FLEXIBLE CO-LIVING HOUSING FEASIBILITY STUDY

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Chicago, Illinois

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Defining the Problem: Increasing the supply of low-cost housing

Cities across the United States are grappling with a long-term housing affordability crisis. Rising housing costs and a chronic undersupply of affordable housing impact the livelihoods of residents, with significant office inventories remaining vacant and unused. These trends have become more pronounced in the aftermath of the Covid-19 pandemic.

Housing Affordability and Availability

Nationwide, the median rent was $1,370 in January 2025, an increase of 19% in just the four years since January 2021.[1] Further, rent growth has often outpaced wage growth in recent years, worsening affordability. Experts point to chronic undersupply as one of the primary drivers of rising rents. Current regulatory frameworks, policies, and construction typologies are unable to deliver affordable and accessible housing near jobs, transit, and other socioeconomic drivers of economic opportunity, further contributing to increased costs of existing housing as renters compete for limited supply. The number of lower-income renters continues to rise, resulting in renters increasingly priced out of local housing markets.[2]

Housing Insecurity and Homelessness

With chronic undersupply of housing, and especially low-cost housing, the United States faces housing insecurity and homelessness. In 2024, HUD reported a record 770,000 people experiencing homelessness, an 18% increase from the year prior.[3] Research indicates that homelessness rates are highest in cities with the highest rents, and that homelessness rises when rents rise.[4]

Vacant Office Stock

While the nation experiences a housing shortage, office occupancy continues to fall as the commercial real estate market responds to declining office demand due to long-term trends and post-Covid demand shifts. Moody's has found the office vacancy rate hit a record-high 20% in 2024 as office tenants continued to use less space.[5] Rising office vacancies threaten the vitality of central business districts and their continued impact on municipal revenue generation, as cities have long relied significantly on commercial property taxes to fund local budgets.

[1] *Apartment List National Rent Report https://www.apartmentlist.com/research/national-rent-data*
[2] *NLIHC Releases The Gap 2023: A Shortage of Affordable Homes https://nlihc.org/news/nlihc-releases-gap-2023-shortage-affordable-homes*
[3] *HUD January 2024 Point-in-Time Count Report https://www.hud.gov/press/press_releases_media_advisories/HUD_No_24_327*
[4] *How Housing Costs Drive Levels of Homelessness https://www.pewtrusts.org/en/research-and-analysis/articles/2023/08/22/how-housing-costs-drive-levels-of-homelessness*
[5] *Moody's Office Vacancy Report https://www.moodys.com/web/en/us/about/insights/data-stories/us-commercial-real-estate-vacancies-downtown-vs-suburbs.html*

Re-Introducing Low-Cost Housing Typologies

The misalignment of housing costs and the housing budgets of renters is worsening, with a record 50% of renters cost-burdened, meaning they spend more than 30% of income on rent.[1] In many cases this is exacerbated by regulatory frameworks that encourage and prioritize construction of market-rate housing that is higher-cost and beyond the means of most renters.

In the mid-20th century, most cities in the U.S. were characterized by an abundance of lower-cost housing typologies, particularly single-room occupancy (SRO) dwellings. Starting in the 1950s, restrictive zoning and building codes and financial incentives resulted in the elimination of SRO's as an affordable housing alternative. Between the 1970s and the 1990s alone, it is estimated that the United States lost one million SRO units to conversions and demolitions.[2]

Through regulatory reform and the reintroduction of lower-cost residential typologies, the supply of lower-cost housing can be increased to meet the current needs of renters.

The reintroduction of flexible co-living residential typologies has the potential to:

1) reduce the costs of additional residential inventory,

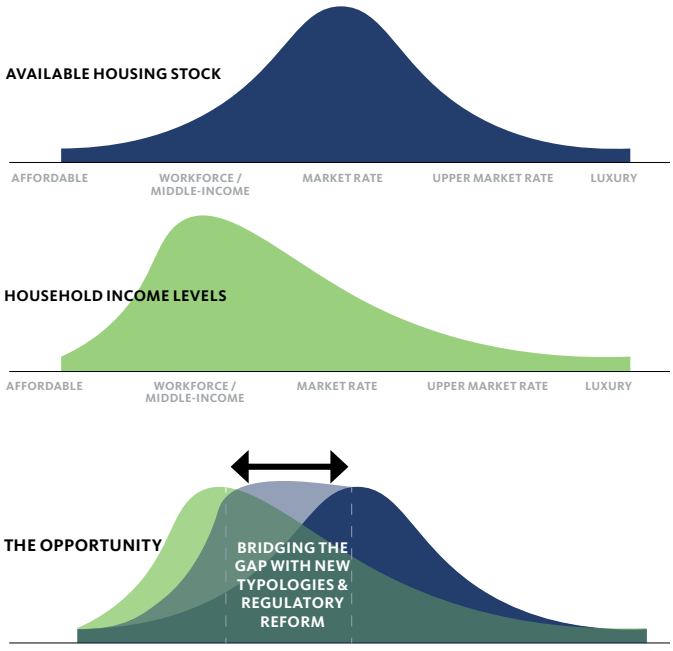
2) increase the supply of available housing to lower-income renters, and

3) alleviate some of the negative impacts of long-term demand changes for office properties.

Expanding the Office-to-Residential Conversion Potential

Central to this solution is the potential for leveraging vacant office stock in cities' central business districts, which are already located in transit-accessible and job- and amenity-rich locations. Many of these vacant or underutilized office buildings are being assessed for their potential conversion to housing across the U.S.

Gensler analysis suggests a notable subset of existing office stock is potentially suitable for conversion into market-rate housing.[3] However, many buildings are not economically viable candidates due to configurations that appeal to office tenants, but are incompatible with traditional residential layouts. Large floor plates with little interior natural light, inoperable windows, and the high costs of plumbing and mechanical retrofits all challenge the design and economic feasibility of conversion, particularly under current regulatory frameworks in most cities.



