervention” Scenario, no policy intervention takes place to incentivize the conversion of declining office space in DTLA into higher performing uses such as residential.<sup>1</sup>
- **“Targeted Conversion” Scenario:** Under the Targeted Conversion scenario, some level of policy intervention occurs to help accelerate the conversion of office buildings in the DTLA Office Market.

In this scenario, properties in the “Targeted Conversion” Office Sample are repurposed into higher-performing residential uses over a ten (10) year period, while simultaneously removing idle, unoccupied office space from the vacancy pool.

## Key Study Findings

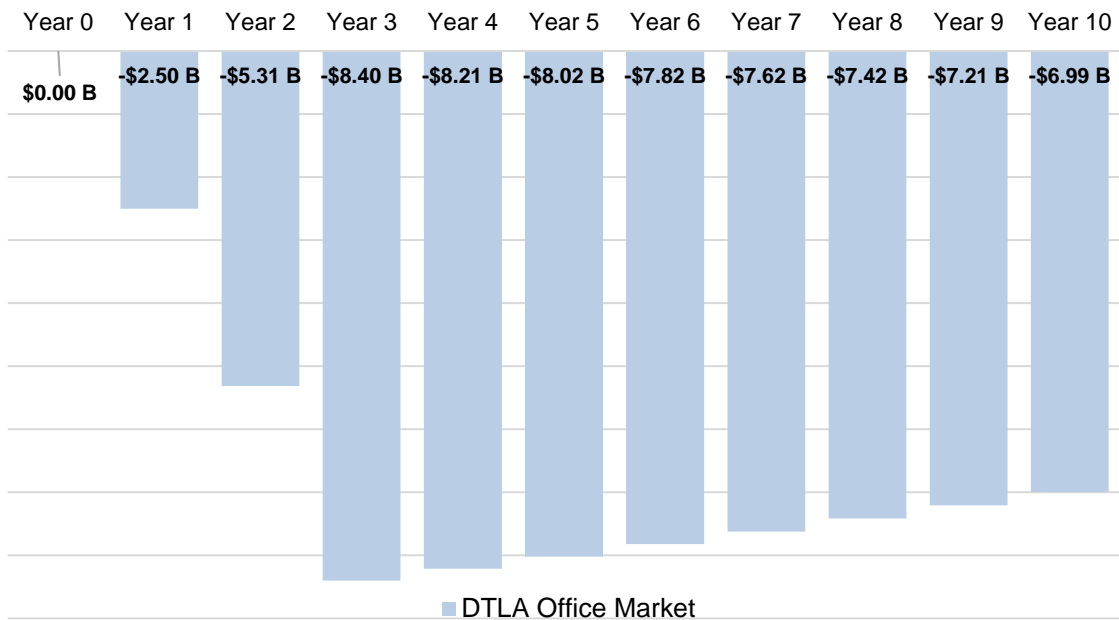
### **The Baseline Assessed Value of office buildings in Downtown Los Angeles will decline precipitously over the next several years.**

- The Baseline Assessed Value for all properties in the DTLA Office Market is approximately \$17.9 billion, or \$315/sf, according to 2024-25 Assessor Data from Los Angeles County and CoStar.
- Based on recent transaction and re-assessment activity, however, actual values in the DTLA Office Market range from \$100 to \$150/sf
- As shown in Figure 1 below, up to \$8.4 billion in Assessed Value could be wiped out by year 3 from the DTLA Office Market, where combined vacancy rates exceed 22 percent and are still climbing, through a combination of requests for re-appraisal, distressed sales, and other factors.<sup>2</sup>

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<sup>1</sup> The proposed expanded adaptive reuse provisions under the DTLA 2040 Community Plan are assumed under this scenario. Based on financial feasibility analyses of adaptive reuse in Los Angeles and nationwide, while helpful economically, these provisions are not likely to yield financially viable conversion projects without additional policy intervention, such as financial incentive programs as evidenced in other North American cities.

**Figure 1: Annual Loss in Assessed Value from Base Year, DTLA Office Market**

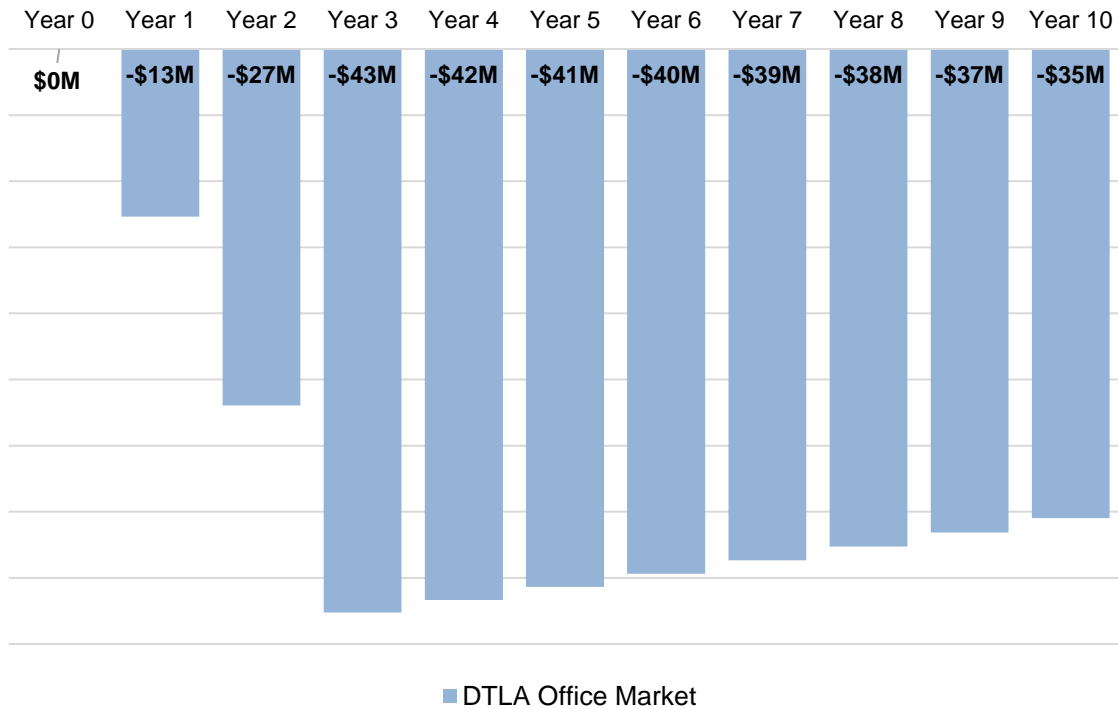


Sources: Los Angeles County Controller, 2024; BAE, 2024.

**Significant tax revenue is at stake for both the City of Los Angeles and Los Angeles County as office devaluation trends persist.**

- If valuation trends mirror those shown in Figure 1, the City and County of Los Angeles could stand to lose up to \$43 million per year in property tax revenue by year 3.
- These fiscal impacts will be magnified even further when considering declining office values not only in DTLA, but in other major submarkets like Hollywood, Koreatown, the Miracle Mile, and others.

**Figure 2: Annual Decline in Property Tax Rev from Base Year, LA City and County**



**Notes:**

Assumes City of Los Angeles Share of Base 1% Property Tax (26.28%); County Share (24.46%).  
 Sources: Los Angeles County Controller, 2024; BAE, 2024.