[1] New Report Shows Rent Is Unaffordable for Half of Renters as Cost Burdens Surge to Record Levels https://www.jchs.harvard.edu/press-releases/new-report-shows-rent-unaffordable-half-renters-cost-burdens-surge-record-levels
[2] The Rise and Fall of the American SRO https://www.bloomberg.com/news/articles/2018-02-22/the-rise-and-fall-of-the-american-sro
[3] What We've Learned by Assessing More Than 1,300 Potential Office-to-Residential Conversions https://www.gensler.com/blog/what-we-learned-assessing-office-to-residential-conversions

Chicago: Existing Conditions, Regulatory Overview, and Building Stock

The State of Housing in Chicago

Though perceived as a relatively affordable major city compared to cities on the coasts, Chicago has experienced a significant decline in affordability in recent years driven by rent growth that exceeds the national average. According to Apartment List data, between 2019 and 2024, the overall median rent in the city of Chicago increased by 13%, with most of the increase happening in the past several years. Median rent citywide is $1,663 per month as of January 2025.

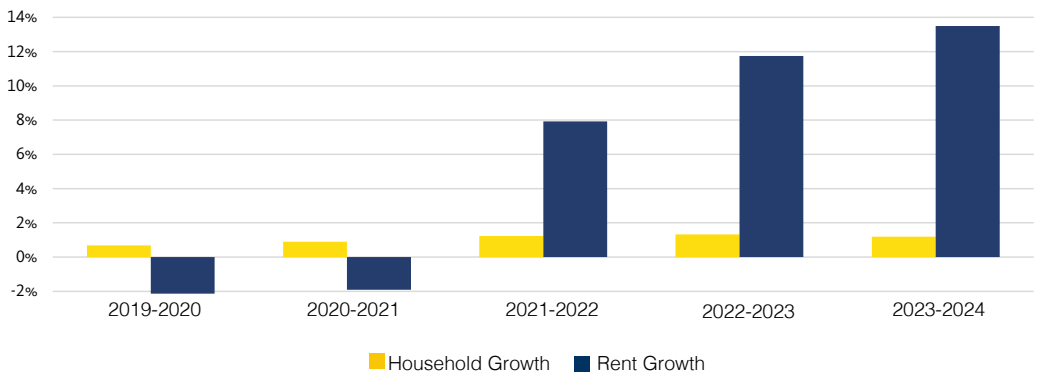
There are an estimated 18,840 individuals experiencing homelessness in the city of Chicago, for a rate of 71 per 10,000 inhabitants, a number that has tripled in the past year.[1] Additionally, downtown office vacancy rates averaged 23% in Q4 2024.[2]

The Opportunity

The opportunity to introduce affordable co-living housing in Chicago is promising: There are no significant local regulatory barriers that often prohibit flexible co-living residential typologies, and similar co-living models have proved successful in the city in the past decade. Initial conversations suggest that there is notable local political will to encourage new housing typologies, along with other solutions to address housing unaffordability, rising homelessness and housing insecurity.

Several local programs that support these goals are already underway or in development, and can be leveraged to enhance the viability of an affordable co-living housing model.

Household and Rent Growth (Cumulative)



2019-2024:

HOUSEHOLDS: +1%

RENT: +13%

[1] *HUD January 2024 Point-in-Time Count Report https://www.hud.gov/press/press_releases_media_advisories/HUD_No_24_327*
[2] *Colliers Downtown Commercial Vacancy Rate Q4 2024 https://www.colliers.com/en/research/chicago/2024-q4-chicago-downtown-office-report*
Chart Data Sources: Apartment List National Rent Report https://www.apartmentlist.com/research/national-rent-data, Esri Business Analyst

Chicago at a glance:

MEDIAN RENT

$1,663

HOMELESSNESS RATE

71 per 10k

DOWNTOWN OFFICE VACANCY

23%

REGULATORY BARRIERS

LOW

Data Source: American Community Survey, Apartment List, Colliers, Esri Business Analyst, HUD, Pew Charitable Trusts

Chicago Building Code

The City of Chicago utilizes a locally adapted version of the International Building Code (IBC), enhanced with local amendments and fire safety provisions. The current Chicago Building Code 2019 is based on IBC 2018 with amendments. For building conversions, the Chicago Building Rehab Code 2019 applies, which is based on the International Existing Building Code 2018 (IEBC2018) with amendments.

Under the Chicago Building Code, congregate living facilities of a non-transient nature (exceeding 30 days) with more than 16 occupants fall under Residential Group R-2. Smaller facilities with 16 or fewer occupants are classified as Residential Group R-3.

CBC 2019 mandates natural ventilation for R-2 and R-3 occupancies in all “living, dining and sleeping rooms” exceeding 70 square feet. However, in November 2024, the Chicago Department of Buildings introduced the “Residential High-Rise Mechanical Ventilation Pilot Program.” This program allows new R-2 high-rises (over 80’ in height), conversions to Group R-2, or rehabilitation of existing Group R-2 residential development within high-rises to forgo natural ventilation/operable windows requirements. To qualify for this exemption, projects must meet these criteria:

- Natural Light: Each dwelling unit using the pilot program must comply with the requirements for natural light in Section 1204.2 of the Chicago Building Code, without variances.

- No combustion or solid-fuel-burning appliances. No dwelling unit using the pilot program may contain any combustion or solid-fuel-burning appliance; and

- Post-fire salvage requirements. Each story containing a residential occupancy participating in the pilot program must comply with Section 403.4.7 of the Chicago Building Code pertaining to smoke removal in post-fire salvage and overhaul operations.

- Virtual / In Person Presentation: A 20 min presentation to Chicago DOB regarding meeting these criteria, as well as demonstrating the following:

    - Projected operating cost of the proposed mechanical system for each type of unit (studio, 1-bed, 2-bed, etc.) on a winter design day and summer design day (assuming 16 ¢/kWh and 65 ¢/therm), and measures taken in the project design to reduce the operating cost.

    - How the proposed design addresses maintaining habitable conditions in dwelling units during an extended power failure on a summer design day, winter design day, and spring or fall transitional day.

    - Any above-code features of the mechanical system design, such as additional measures to enhance indoor air quality or occupant thermal comfort.

  The pilot program is accepting requests through June 30, 2025, and these amendments may be captured in future issuances of the Chicago Building Code.

Source: Chicago Building Code 2019, City of Chicago Department of Planning and Development

Zoning

The Chicago Zoning Ordinance (CZO) categorizes Single-Room Occupancy (SRO) under household living use types. According to the CZO, an SRO unit is defined as a space "used or intended to be used as sleeping quarters or living quarters with or without cooking facilities, containing not more than one habitable room of up to 250 square feet of floor area, excluding any kitchen smaller than 70 square feet from this calculation."

SRO designation is the most relevant classification for this study. These units are permitted by right in B2 zoning districts, while B1, B3, C1, and C2 districts require special use approval. SROs are not permitted in C3 districts.

The special use approval process requires extensive documentation and review, beginning with comprehensive zoning documents and a detailed project narrative. Applicants must notify adjacent property owners, submit economic disclosure statements, secure expert witness testimony, and provide findings of fact that establish the project's compatibility with neighboring uses. All materials are then evaluated by the Zoning Board of Appeals (ZBA), a quasi-judicial entity that assesses compliance with the Chicago Zoning Ordinance.

Historically, ZBA understaffing created bottlenecks that delayed or derailed certain residential projects, particularly transitional shelters proposed in residential areas. However, office-to-residential conversions in downtown Chicago have consistently gained support through the zoning process. The ZBA now operates at full capacity with five commissioners and two alternates, strengthening its ability to process applications efficiently.

Group-Living categories are typically utilized for facilities with supportive care through paid professional staff, or uses such as convents, monasteries, nursing homes, transitional residences, etc. This category is not applicable for this study.

The City of Chicago demonstrates strong commitment to preserving existing SRO buildings through its SRO Preservation Initiative, last updated in September 2020. In partnership with government agencies and community organizations, the city supports SRO preservation through investments and financing mechanisms that maintain affordability for low and moderate-income households. Under the SRO preservation ordinance, current residents must be notified when their building is listed for sale, and affordable housing developers must be informed of opportunities for preservation investment.

The convergence of Chicago's SRO preservation efforts, the pressing demand for "missing middle" housing options, and municipal support for office-to-residential conversions suggests potential favorable consideration of co-living developments by city governing bodies. This alignment of policy priorities and market needs could create a supportive environment for co-living approval processes.

Source: Chicago Building Code 2019, City of Chicago Department of Planning and Development

Local Programs

The LaSalle Street Reimagined program is an initiative developed by the City of Chicago focused on revitalizing the historic LaSalle Street corridor in downtown Chicago. The program aims to transform aging and vacant office buildings in the LaSalle Street corridor into residential units, including affordable housing. This is part of Chicago's strategy to address both downtown vacancy issues and the city's housing needs.

Key elements of the program include:

- Converting underutilized office space into mixed-use developments, primarily residential,
- Requiring that 30% of new residential units be designated as affordable housing,
- Providing financial incentives, including TIF (Tax Increment Financing) funds, to developers,
- Preserving the historic character of LaSalle Street while modernizing its use, and
- Creating more vibrant street-level retail and public spaces.

Several office-to-residential conversion projects are currently under development with support from the LaSalle Street Reimagined program. Support includes millions of dollars in proposed direct subsidies using funds from the LaSalle Central TIF District, which covers a significant portion of the downtown.

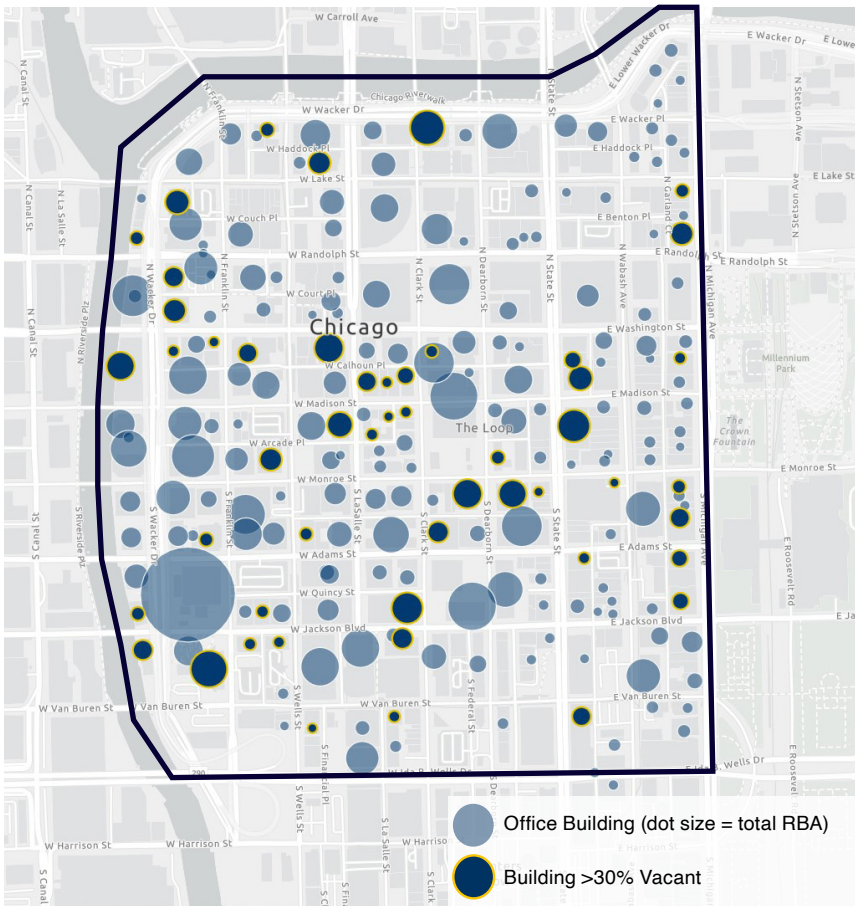
Source: Chicago Building Code 2019, City of Chicago Department of Planning and Development