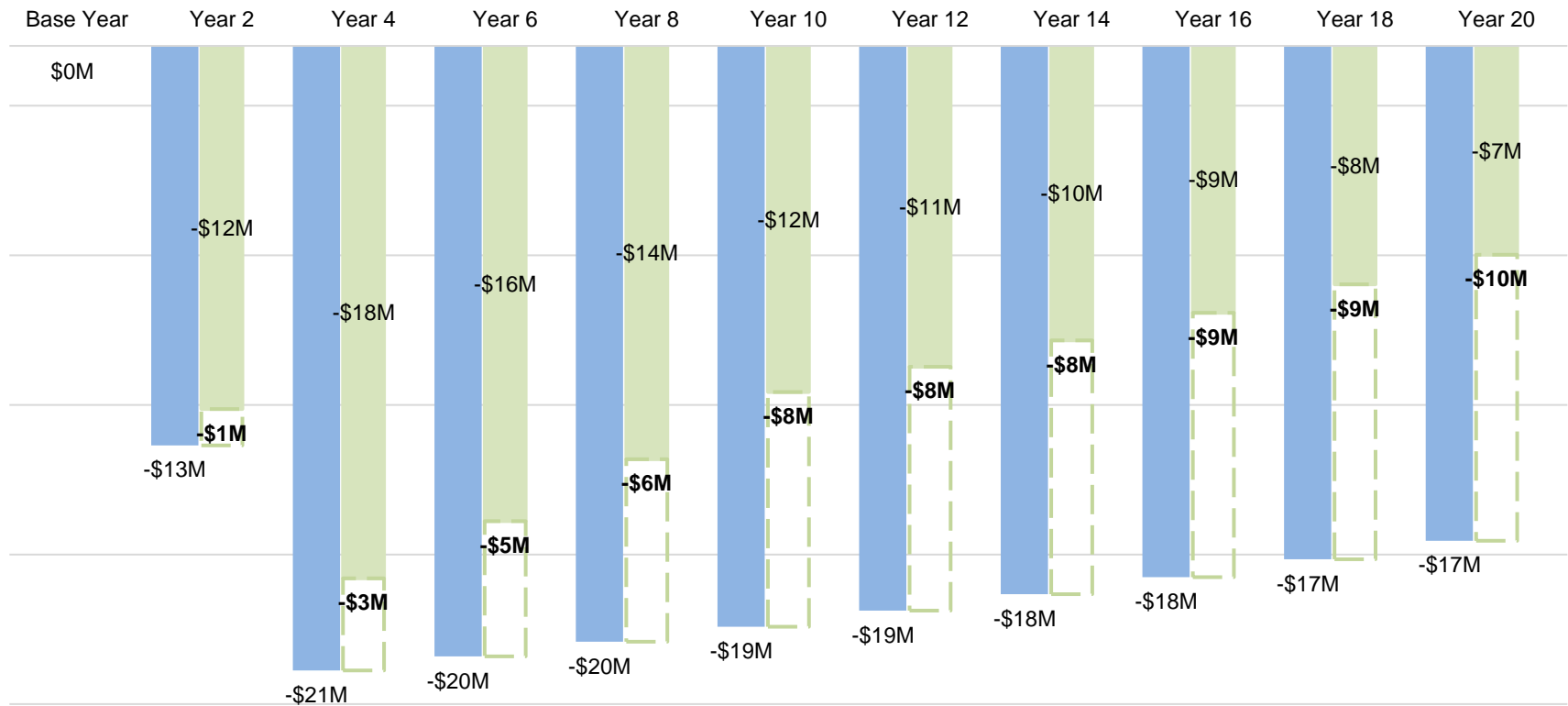
**The DTLA office market features a pool of strong candidate buildings for conversion to housing, which would result in the creation of thousands of new units.**

- Not all buildings in the DTLA office market are suitable for conversion to other uses. However, based on a yield analysis from architecture firm Gensler and CBRE, approximately 3,859 new residential units could be re-purposed from the “Targeted Conversion” office sample over a ten (10) year forecast period.

**The fiscal benefits of a “Targeted Conversion” Scenario are significant when compared to the No Intervention scenario.**

- Figure 3 below displays in green the annual General Fund Revenue from Property Tax and In-Lieu Vehicle License Fee (ILVLF) alone that could be recovered in the City of Los Angeles under a Targeted Conversion Scenario.
- Over a 20 year period up to \$130 million in General Fund revenue could be recovered, with a total recovery share that increases each year (a Net Present Value of approximately \$67 million).
- When including the County’s share of Property Tax revenue, up to \$261 million in General Fund revenue could be recovered.

**Figure 3: Potential General Fund Recovery, Targeted Conversion, City of Los Angeles**



Cumulative:	\$129,157,000
NPV:	\$67,418,000

■ Targeted Conversion 
 ▨ Targeted Conversion Savings 
 ■ No Intervention Loss

Sources: Los Angeles County Controller, 2024; Gensler, BAE, 2024.

**The economic impact of a Targeted Conversion Scenario, whereby office space from the “Targeted Conversion” Sample is gradually repurposed into residential space, would also be significant.**

- During the 10-year construction phase of a Targeted Conversion Scenario, anywhere from \$169 million to \$233 million per year in annual economic impacts could be generated for the City of Los Angeles, or \$248 million to \$342 million per year for Los Angeles County as a whole.
- Conversion of these office properties could also support anywhere from 1,421 to 1,964 jobs annually over the construction period.
- Cumulative economic impacts for the City of Los Angeles could approach \$643 million over the construction period, or \$2.44 billion for Los Angeles County as a whole.
- Conversion of these office buildings could generate up to \$147 million per year in ongoing economic impacts to the City of Los Angeles, or \$445 million per year for Los Angeles County.

## **Takeaways and Next Steps**

**Land use and regulatory changes alone are unlikely to facilitate office-to-residential conversions in the near-to-medium term.**

- Financial analyses of adaptive reuse in Los Angeles, prepared for the Department of City Planning for the DTLA 2040 Community Plan Update and Citywide Adaptive Reuse Ordinance, have shown that conversion projects are largely financially infeasible.
- San Francisco, Chicago, Boston, Washington DC, New York City and Calgary, among other cities, have all paired regulatory interventions with additional financial support.
- Possible mechanisms for financial support could include Property Tax Abatement programs, Direct City Grant Programs, Transfer Tax Exemptions, Tax-Increment Financing (TIF), Fee Deferrals and/or Waivers, and others.

**Financial feasibility analysis is needed to better understand what specific incentives might be appropriate for facilitating targeted OTR conversions in the DTLA context.**

- By conducting a pro-forma analysis on representative buildings in the Targeted Conversion Sample, policymakers can begin to understand the size and amount of financial incentive(s) that may be needed based on the feasibility gap that projects are facing.
- To help prioritize the recommended incentives for local policymakers, the Study recommends conducting a pro-forma analysis to identify any financial feasibility gaps that may be preventing the immediate revitalization of office properties in the Targeted Conversion Sample.
- Based on the financial feasibility gap(s) identified for each building typology, the Study will provide an overview of recommended funding tools that could be used as an OTR incentive program to help bridge any financial gaps.

# FISCAL IMPACT ANALYSIS

The following section includes a high-level fiscal impact analysis that compares the net tax environment for the City and County of Los Angeles under two scenarios:

- **“No Intervention” Scenario:** Under the “No Intervention” Scenario, **no** policy intervention takes place to incentivize the conversion of declining office space in Downtown Los Angeles into higher performing uses such as residential.
- **“Targeted Revitalization” Scenario:** Under the Targeted Revitalization Scenario, some level of policy intervention occurs that helps accelerate the conversion of 4.7 million square feet of office space in the “Targeted Conversion” dataset. Properties in the dataset are repurposed into higher-performing residential uses over a ten (10) year period, while simultaneously removing idle, unoccupied office space from the vacancy pool.

The fiscal impact analysis includes the following steps:

**Step 1: Identify Sample of DTLA Office Properties “At Risk”:** The first step of the fiscal impact analysis is to identify the universe of office buildings in the Downtown Los Angeles office market that could be “at risk” of devaluation. Criteria for these office properties include assessed valuations that exceed the value of recent transactions, vacancies in excess of 30 percent, broker interviews, and other factors. The sample excludes office buildings controlled by government agencies (e.g., City Hall, Courthouse, DWP, etc.) that do not pay property tax.

The “At Risk” Office Sample includes 54 office buildings in the Downtown Los Angeles area, with a total area of approximately 27.8 million square feet. At Risk buildings are not identified in this report by individual property due to privacy considerations.

**Step 2: Establish Baseline Assessed Value:** The next step includes calculating the baseline assessed value for properties in the “At Risk” office dataset. Utilizing tax roll preparation data furnished from the the Los Angeles County Assessor office, the Baseline Assessed Value of buildings in the “At Risk” dataset was over \$9.6 billion in 2024-25. This equates to an Assessed Value of approximately \$346/sf.

For sake of comparison, the project team also calculated the Baseline Assessed Value of the “remaining” DTLA office sample, which includes buildings with healthier occupancy rates and leasing activity. The Baseline Assessed Value of these office buildings was approximately \$8.2 billion, or \$286/sf.

**Step 3: Estimate Potential Decline in Assessed Value:** Step 3 identifies whether the current assessed value established in Step 2 exceeds the likely value based on recent transaction

data. If recent transaction data indicates that actual values are lower, the City of Los Angeles has not yet seen the fiscal impact of reduced valuations.

Recent transaction data noted in the Appendix suggest that a \$100/sf to \$150/sf valuation for properties in the “At Risk” Office Sample may be more appropriate than the current valuation.

**Step 4: Quantify the net impact to the City of Los Angeles:** Step 4 estimates the direct impact to the City’s General Fund that might accompany a decline in assessed value for the DTLA Office Sample. Specifically, the Fiscal Impact section focuses on the City’s two largest sources of General Fund Revenue: Property Tax and Property Tax In-Lieu of Vehicle License Fees (ILVLF).

## Assessed Valuation Model – At Risk Office Sample

- **“No Intervention” Scenario**

Table 1 estimates the potential decline in assessed value for properties in the At Risk Office Sample over a 10 period under the “No Intervention” Scenario. As shown in the table, the cumulative assessed value of properties in the At Risk Office Sample could decline from \$9.6 billion to \$3.5 billion in as little as three years, assuming no policy intervention takes place.

Table 2 summarizes the assessed valuation assumptions for the At Risk Office Sample, whereby office values reach a trough of \$115/sf by Year 3, and slowly recover thereafter.

- **“Targeted Conversion” Scenario**

Table 3 estimates the potential recovery in assessed value under the Targeted Conversion Scenario, whereby 4.7 million square feet of office space in the At Risk Office Sample is instead repurposed into higher-performing residential uses over a ten year period.<sup>3</sup>

As shown in the table, policy interventions to address the decline in the DTLA office market could save up to \$12.34 billion in assessed value over the 10 year period.

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<sup>3</sup> See IMPLAN chapter for additional details.

**Table 1: Change in Assessed Value, No Intervention Scenario, “At Risk” Office Sample, Years 1-10**

Year	0	1	2	3	4	5	6	7	8	9	10
<b>No Intervention</b>											
<b>Change in Property Status</b>											
Additional Property Devalued	0	9,279,699	9,279,699	9,279,699	0	0	0	0	0	0	0
Total Property Devalued	0	9,279,699	18,559,399	27,839,098	27,839,098	27,839,098	27,839,098	27,839,098	27,839,098	27,839,098	27,839,098
At-Risk Properties not Devalued	27,839,098	18,559,399	9,279,699	0	0	0	0	0	0	0	0
<b>Change in Assessed Value</b>											
Total AV of Properties Devalued	\$0	\$1,206,360,913	\$2,344,052,052	\$3,458,098,516	\$3,527,260,486	\$3,597,805,696	\$3,669,761,810	\$3,743,157,046	\$3,818,020,187	\$3,894,380,591	\$3,972,268,203
AV of Properties Not Devalued	<u>\$9,656,285,323</u>	<u>\$6,566,274,020</u>	<u>\$3,348,799,750</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total AV, No Intervention</b>	<b>\$9,656,285,323</b>	<b>\$7,772,634,933</b>	<b>\$5,692,851,802</b>	<b>\$3,458,098,516</b>	<b>\$3,527,260,486</b>	<b>\$3,597,805,696</b>	<b>\$3,669,761,810</b>	<b>\$3,743,157,046</b>	<b>\$3,818,020,187</b>	<b>\$3,894,380,591</b>	<b>\$3,972,268,203</b>

**Table 2: Assessed Value Assumptions by Product Type, “At Risk” Sample, Years 1-10**

Year	0	1	2	3	4	5	6	7	8	9	10
AV Newly-Devalued Properties, No Intervention	N/A	\$130.00	\$120.00	\$115.00	\$117.30	\$119.65	\$122.04	\$124.48	\$126.97	\$129.51	\$132.10
AV Newly-Devalued Properties, Conversion Scenario	N/A	\$130.00	\$135.20	\$140.61	\$146.23	\$152.08	\$158.16	\$164.49	\$171.07	\$177.91	\$185.03
AV At-Risk Properties Not Devalued	\$346.86	\$353.80	\$360.87	\$368.09	\$375.45	\$382.96	\$390.62	\$398.43	\$406.40	\$414.53	\$422.82
AV Value of Newly Converted Properties	N/A	\$350.00	\$360.50	\$371.32	\$382.45	\$393.93	\$405.75	\$417.92	\$430.46	\$443.37	\$456.67