The Chicago Central Business District

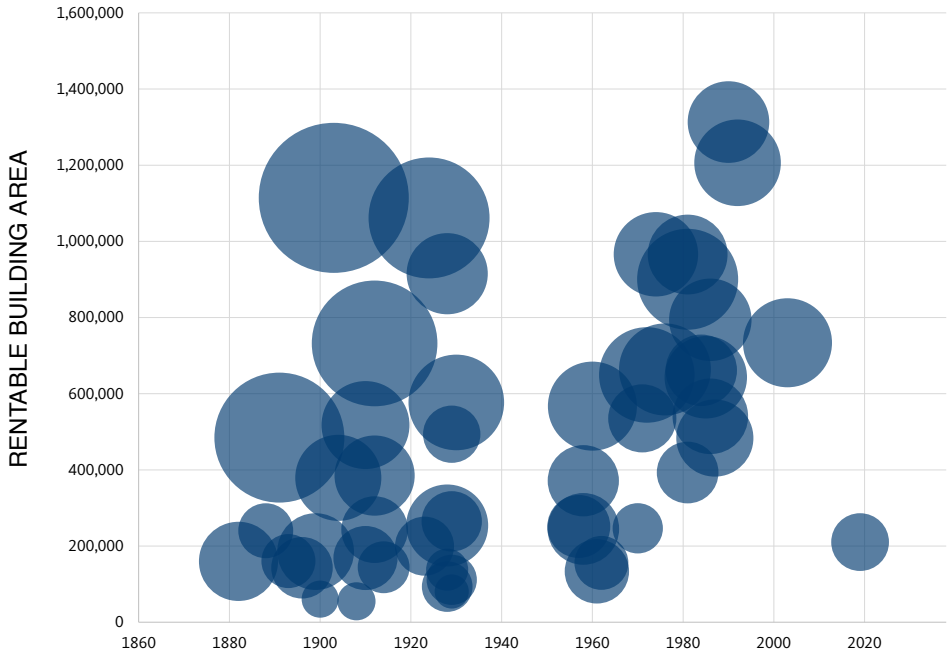
According to data from CoStar as of the end of 2024, there are approximately 223 office buildings over 50,000 SF in what is typically defined as the Chicago Loop, comprising about 110 million square feet. An estimated 50 office buildings within the boundary are at least 30% vacant.

The Loop is home to a significant stock of high-rise office buildings constructed prior to 1930 during a sustained building boom, many of which are some of the country's first skyscrapers. Chicago then experienced no major developments during the Great Depression and through WWII until the 1960s, when the pace of development picked up again. Modern office development reached another peak in the 1980s, including several buildings over one million square feet.

Chicago CBD (The Loop)



Downtown Office Stock (>30% Vacant)



= Average Floor Plate Size

Chart and Map Data Source: CoStar

>30% VACANT PROPERTIES	TYPE 1	TYPE 2	TYPE 3	TYPE 4
% of Building Stock	*40-45% of total SF*	*<10% of total SF*	*30-35% of total SF*	*15-20% of total SF*
Age	Pre-1930	1960s	1970s-1980s	1990s+
Average Number of Floors	19	18	33	40
Average Floor Area Ratio (FAR)	14	14	24	22
Average Floorplate	20,000 SF	15,000 SF	20,000 SF	20,000 SF
Average Vacancy Rate	44%	50%	40%	39%
	DOMINANT TYPOLOGY			

Office Typologies

There are 50 buildings reported to have a vacancy rate of at least 30%. These buildings have been identified, analyzed, and grouped to define prototypical typologies.

The city's office stock with at least 30% vacancy can be categorized into four primary typologies, as described below, based on attributes such as height, floor plate size, style and year built. These factors, along with other physical attributes such as building depth and window configuration, impact their potential for conversion to traditional, market-rate residential products.

There are four typologies of properties experiencing 30%+ vacancy downtown:

Type 1: High-rise buildings averaging 19 stories built prior to 1930. Many of these buildings are among the city's original skyscrapers with masonry cladding and large plate-glass windows. With an average floor plate of about 20,000 SF, these buildings collectively represent about 40-45% of the selected inventory. **Type 1 was selected as the prototype for testing possible conversion feasibility.**

Type 2: Type 2 buildings are high-rise steel buildings constructed in the 1960s. These buildings are slightly smaller, with an average height of 18 floors and average floor plate size of 15,000 SF. The smallest typology, Type 2 buildings are less than 10% of total inventory.

Type 3: High rise office buildings built in the 1970s and 1980s averaging 33 stories. The average floor plate of these properties is 20,000 SF and they represent about one-third of the selected inventory.

Type 4: The largest buildings, constructed in the 1990s and onward averaging 40 stories. Average floor plate size is comparable to Type 3 buildings at 20,000 SF. These buildings represent about 15-20% of the selected inventory.

Data and Image Source: CoStar

Flexible Co-Living: Defining the Product

Program and Unit Module

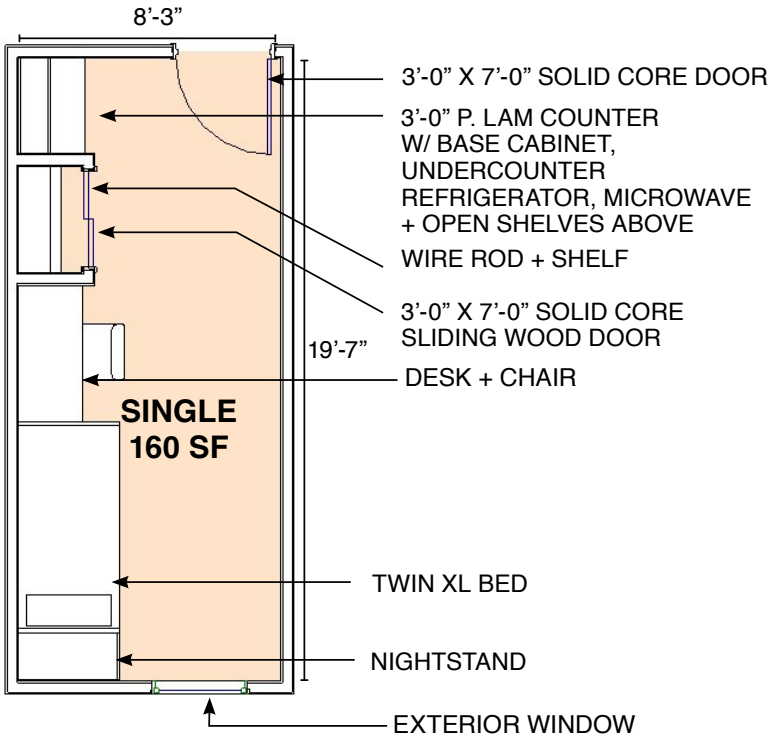
A program and unit module were developed to align with the project's goals and conform to the City of Chicago's building code.