**Table 3: Recovered Assessed Value, Targeted Conversion Scenario, “At Risk” Office Sample, Years 1-10**

Year	0	1	2	3	4	5	6	7	8	9	10
<b>Conversion Scenario</b>											
<b>Change in Property Status</b>											
Additional Property Devalued	0	8,794,921	8,794,921	8,794,921	0	0	0	0	0	0	0
Additional Property Converted	0	484,778	484,778	484,778	484,778	484,778	484,778	484,778	484,778	484,778	484,778
Previously Devalued Property Converted	0	0	0	0	484,778	484,778	484,778	484,778	484,778	484,778	484,778
Total Property Devalued	0	8,794,921	17,589,842	26,384,763	25,899,984	25,415,206	24,930,428	24,445,649	23,960,871	23,476,092	22,991,314
Total Property Converted	0	484,778	969,557	1,454,335	1,939,114	2,423,892	2,908,670	3,393,449	3,878,227	4,363,006	4,847,784
At-Risk Properties not Devalued or Converted	27,839,098	18,559,399	9,279,699	0	0	0	0	0	0	0	0
<b>Change in Assessed Value</b>											
Total AV of Properties Devalued	\$0	\$1,143,339,721	\$2,355,279,826	\$3,639,021,665	\$3,711,802,098	\$3,786,038,140	\$3,861,758,903	\$3,938,994,081	\$4,017,773,963	\$4,098,129,442	\$4,180,092,031
Total AV of Converted Properties	\$0	\$169,672,440	\$347,828,502	\$534,790,564	\$730,892,031	\$936,477,698	\$1,151,904,113	\$1,377,539,962	\$1,613,766,460	\$1,860,977,760	\$2,119,581,365
AV of Properties Not Devalued or Converted	<u>\$9,656,285,323</u>	<u>\$6,566,274,020</u>	<u>\$3,348,799,750</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total AV, Conversion Scenario</b>	<b>\$9,656,285,323</b>	<b>\$7,879,286,181</b>	<b>\$6,051,908,078</b>	<b>\$4,173,812,229</b>	<b>\$4,442,694,130</b>	<b>\$4,722,515,838</b>	<b>\$5,013,663,016</b>	<b>\$5,316,534,043</b>	<b>\$5,631,540,423</b>	<b>\$5,959,107,202</b>	<b>\$6,299,673,396</b>

Sources: City of Los Angeles FY 2024-2025 Proposed Budget; Los Angeles County Assessor's Office, 2024; BAE, 2024.

## General Fund Impacts

Table 4 estimates the ongoing annual impacts to the General Fund operating budget for the two largest sources of General Fund Revenue:

- *Share of Property Tax*
- *Property Tax In-Lieu of Vehicle License Fees (ILVLF)*

Under the Targeted Conversion Scenario, up to \$129 million in City General Fund Revenue *from Property Tax and ILVLF alone* could be recovered over a 20 year period when compared to the No Intervention Scenario. When factoring in General Fund impacts to Los Angeles County as well (shown in the far right column), more than \$260 million in General Fund Revenue between the two taxing entities could be recovered.

**Table 4: Fiscal Impact, Conversion Scenario, Years 1-20, City and County of Los Angeles**

<u>Year</u>	<u>Assessed Value Recovered Under Conversion</u>	<u>Annual Property Tax Revenue Saved City of LA <sup>(a)</sup></u>	<u>Annual ILVLF Revenue Saved City of LA <sup>(b)</sup></u>	<u>Annual Tax + ILVLF Revenue Saved City Alone</u>	<u>Annual Tax + ILVLF Revenue Saved City + County <sup>(c)</sup></u>
0	\$0	\$0	\$0	\$0	\$0
1	\$106,651,248	\$280,279	\$79,012	\$359,292	\$725,982
2	\$359,056,276	\$943,600	\$266,006	\$1,209,606	\$2,444,120
3	\$715,713,713	\$1,880,896	\$530,235	\$2,411,131	\$4,871,910
4	\$915,433,643	\$2,405,760	\$678,197	\$3,083,957	\$6,231,417
5	\$1,124,710,142	\$2,955,738	\$833,239	\$3,788,977	\$7,655,976
6	\$1,343,901,206	\$3,531,772	\$995,626	\$4,527,399	\$9,148,024
7	\$1,573,376,997	\$4,134,835	\$1,165,633	\$5,300,468	\$10,710,080
8	\$1,813,520,236	\$4,765,931	\$1,343,543	\$6,109,474	\$12,344,751
9	\$2,064,726,612	\$5,426,102	\$1,529,648	\$6,955,750	\$14,054,729
10	\$2,327,405,194	\$6,116,421	\$1,724,253	\$7,840,674	\$15,842,800
11	\$2,373,953,297	\$6,238,749	\$1,758,738	\$7,997,488	\$16,159,656
12	\$2,421,432,363	\$6,363,524	\$1,793,913	\$8,157,437	\$16,482,849
13	\$2,469,861,011	\$6,490,795	\$1,829,791	\$8,320,586	\$16,812,506
14	\$2,519,258,231	\$6,620,611	\$1,866,387	\$8,486,998	\$17,148,756
15	\$2,569,643,395	\$6,753,023	\$1,903,715	\$8,656,738	\$17,491,731
16	\$2,621,036,263	\$6,888,083	\$1,941,789	\$8,829,872	\$17,841,565
17	\$2,673,456,989	\$7,025,845	\$1,980,625	\$9,006,470	\$18,198,397
18	\$2,726,926,128	\$7,166,362	\$2,020,237	\$9,186,599	\$18,562,365
19	\$2,781,464,651	\$7,309,689	\$2,060,642	\$9,370,331	\$18,933,612
20	<u>\$2,837,093,944</u>	<u>\$7,455,883</u>	<u>\$2,101,855</u>	<u>\$9,557,738</u>	<u>\$19,312,284</u>
<b>Cumulative Impact, Prop Tax and ILVLF Only</b>				<b>\$129,156,984</b>	<b>\$260,973,507</b>
Net Present Value (5% discount rate)				<b>\$67,418,511</b>	<b>\$136,225,272</b>

Notes:

- (a) City share of property tax revenue equal to 26.28 percent of the base 1.0 percent property tax.  
 (b) City of Los Angeles received an estimated \$634.9 million in property tax ILVLF revenue in the 2023-2024 fiscal year. This amounts to approximately \$0.74 per \$1,000 in assessed value.  
 (c) County share of property tax revenue equal to 24.46 percent of the base tax, and \$0.99 in ILVLF revenue per \$1,000 in assessed value.

Sources: City of Los Angeles FY 2024-2025 Proposed Budget; Los Angeles County Assessor's Office, 2024; BAE, 2024.

It should be noted that *not* included in the Fiscal Impact model are other modest sources of revenue that might accrue to the City’s General Fund under the Targeted Conversion Scenario, such as the Electric Users’ Tax, Telephone Users’ Tax, and Gas Users’ Tax (collectively referred to as Utility Users’ Tax).

A revitalized Downtown area would also potentially drive greater indirect Sales Taxes, Business License Taxes and Transient Occupancy Taxes based on improved economic conditions as well as Sales Tax from materials used during construction activity. **As such, the fiscal and economic benefits described here likely underestimate the full impact of a Targeted Conversion Scenario.**

## Additional Impacts

### ***New Resident Sales Tax***

Under the Targeted Conversion Scenario, up to 3,859 new residential units could be re-purposed from office properties in the “Targeted Conversion” Sample over a ten (10) year period.

Based on household incomes associated with assumed rents in these newly-converted units, over \$79 million per year in additional taxable spending could be generated by Year 10. Such taxable spending would support and attract a range of businesses in the local economy, from specialty stores and personal services establishments to entertainment, food, beverage, and other community-serving retail.

As shown in Table 5, taxable sales from new retail spending could contribute an additional \$4.03 million in General Fund Revenue for the City of Los Angeles alone.