A typical single-occupant sleeping room consists of a private room between 154 SF and 163 SF. In-room furnishings would include a twin XL bed, desk and chair, and nightstand along with a microwave and standard-depth half-sized refrigerator to store personal food and beverage items. A storage shelf and cabinet can be used to store personal belongings.

Each sleeping room is secured via a solid core wood door that can be locked by its occupant. Demising walls between sleeping rooms are designed with specifications to ensure the appropriate sound insulation.

To provide additional choice, the floor plan can also accommodate double units, between 198 SF and 267 SF each.

A traditional studio layout of approximately 440 SF is shown as a point of comparison, which includes a full kitchen and bathroom in-unit.



Traditional Studio Layout

Test Fits and Yields

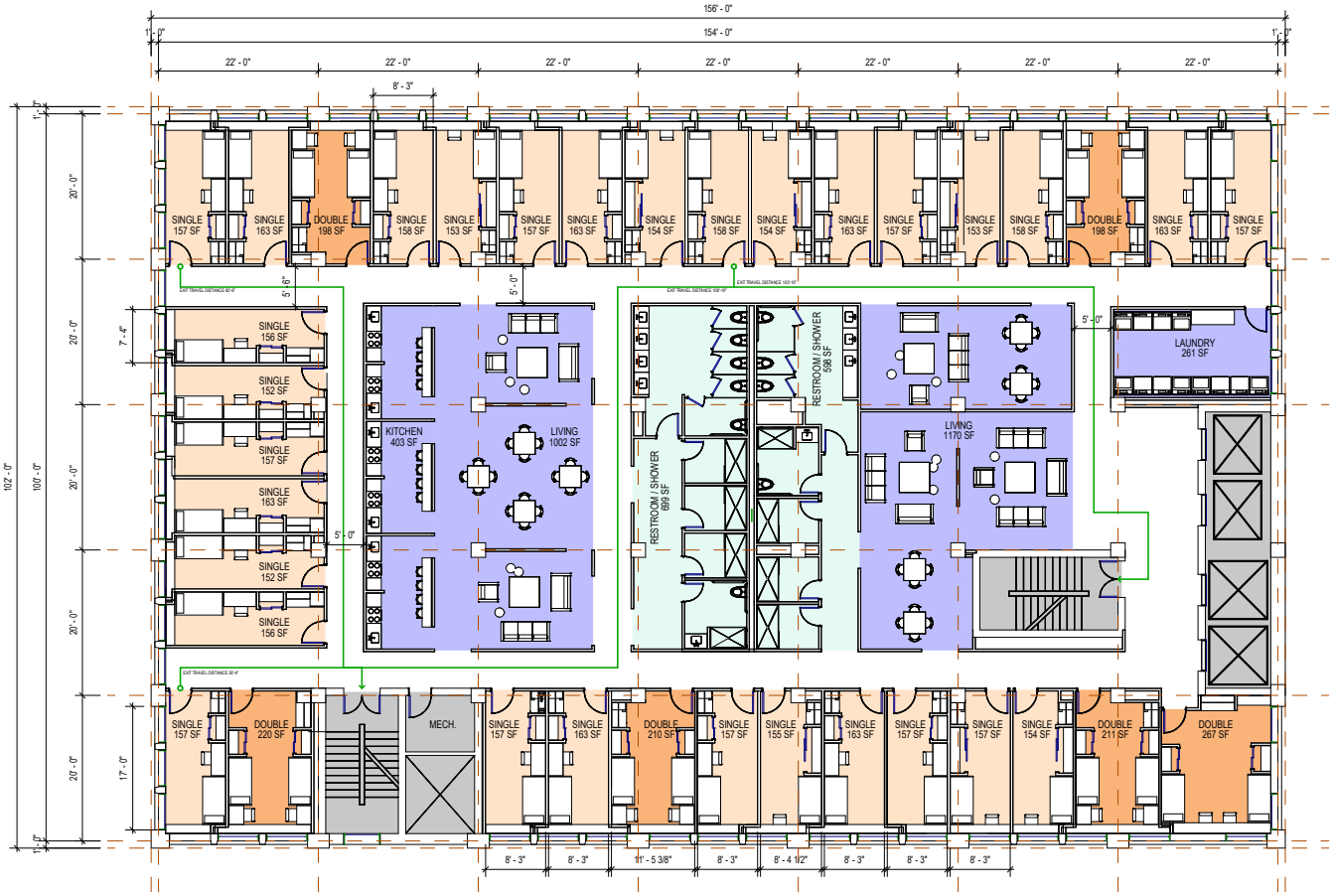
Shared Facilities and Amenity Spaces

The following shared facilities are provided on each residential floor. The quantities of specific fixtures are driven by required ratios per occupant as defined by building code:

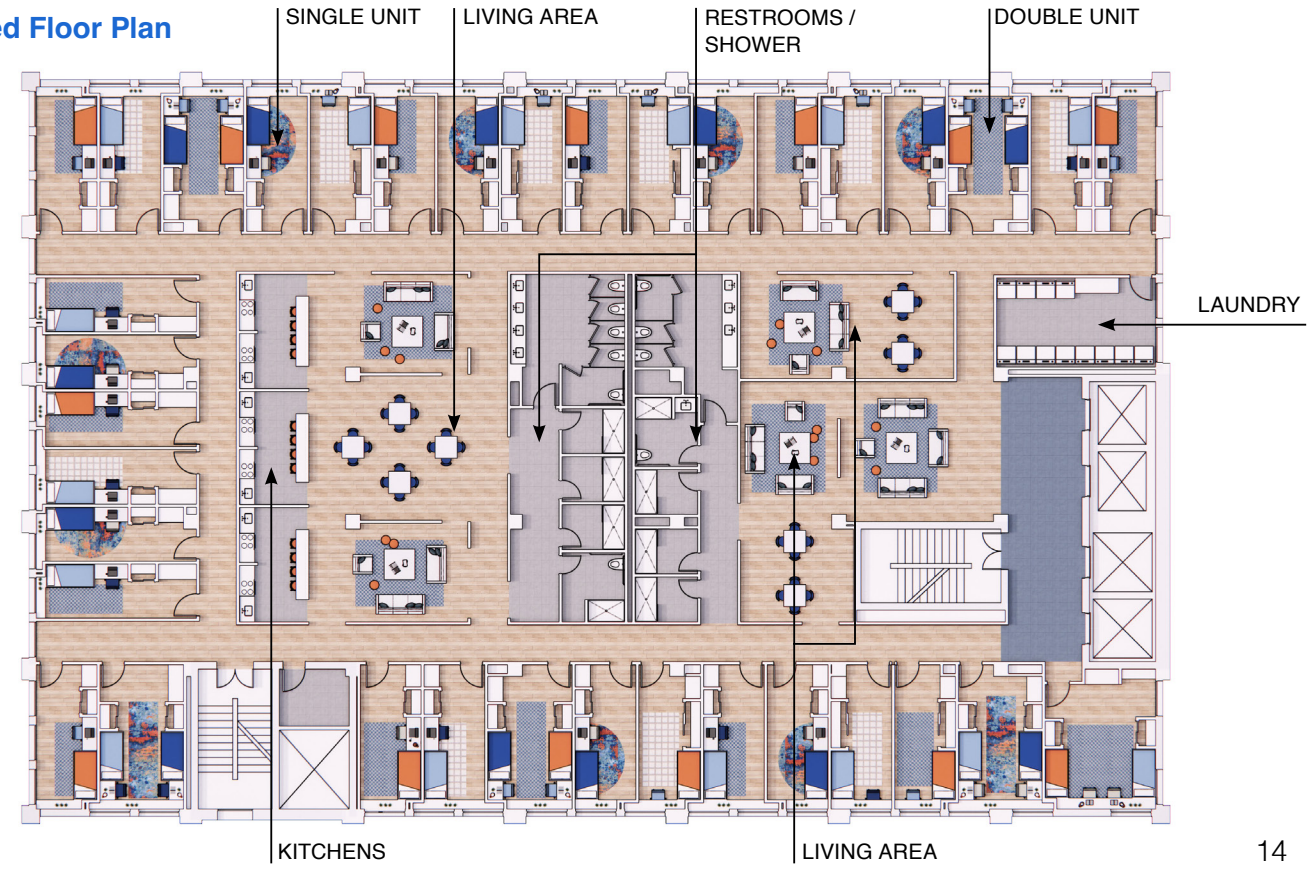
- **Kitchens:** Six shared kitchen areas are included on each floor. Each kitchen area includes standard fixtures and appliances including a sink, electric range/oven, range hood, and microwave. In lieu of a refrigerator in the kitchen area, tenants have access to their individual half-sized refrigerator located in their dwelling unit. There are no code minimums for number of occupants per kitchen facility.
- **Living Room:** There are several living areas per floor, accommodating a variety of seating areas including couches and tables.
- **Bathrooms:** Bathroom facilities are shared in the interior of the floor utilizing existing plumbing stacks from the office core. The facilities on each floor contain eight showers, ten toilets, and nine sinks. Each shower is in an individual shower room, three of which also contain an in-room toilet and sink.
- **Laundry:** One large laundry room per floor accommodates six washers and six dryers. There are no code minimums for number of occupants per laundry facility.

Typical Unit Rendering

Typical Floor Test Fit



Rendered Floor Plan



Yields per Floor

The prototypical building studied has a floor area of 14,896 SF. Each floor can accommodate 42 beds across 6,028 SF of area. To offer a variety of unit options, 30 of the beds are in typical single units, while the remaining twelve beds are organized into six double units. An additional 4,153 SF of floor area is dedicated to shared facilities, including bathrooms, kitchens, and living areas. The remaining square footage consists of circulation, mechanical areas, and the building's core.

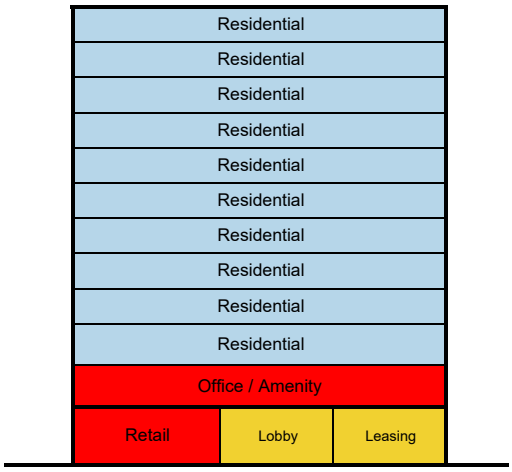
This layout produces a residential efficiency ratio of 68%. The remaining 32% of the gross floor area is comprised of the building's core and interior circulation.

The ratios of shared facilities/fixtures per occupant conform with Chicago's building code regulations.

Building Summary

The prototypical building studied is 12 stories. The ground floor would consist of a main lobby, a management office, and approximately 9,300 SF of retail space. The second floor contains approximately 5,000 SF of Class B office space plus 5,000 SF dedicated to building-level shared amenities including a fitness center. The building has no car parking, but 150 spaces of bike parking are included on the ground level. Floors 3-12 are dedicated for residential use, and each floor would have an identical layout.

Assuming 10 residential floors and 42 beds per floor, the building can yield a total occupancy of 420 residents across 360 units.



STATISTICS	
Residential Area	6,028 SF per floor
Interior Amenity	4,153 SF per floor
Gross Floor Area	14,896 SF per floor
Efficiency	68%
Occupants	42 (30 single units, 6 double units)
	242 GSF per occupant
Toilets	10 (4.2 occupants per fixture)
Showers	8 (5.3 occupants per fixture)
Sinks	15 (2.8 occupants per fixture)
Kitchens	6 (7.0 occupants per fixture)
Washer/Dryers	6 (7.0 occupants per fixture)