**Table 5: Estimated Sales Tax Revenue by Year, Targeted Conversion Scenario**

<b>Year</b>	<b>Taxable Expenditures per Capita</b>	<b>Residents in Converted Properties</b>	<b>Taxable Sales from Residents in Converted Properties</b>	<b>City Sales Tax Revenue from Residents in Converted Properties</b>
0	\$10,798	0	\$0	\$0
1	\$11,122	550	\$6,117,646	\$61,176
2	\$11,456	1,100	\$12,602,351	\$126,024
3	\$11,799	1,650	\$19,470,632	\$194,706
4	\$12,153	2,200	\$26,739,669	\$267,397
5	\$12,518	2,750	\$34,427,323	\$344,273
6	\$12,893	3,300	\$42,552,171	\$425,522
7	\$13,280	3,850	\$51,133,526	\$511,335
8	\$13,679	4,400	\$60,191,465	\$601,915
9	\$14,089	4,950	\$69,746,860	\$697,469
10	\$14,512	5,501	\$79,821,406	\$798,214
<b>Total</b>				<b>\$4,028,031</b>

### **Assumptions**

Taxable Expenditures per Capita, Year 0	\$10,798
Annual Increase in Taxable Expenditures	3.0%

Sources: City of Los Angeles FY 2024-2025 Proposed Budget; Los Angeles County Assessor’s Office, 2024; BAE, 2024.

### ***Reduction in Existing Office Vacancy Rate***

Over 14.2 million square feet of office space in the DTLA Office Market was vacant in Q4 2024 according to CoStar, contributing to an overall vacancy rate of 22.2 percent. This is the highest office vacancy rate on record, and is expected to continue climbing for several years.

The “At Risk” Office Sample faces an even higher vacancy rate of 31.3 percent. Under a Targeted Conversion Scenario, however, at least 4.7 million square feet of this vacant office space would be removed from the market, decreasing the vacancy rate to 13.9 percent. The last time vacancy rates approached this level was in Q3 2017, when they dropped to 15.3 percent, according to CoStar.

Declining vacancies and increasing occupancy rates are directly correlated with a commercial building’s ability to generate lease revenue, which further translates into boosting net operating income (NOI) and ultimately an asset’s underlying value.

To this end, interventions to help reduce the upward pressure on office vacancy rates via Targeted Conversion will translate not only into higher valuations for the converted properties themselves, but for DTLA’s remaining office inventory as well.

# ECONOMIC IMPACT ANALYSIS

The following section provides an Economic Analysis to estimate the potential economic impact(s) to the City and County of Los Angeles assuming office properties in the Conversion Eligible dataset were to convert to residential use over a ten (10) year construction period.

The Analysis utilizes an IMPLAN input/output model to describe the direct, indirect and induced economic impacts (e.g., jobs and economic output). More information about the IMPLAN model can be found in the Appendix.

### Key Findings

- Conversion of underperforming offices under a Targeted Conversion Scenario could generate anywhere from \$169 million to \$233 million per year in annual economic impacts for the City of Los Angeles during the construction phase, and \$248 million to \$342 million per year for Los Angeles County as a whole.
- Conversion of these office properties are estimated to support between 1,421 to 1,964 jobs annually over the construction period.
- Cumulative economic impacts for the City of Los Angeles could approach \$643 million over the 10-year construction period, and \$2.44 billion for Los Angeles County as a whole.
- Conversion of these offices could generate up to \$147 million per year in ongoing economic impacts to the City of Los Angeles, and \$445 million per year for Los Angeles County.
- Approximately 3,859 new residential units could be re-purposed from the top conversion candidate office properties in the dataset over a ten (10) year forecast period.

### City of Los Angeles Impacts

#### Impacts from Construction Period

Table 6 displays the annual direct, indirect and induced economic impacts for the City of Los Angeles during the construction phase of the office-to-residential conversions.

Economic impacts are broken down into Labor Income (e.g., wages paid to workers during the construction period) and Value Added (the additional value created by adapting the buildings to a higher and better use). As shown in the table, the conversion of underperforming offices in the Conversion Eligible dataset could generate anywhere from \$169 million to \$233 million per year in economic impacts to the City of Los Angeles during the construction phase.

Conversion of these office properties could support anywhere from 1,421 to 1,964 jobs annually over the construction period, generating \$98.5 to \$136.1 million per year in labor income.

**Table 6: Annual Average Impacts of Proposed Project Construction, 10-Year Construction Period, City of LA**

<b>Low Estimate (a)</b>				
<u>Impact Type</u>	<u>Employment (c)</u>	<u>Labor Income</u>	<u>Total Value Added</u>	<u>Output</u>
Direct Effect	1,335	\$92,604,419	\$120,280,172	\$151,300,000
Indirect Effect	29	\$2,153,264	\$4,110,067	\$6,393,396
Induced Effect	57	\$3,731,037	\$7,011,371	\$10,821,070
<b>Total</b>	<b>1,421</b>	<b>\$98,488,719</b>	<b>\$131,401,611</b>	<b>\$168,514,466</b>

<b>High Estimate (b)</b>				
<u>Impact Type</u>	<u>Employment (c)</u>	<u>Labor Income</u>	<u>Total Value Added</u>	<u>Output</u>
Direct Effect	1,845	\$128,011,991	\$166,269,650	\$209,150,000
Indirect Effect	40	\$2,976,570	\$5,681,563	\$8,837,929
Induced Effect	78	\$5,157,610	\$9,692,190	\$14,958,539
<b>Total</b>	<b>1,964</b>	<b>\$136,146,171</b>	<b>\$181,643,403</b>	<b>\$232,946,468</b>

**Notes:**

Analysis based on estimated annual average construction expenditures for conversion of office buildings to residential use. Estimates are of impacts within City of Los Angeles. Construction is assumed to occur over a ten-year period. All dollar figures are in 2024 dollars.

(a) Low estimate based on rentable floor area from Gensler Conversion Candidate Summary Draft Report, except for assets where specific estimates of building size for construction are provided.

(b) High estimate based on gross floor area from Gensler Conversion Candidate Summary Draft Report, except for assets where specific estimates of building size for construction are provided.

(c) All job estimates show annual average jobs supported during the construction period.

May include both full and part-time jobs. All employment and labor income by place of work.

Sources: IMPLAN; Gensler; Swinerton; BAE, 2024.

Table 7 displays the ongoing annual economic impacts for the City of Los Angeles related to household spending from new residents living in new housing units from the dataset. Ongoing economic impacts are conservatively assumed to only result from the household spending of employees of business establishments that the new households residing in Converted Properties would patronize. This does not account for potential ground-floor retail that might be included in conversion projects, home office or other uses that would further support increased ongoing economic impacts.

As shown in the table, the conversion of underperforming offices in the Conversion Eligible dataset could generate up to \$116 million per year in economic impacts to the City of Los Angeles.

In addition, up to 602 new jobs could be induced each year resulting from the converted properties. Here again, this is a conservative approach that does not account for onsite building managers, security, parking attendants and other related employees or those who would be employed in ground floor commercial uses or otherwise.

**Table 7: Ongoing Annual Impacts of Proposed Project When Completed, City of LA**

<u>Impact Type</u>	<u>Employment</u>	<u>Labor Income</u>	<u>Total Value Added</u>	<u>Output</u>
Direct Effect	0	\$0	\$0	\$0
Indirect Effect	0	\$0	\$0	\$0
Induced Effect	602	\$39,920,074	\$75,721,080	\$116,930,806
<b>Total</b>	<b>602</b>	<b>\$39,920,074</b>	<b>\$75,721,080</b>	<b>\$116,930,806</b>

Notes:

Impacts result from expenditures of the residents of the completed project(s). Assumes conversion of office buildings to residential use results in additional new residents in the City of Los Angeles.

## Los Angeles County Impacts

### Impacts from Construction

As shown in the table, the conversion of underperforming offices in the Conversion Eligible dataset could generate anywhere from \$248 million to \$342 million per year in economic impacts to the County of Los Angeles during the construction phase.

Conversion of these office properties could support anywhere from 1,809 to 2,500 jobs annually over the construction period, generating \$125 to \$173 million per year in labor income.

**Table 8: Annual Average Impacts of Proposed Project Construction, 10-Year Construction Period, LA County**

<b>Low Estimate (a)</b>				
<u>Impact Type</u>	<u>Employment (c)</u>	<u>Labor Income</u>	<u>Total Value Added</u>	<u>Output</u>
Direct Effect	1,335	\$92,604,419	\$120,280,172	\$151,300,000
Indirect Effect	104	\$7,743,761	\$14,566,497	\$23,724,625
Induced Effect	369	\$24,882,235	\$45,907,137	\$73,000,611
<b>Total</b>	<b>1,809</b>	<b>\$125,230,415</b>	<b>\$180,753,806</b>	<b>\$248,025,236</b>
<b>High Estimate (b)</b>				
<u>Impact Type</u>	<u>Employment (c)</u>	<u>Labor Income</u>	<u>Total Value Added</u>	<u>Output</u>
Direct Effect	1,845	\$128,011,991	\$166,269,650	\$209,150,000
Indirect Effect	144	\$10,704,611	\$20,136,040	\$32,795,805
Induced Effect	510	\$34,396,031	\$63,459,866	\$100,912,609
<b>Total</b>	<b>2,500</b>	<b>\$173,112,632</b>	<b>\$249,865,556</b>	<b>\$342,858,414</b>

Notes:

Analysis based on estimated annual average construction expenditures for conversion of office buildings to residential use. Estimates are of impacts within City of Los Angeles. Construction is assumed to occur over a ten-year period. All dollar figures are in 2024 dollars.

(a) Low estimate based on rentable floor area from Gensler Conversion Candidate Summary Draft Report, except for assets where specific estimates of building size for construction are provided.

(b) High estimate based on gross floor area from Gensler Conversion Candidate Summary Draft Report, except for assets where specific estimates of building size for construction are provided.

(c) All job estimates show annual average jobs supported during the construction period. May include both full and part-time jobs. All employment and labor income by place of work.

Sources: IMPLAN; Gensler; Swinerton; BAE, 2024.

### **Ongoing Impacts, Los Angeles County**

Table 9 displays the ongoing annual economic impacts for the County of Los Angeles related to household spending from new residents living in new housing units from the dataset. Ongoing economic impacts are conservatively assumed to only result from the household spending of employees of business establishments that the new households residing in Converted Properties would patronize. This does not account for potential ground-floor retail that might be included in conversion projects, home office or other uses that would further support increased ongoing economic impacts.

As shown in the table, the conversion of underperforming offices in the Conversion Eligible dataset could generate up to \$444 million per year in economic impacts to the County of Los Angeles.

Up to 2,225 new jobs could be induced each year resulting from the converted properties. Here again, this is a conservative approach that does not account for onsite building managers, security, parking attendants and other related employees or those who would be employed in ground floor commercial uses or otherwise.

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**Table 9: Ongoing Annual Impacts of Proposed Project When Completed, LA County**

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<b><u>Impact Type</u></b>	<b><u>Employment</u></b>	<b><u>Labor Income</u></b>	<b><u>Total Value Added</u></b>	<b><u>Output</u></b>
Direct Effect	0	\$0	\$0	\$0
Indirect Effect	0	\$0	\$0	\$0
Induced Effect	2,225	\$150,761,274	\$279,126,148	\$444,446,393
<b>Total</b>	<b>2,225</b>	<b>\$150,761,274</b>	<b>\$279,126,148</b>	<b>\$444,446,393</b>

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Notes:  
Impacts result from expenditures of the residents of the completed project(s). Assumes conversion of office buildings to residential use results in additional new residents in the City of Los Angeles.

### **New Resident Assumptions**

To estimate the number of new households that could be accommodated by properties in the Conversion Eligible dataset, the Project Team utilized efficiency estimates produced by Gensler by individual property. Due to the uncertainties of individual building layouts, it should be noted that yield estimates are conservative, and the real universe of potential buildings in DTLA that might be converted could be greater.

As shown in the table, up to 3,859 new residential units could be re-purposed from office properties in the dataset. New residential units would be split between studios (1,405 new units), one-bedrooms (1,628 new units), and two-bedrooms (785 new units).

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**Table 10: Rent and Income Calculation**

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	<u>Studio</u>	<u>1 BR</u>	<u>2 BR</u>
Contract Rent (a)	\$2,304	\$2,959	\$4,074
Utility Allowance (b)	\$42	\$60	\$76
Gross Rent	\$2,346	\$3,019	\$4,150
Household Income (c)	\$93,840	\$120,760	\$166,000
Number of New Residential Units (d)	1,405	1,628	826
Vacancy Factor	5%	5%	5%
Number of Households (e)	1,335	1,547	785
Total HH Income after All Conversions	\$125,276,400	\$186,815,720	\$130,310,000
Total Conversion Period	10		
Average Increase in HH Income per Year during Conversion Period	\$12,527,640	\$18,681,572	\$13,031,000

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- (a) Rents derived from average asking rents per CoStar for existing units for the Financial District.  
(b) Utility allowance from Housing Authority of the City of Los Angeles (HACLA).  
(c) Income calculated for a rent burden of 30 percent of income.  
(d) Based on number of new units created through conversion of selected properties per Gensler C  
(e) Total new units less vacancy factor.

Sources: IMPLAN; Gensler; HACLA; BAE, 2024.

To estimate the potential household income generated by these new residents, BAE analyzed 2024 asking rents from CoStar for the submarket areas associated with the Conversion Eligible dataset. Q2 2024 Asking rents in market-rate projects were \$2,304/month for studios; \$2,959/month for one-bedrooms, and \$4,074/month for two-bedroom units.

Annual household incomes associated with these new residents are calculated assuming a rent burden of thirty percent.

## NEXT STEPS AND LOOKING AHEAD

If current trends continue, the declining office market in DTLA will have significant implications not only for the City of Los Angeles, but for Los Angeles County as well. As shown in the previous chapters, declining assessed values are likely to translate into significant losses in General Fund revenue via reduced property tax and ILVLF receipts alone. Moreover, while not captured in the scope of this study, continued unmitigated degradation of the office market would also exacerbate negative economic and fiscal ripple effects associated with reduced foot traffic and activity in urban cores, fewer business and leisure visitors, less investment and construction, and public safety challenges.

As this Study also makes clear, targeted OTR conversions where appropriate could help to mitigate these fiscal impacts, as well as provide additional economic, social, and quality-of-life benefits for the Downtown Los Angeles community. The following section outlines some key considerations and next steps for stakeholders to consider as they explore ways to facilitate the conversion of under-performing office space.

### Toolbox of Possible Incentives

Land use and regulatory changes **alone** are unlikely to facilitate OTR conversions in the near-to-medium term, based on recent adaptive reuse analyses prepared for the City of Los Angeles as well as a survey of other central business districts across North America. As such, cities with high concentrations of office buildings such as San Francisco, Chicago, and Calgary have all paired regulatory interventions with additional financial support. Such financial support has included but is not limited to the following:

- Property Tax Abatement programs
  - (New York City, Washington DC, and Boston)
- Direct City Grant Programs
  - (Calgary)
- Transfer Tax Exemptions
  - (San Francisco)
- Tax-Increment Financing (TIF)
  - (Chicago)
- Fee Deferrals and/or Waivers (e.g Impact, In-Lieu, etc.)