Building Summary

	Levels	Floor to Floor	OA Height	Units	Parking Spaces	Bikes	Bike Room	Stor-age	B.O.H Ser-vices/ Mech	Com-mon Area	Leas-ing/ Lobby	Interior Amen-ity	Retail / Office	Net Rent-able Unit Area per Floor	Gross SF per Floor	EFF / Flr	Avg Unit Size
			125.00				SF	SF	SF	SF	SF	SF		SF	SF		SF
Residential	12	11.00	125.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	11	11.00	114.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	10	11.00	103.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	9	11.00	92.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	8	11.00	81.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	7	11.00	70.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	6	11.00	59.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	5	11.00	48.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	4	11.00	37.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Residential	3	11.00	26.00	36				0	897	3,818		4,153		6,028	14,896	68.3%	167
Amenity Floor	2	11.00	15.00	0					897	3,999		5,000	5,000		14,896		
Ground Floor	1	15.00	0.00	0	0	150	1,500		897	1,699	1,500		9,300		14,896		
	Floors			Units	Parking Spaces	Bikes	Bike Room	Stor-age	B.O.H Ser-vices/ Mech	Com-mon Area	Leas-ing/ Lobby	Interior Amen-ity	Com-mercial	Net Rent-able Unit Area	GSF		Avg Unit Size
Totals	12		125.00	360	0	150	1,500	0	10,764	43,878	1,500	46,530	14,300	60,280	178,752		167

Meeting the Market: Rents and Users

Quantifying the Market for Flexible Co-Living

Initial market research suggests that there is a sizable potential market for the flexible co-living concept. According to the American Community Survey, within the city of Chicago, about 54% of the city's 1.2 million households are renters. Of these 635,000 households, 49% are single-occupant, and only 12% are comprised of four people or more.

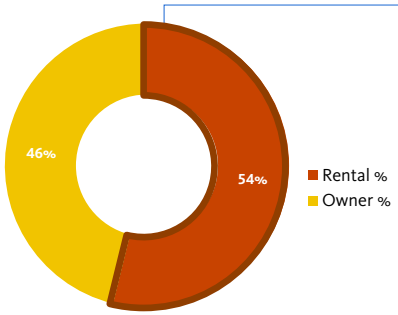
The household incomes of Chicago's single-occupant renters skew towards the high and low extremes of the income range; there are about as many renters making over $100,000 per year as there are those that are making under $10,000. Approximately 20% earn between $20,000 and $40,000 per year, totaling 60,000 single-occupant renter households.

28% of renters in the Chicago region are considered severely cost-burdened, meaning they pay more than 50% of their income for rent. 49%, or almost half, spend more than 30% of income on rent.[1]

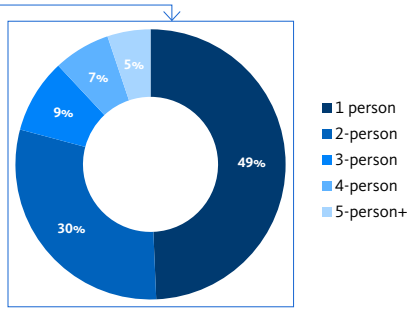
The quantity of single-person renter households earning less than $40,000 per year, or approximately 50% of the Area Median Income (AMI), suggests a sizable market for the flexible co-living typology. The single-occupant model offers a more affordable product that aligns with renters' incomes and housing budgets.

There are 635,000 renter households in Chicago and about 49% (313,000) of them are single-occupant.

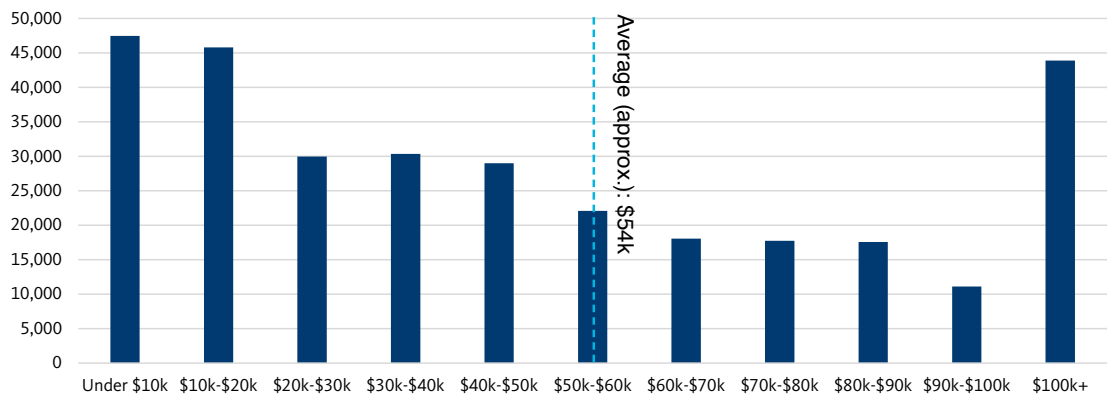
Household Type



Renters by Household Size



Single-Person Renters by Household Income



[1] *The State of the Nation's Housing 2024, Harvard Joint Center on Housing Studies https://www.jchs.harvard.edu/state-nations-housing-2024*

Source: American Community Survey Public Use Microdata Sample (PUMS) 2023 1-Year Estimates.

Potential Rents

Based on the distribution of single-person renter households in Chicago, there are approximately 60,000 individuals who earn between $20,000 and $40,000 per year.

HUD standards define a monthly housing budget as 30% of monthly income. Within this income bracket, households have a supportable housing budget of $500 to $1,000 per month. A $500 to $1,000 monthly housing budget would correspond to approximately 30-50% of local Area Median Income (AMI) levels for single-person households.

The median monthly rent for a market-rate unit in the city of Chicago is $1,663 as of January 2025. As such, the housing budgets of this segment are far lower than the rents of most existing and available product within the city.

Developing the flexible co-living product at rents between $500 to $1,000 per bed per month would meet the target resident's housing budget in the market and provide an affordable option as compared to other available housing, delivering new supply at a significant discount to other market-rate offerings.

While target rents for the product are affordable for residents making 30-50% of AMI, there are no intended income restrictions, and individuals making above 50% AMI, or $40,000, can also take advantage of centrally-located housing while reducing their housing expenditures. In Chicago, there are over 150,000 single-person renter households that make over $40,000 per year in addition to the 60,000 who make between $20,000 and $40,000 per year, reflecting a broad market of potential tenants.