Not all the tools and incentives noted above may be applicable to the unique context of Downtown Los Angeles, however. To help prioritize the recommended incentives for local policymakers, BAE recommends first conducting a pro-forma analysis to identify the magnitude of the financial feasibility gaps that may currently be preventing the revitalization of office properties in the Conversion Eligible dataset.

## **Phase Two OTR Study**

A Phase Two OTR Study would include the following:

- Conduct a pro-forma analysis on a representative sample of office buildings in the Conversion Eligible dataset to identify the magnitude of the current financial feasibility gap for OTR conversions in DTLA.
- Based on the financial feasibility gap(s) identified for each building typology, provide an overview of possible/recommended funding tools that could be used as an OTR incentive program to help bridge the gap.
- Evaluate and rank the proposed financial incentives based on criteria such as political feasibility, the likely need for cooperation between various taxing entities, and other factors relevant to the City of Los Angeles.
- Leveraging findings from the Fiscal Analysis, provide guidance on “caps” for targeted financial incentives based on the net fiscal benefit that the incentive would provide.
- Optimize the impact of financial incentives by considering their place within the overall development and conversion timeline.

# APPENDIX

## Assessed Valuation Assumptions – At Risk Sample

Baseline Assumptions for the Assessed Valuation Model are shown below in Table 11.

The analysis assumes that through a combination of requests for re-appraisal, distressed sales, and other factors, the assessed value of properties in the At Risk Office Sample could decline from the current average of \$346/sf to \$130/sf. Beginning in year four, assessed values would begin increasing by approximately two percent per year over the course of the ten year period.

**Table 11: Assessed Valuation Model Assumptions for At Risk Sample**

Total At Risk Office Sample, Year 0 (sf)	27,839,098
Inventory Converted in Conversion Scenario (sf)	4,847,784
At-Risk Sample Not Converted in Conversion Scenario (sf)	22,991,314
Devaluation Period (years)	3
AV per SF for Devalued Property, Do Nothing Scenario, Year 1	\$130.00
AV per SF for Devalued Property, Conversion Scenario, Year 1	\$130.00
AV per SF for Property Not Devalued, Year 0	\$346.86
AV per SF for Property Converted, Year 1	\$350.00
Annual Prop 13 Increase in AV	2.0%
Annual Increase in AV for New Devaluations, Do Nothing Scenario	2.0%
Annual Increase in AV for New Devaluations, Conversion Scenario	4.0%
Annual Increase in AV for New Conversions	3.0%

Sources: CoStar, Gensler, BAE, 2024.

## AV per SF for Devalued Office Property in the “At Risk” Dataset

The assessed valuation assumption of **\$130/sf** for properties in the “At Risk” dataset is based in part on the following office transactions:

- **801 Tower (\$129/sf), sold August 2024**  
25-story office building at 801 S Figueroa St sold for \$60 million – about \$118 million less than its previous price. The sale provided a deed-in-lieu of foreclosure, which helped avoid the Measure ULA transfer tax of 5.5 percent on sales over \$10 million.<sup>4</sup>
- **Gas Tower (\$137/sf), under contract in November 2024**  
The County of Los Angeles entered into an agreement to purchase the 52-story Gas Company Tower at 555 West Fifth Street ahead of a foreclosure auction for \$200 million, or \$137 per square foot.
- **777 South Figueroa (\$117/sf), sold July 2024**  
52-story office building at 777 South Figueroa Street traded for \$120 million, or approximately \$117 per square foot.

<sup>4</sup> <https://commercialobserver.com/2024/08/la-801-tower-60m-office-sale/>

- **445 S. Figueroa St (\$114/sf), sold September 2024**  
40-story Union Bank Plaza at 445 South Figueroa traded for \$80 million, or approximately \$114 per square foot.

**Assessed Valuation Model – “Remaining” DTLA Office Sample**

Table 12 estimates the potential decline in assessed value for properties in the Remaining DTLA Office Sample over a 10 period.

While these properties are healthier overall than properties in the At Risk Sample, they are still likely currently overvalued, with a combined assessed value of \$286/sf.

As shown in Table 12, the cumulative assessed value of properties in the Remaining Office Sample could decline from \$8.2 billion to \$6.0 billion in as little as three years. This assumes that office values for this dataset reach a trough of \$200/sf by Year 3, and slowly recover thereafter.

**Table 12: Change in Assessed Value, “Remaining” Office Sample, Years 1-10**

Year	0	1	2	3	4	5	6	7	8	9	10
<b>No Intervention</b>											
<b>Change in Property Status</b>											
Additional Property Devalued	0	9,557,472	9,557,472	9,557,472	0	0	0	0	0	0	0
Total Property Devalued	0	9,557,472	19,114,945	28,672,417	28,672,417	28,672,417	28,672,417	28,672,417	28,672,417	28,672,417	28,672,417
At-Risk Properties not Devalued	28,672,417	19,114,945	9,557,472	0	0	0	0	0	0	0	0
<b>Change in Assessed Value</b>											
Total AV of Properties Devalued	\$0	\$2,007,069,190	\$4,006,492,402	\$5,998,116,717	\$6,118,079,051	\$6,240,440,632	\$6,365,249,445	\$6,492,554,434	\$6,622,405,522	\$6,754,853,633	\$6,889,950,706
AV of Properties Not Devalued	<u>\$8,200,311,262</u>	<u>\$5,576,211,658</u>	<u>\$2,843,867,946</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total AV, No Intervention</b>	<b>\$8,200,311,262</b>	<b>\$7,583,280,848</b>	<b>\$6,850,360,348</b>	<b>\$5,998,116,717</b>	<b>\$6,118,079,051</b>	<b>\$6,240,440,632</b>	<b>\$6,365,249,445</b>	<b>\$6,492,554,434</b>	<b>\$6,622,405,522</b>	<b>\$6,754,853,633</b>	<b>\$6,889,950,706</b>

**Table 13: Assessed Value Assumptions by Product Type, “Remaining” Office Sample, Years 1-10**

Year	0	1	2	3	4	5	6	7	8	9	10
AV Newly-Devalued Properties, No Intervention	N/A	\$210.00	\$205.00	\$200.00	\$204.00	\$208.08	\$212.24	\$216.49	\$220.82	\$225.23	\$229.74
AV Newly-Devalued Properties, Conversion Scenario	N/A	\$210.00	\$218.40	\$227.14	\$236.22	\$245.67	\$255.50	\$265.72	\$276.35	\$287.40	\$298.90
AV At-Risk Properties Not Devalued	\$286.00	\$291.72	\$297.55	\$303.51	\$309.58	\$315.77	\$322.08	\$328.52	\$335.09	\$341.80	\$348.63
AV Value of Newly Converted Properties	N/A	\$350.00	\$360.50	\$371.32	\$382.45	\$393.93	\$405.75	\$417.92	\$430.46	\$443.37	\$456.67

Sources: City of Los Angeles FY 2024-2025 Proposed Budget; Los Angeles County Assessor's Office, 2024; BAE, 2024.

## **Fiscal Impact Assumptions**

### ***City of Los Angeles Share of Property Tax***

While properties in the Office Sample are located in multiple TRAs, the City generally receives approximately 26.28 percent of the 1.0 percent property tax revenue in most of the TRAs where these properties are located, and similar shares in the remainder of the relevant TRAs. Therefore, this analysis calculates the City's property tax revenue from Office Sample to be equal to 26.28 percent of the base 1.0 percent property tax.

### ***Property Tax In-Lieu of Vehicle License Fees (ILVLF)***

According to the City Budget, the City of Los Angeles received an estimated \$634.9 million in property tax ILVLF revenue in the 2023-2024 fiscal year. This amounts to approximately \$0.74 per \$1,000 in assessed value. This ratio was applied to the assessed value that would be saved in the conversion scenario to estimate ILVLF revenues.

### ***County of Los Angeles Share of Property Tax***

While properties in the Office Sample are located in multiple TRAs, the County generally receives approximately 24.46 percent of the 1.0 percent property tax revenue in most of the TRAs where these properties are located, and similar shares in the remainder of the relevant TRAs. Therefore, this analysis calculates the County's property tax revenue from Office Sample to be equal to 24.46 percent of the base 1.0 percent property tax.

### ***Property Tax In-Lieu of Vehicle License Fees (ILVLF)***

According to the County Budget, the County of Los Angeles received an estimated \$2.1 billion in property tax ILVLF revenue in the 2023-2024 fiscal year. This amounts to approximately \$0.99 per \$1,000 in assessed value. This ratio was applied to the assessed value that would be saved in the conversion scenario to estimate ILVLF revenues.

## **Overview of IMPLAN**

This appendix provides additional clarification of the workings of the IMPLAN input-output model. It provides a step-by-step account of how IMPLAN estimates economic impacts, using new residential development as an illustrative example. This section begins with an overview of the data that IMPLAN uses internally and moves forward through the process of how the model estimates the impacts of new commercial and housing projects.

### ***What is IMPLAN?***

IMPLAN is an input-output model that estimates the total economic implications of new economic activity within a specified geography. The model uses national industry data and county-level economic data to generate a series of multipliers, which in turn estimate the total economic implications of economic activity.

At the heart of the model is a national input-output dollar flow table called the Social Accounting Matrix (SAM). Unlike other static input-output models, which just measure the purchasing relationships between industry and household sectors, SAM also measures the economic relationships between government, industry, and household sectors, allowing IMPLAN to model transfer payments such as unemployment insurance. Thus, for the specified region, the input-output table accounts for all the dollar flows between the different sectors within the economy.

**National Industry Data.** The model uses national production functions for 546 sectors to determine how an industry spends its operating receipts to produce its commodities. The model also uses a national matrix to determine the *byproducts*<sup>5</sup> that each industry generates. To analyze the impacts of household spending, the model treats households as an “industry” to determine their expenditure patterns. IMPLAN couples the national production functions with a variety of county-level economic data to determine the impacts for our example.

**County-Level Economic Data.** In order to estimate the county-level impacts, IMPLAN combines national industry production functions with county-level economic data. IMPLAN collects data from a variety of economic data sources to generate average output, employment, and productivity for each of the industries in a given county. It also collects data on average prices for all of the goods sold in the local economy. In this analysis, IMPLAN uses economic data for a two-county region consisting of Santa Clara and San Mateo Counties. IMPLAN gathers data on the types and amount of output that each industry generates within the region. In addition, the IMPLAN model uses county-level data on the prices of goods and household expenditures to determine the consumption functions of regional households and local government, considering the availability of each commodity within the specified geography.

**Multipliers.** IMPLAN combines these data to generate a series of SAM-type multipliers for the local economy. The multiplier measures the amount of total economic activity that results from an industry (or household) spending an additional dollar in the local economy. Based on these multipliers, IMPLAN generates a series of tables to show the economic event’s *direct*, *indirect*, and *induced* impacts to gross receipts (output) and employment, within each of the model’s 546 sectors. These outputs have been described above, and also are described here:

- **Direct Impacts.** Direct impacts refer to the dollar value of economic activity available to circulate through the economy and the jobs associated with that economic activity. In the case of new residential development, the direct impacts are equal to the new households’ discretionary spending. The direct impacts do not include household savings and payments to federal, state, and local taxes, as these payments do not circulate through the economy.

It should be noted that impacts from retail expenditures differ significantly between the total economic value of retail and the amount available to circulate through the local economy.

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<sup>5</sup> The byproducts refer to any secondary commodities that the industry creates.

The nature of retail expenditures accounts for this difference. The model assumes that only the retail markup impacts the local economy, particularly for industries heavily populated with national firms such as gas stations and grocery stores. Since local stores buy goods from wholesalers and manufacturers outside of the area, and corporate profits also leave the local economy, only the retail markup will be available for distribution within the local economy. To the extent that retailers' headquarters are located within the county or region, the model allocates their portions of the impacts to the local economy.

- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries, and to the jobs supported by those purchases. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process.
- **Induced Impacts.** The induced impacts refer to the dollar and employment impacts of household spending by the employees generated by the direct and indirect impacts. In other words, induced impacts result from the household spending of employees of business establishments that the new households patronize (direct) and their suppliers (indirect). The model accounts for local commute patterns in the geography. For example, if 20 percent of construction workers who work in the region live outside of the region, the model will allocate 80 percent of labor's disposable income into the model to generate induced impacts. The model excludes payments to federal and state taxes and savings based on the geography's average local tax and savings rates. Thus, only the disposable incomes from local workers are included in the model.

### ***Specifying the "Event" and Running the Model***

Once the model is built for the specified geographies, it is time to specify the "event" that the model will analyze and run the model.

*Specifying the "Event."* The "event" refers to the total economic value of industry output that the analyst is considering. In the case of the ongoing economic impacts of a new institutional development such as a school, the "event" would be the operations of a school, including the resulting new jobs and the worker compensation.

*Running the Model.* Once the event is specified, IMPLAN runs the event through the model to generate the results. By default, IMPLAN applies the local data on average output per worker and compensation per worker to determine the direct impacts. For the analysis here, worker compensation was derived from earnings as shown in the PUMS analysis of a hypothetical mix of workers and their occupations. The model then applies the value of the event to the national production functions and runs a number of iterations of this value through the production functions for the local economy to determine the indirect and induced impacts. For each iteration, the model

removes expenditures to government, savings, and for goods bought outside of the local economy so that the results only include those dollars that impact the local economy.

### ***Summarizing the Impacts***

Once the model is run, IMPLAN generates a series of output tables to show the direct, indirect, and induced impacts within each of the model's 546 sectors. IMPLAN generates these tables for three types of impacts: employment, output, and value added. The IMPLAN analysis of this study is focused on the employment impacts.

- *Employment* shows the number of employees needed to support the economic activity in the local economy. It should be noted that for annual impacts of ongoing operations, the employment figure shown represents the amount of employment needed to support that activity for a year. Furthermore, IMPLAN reports the number of jobs based on average output per employee for a given industry within the geography. This is not necessarily the same as the number of full-time positions.
- *Output* refers to the total economic value of the project in the local economy.
- *Value Added* shows the total income that the event generates in the local economy. This income includes:
  - *Employee Compensation* – total payroll costs, including benefits
  - *Proprietary Income* – payments received by self-employed individuals as income
  - *Other Property Type Income* – payments for rents, royalties, and dividends
  - *Indirect Business Taxes* – excise taxes, property taxes, fees, and sales taxes paid by businesses. These taxes occur during the normal operation of businesses, but do not include taxes on profits or income.