		HH Income		Monthly Housing Budget (30%)		
HH Income	Count	Low	High	Low	High	AMI (Average)
Under $10k[1]	47,500	$0	$10,000	$0	$250	<25% AMI
$10k-$20k	45,800	$10,001	$20,000	$250	$500	<25% AMI
$20k-$30k	**30,000**	**$20,001**	**$30,000**	**$500**	**$750**	**30-40%** AMI
$30k-$40k	**30,400**	**$30,001**	**$40,000**	**$750**	**$1,000**	**40-50%** AMI
$40k-$50k	29,000	$40,001	$50,000	$1,000	$1,250	50-60% AMI
$50k-$60k	22,100	$50,001	$60,000	$1,250	$1,500	60-80% AMI
$60k-$70k	18,100	$60,001	$70,000	$1,500	$1,750	80-90% AMI
$70k-$80k	17,800	$70,001	$80,000	$1,750	$2,000	90-100% AMI
$80k-$90k	17,600	$80,001	$90,000	$2,000	$2,250	100%+ AMI
$90k-$100k	11,100	$90,001	$100,000	$2,250	$2,500	100%+ AMI
$100k+	43,900	$100,001	$1,000,000	$2,500	$25,000	100%+ AMI

$500-$1,000
Target Per Bed Rent
Range

[1] *Includes individuals who report no income*
Source: American Community Survey Public Use Microdata Sample (PUMS) 2023 1-Year Estimates.
Selected Public Use Microdata Area (PUMA) geographies: Chicago City (Central)--Near North Side, Loop & Near South Side PUMA; Illinois, Chicago City (North)--Lake View & Lincoln Park PUMA; Illinois, Chicago City (North)--Uptown, Edgewater & Rogers Park PUMA; Illinois, Chicago City (North)--West Ridge, Lincoln Square & North Center PUMA; Illinois, Chicago City (Northwest)--Albany Park, Norwood Park, Forest Glen, North Park & O'Hare PUMA; Illinois, Chicago City (Northwest)--Logan Square, Irving Park & Avondale PUMA; Illinois, Chicago City (Northwest)--Portage Park, Dunning & Jefferson Park PUMA; Illinois, Chicago City (South)--Chicago Lawn, Greater Grand Crossing & West Englewood/ Englewood PUMA; Illinois, Chicago City (South)--Hyde Park, Grand Boulevard, Woodlawn, Douglas & Kenwood PUMA; Illinois, Chicago City (South)--Roseland, Chatham, West Pullman, Calumet Heights & Avalon Park PUMA; Illinois, Chicago City (South)--South Shore, South Chicago, East Side & South Deering PUMA; Illinois, Chicago City (Southwest)--Ashburn, Garfield Ridge, West Lawn, Clearing & West Elsdon PUMA; Illinois, Chicago City (Southwest)--Auburn Gresham, Washington Heights, Morgan Park & Beverly PUMA; Illinois, Chicago City (Southwest)--New City, Lower West Side, Bridgeport & McKinley Park PUMA; Illinois, Chicago City (Southwest)--South Lawndale, Brighton Park & Gage Park PUMA; Illinois, Chicago City (West)--Austin, North Lawndale & East/West Garfield Park PUMA; Illinois, Chicago City (West)--Belmont Cragin, Humboldt Park, Hermosa & Montclare PUMA; Illinois, Chicago City (West)--West Town & Near West Side PUMA; Illinois.

Operating Model and Financial Feasibility

Baseline project assumptions include industry standard and local market benchmarks to evaluate the feasibility of the project without additional subsidy. The following pages identify various levers that a developer could utilize in order to arrive at market returns.

For this project, rents for standard singles are assumed at $950 per month, affordable for a single-person household earning 48% of AMI, while double units are assumed at $750 per person per month, affordable for a single-person household at 38% AMI.

The HUD voucher available to pay for units like these allows rents in downtown Chicago up to nearly $1,600 in the current fiscal year, well above projected rents for this building. For comparison, a typical studio apartment in downtown Chicago rents for approximately $2,100 per month as of the end of 2024.

PROJECT OPERATING ASSUMPTIONS

Rent/Bed	*Per Month per Person*	*Annualized*
Singles	$950	$11,400
Doubles	$750	$9,000
Vacancy/Rent Loss		**10%**
Operating Expenses (OpEx) / RSF		$15.50
Management Fee (% EGI)		2.5%
OpEx Ratio (as a % of total revenue)		41%
Capital Reserves/Unit		**$400**
Rent Escalation		3%
OpEx Escalation		3%

PROJECT PROGRAM

Units Per Floor	**36**		**Beds/ Floor**	**42**	
Singles	30	83%	Singles	30	71%
Doubles	6	17%	Doubles	12	29%
Total Units	**360**		**Total Beds**	**420**	

OTHER INCOME

Parking Spaces	0 spaces	-
Bike Spaces	150 spaces	$10/month
Office SF	5,000 SF	$30/SF
Retail SF	9,300 SF	$50/SF

OPERATING ASSUMPTIONS

Rent & Vacancy

Monthly rents of $750 to $950 per month per person align with the target market's housing budget and AMI levels of 30-50%. 3% annual rent and operating expense escalation rates align with market benchmarks for this type of product.

Other revenues include $100/month for car parking, $10/month for bike parking, a net office rent of $30/SF and retail rent of $50/SF to align with market benchmarks.

A 10% average vacancy rate exceeds the average market-rate vacancy rate in Chicago, reflecting a risk premium and is in line with typical vacancy rates for similar concepts elsewhere.

Operating Expenses

A total annual operating expense cost of $15.50/SF is based on industry benchmarks for multi-family buildings in this market and includes utilities, repairs, maintenance, and management. Operating expenses also include a higher insurance cost to account for higher anticipated insurance premiums associated with the product. Operating expenses as a percentage of total revenue average 41%, higher than typical multi-family benchmarks but reflective of higher operating costs associated with the product.

No real estate taxes have been included at this time. Many jurisdictions are offering tax abatements for office-to-residential conversions that include units affordable to low or moderate-income residents.

Capital Reserves

Annual capital reserves of $400 per bed are included to account for capital improvements and necessary unit refresh upon resident move-outs.

DEVELOPMENT COST ASSUMPTIONS

Construction Costs

Turner Construction Company was engaged to develop construction cost estimates for the prototypical building and test fit studied. The key variables in estimating construction costs are the quality of the building's existing mechanical, electrical, and plumbing (MEP) systems and the degree of anticipated interior demolition. These are heavily dependent on individual building conditions.

Turner developed a high and low cost range for two existing building conditions. The high range Option 1 assumes selective demolition of all floors and full replacement of HVAC and electrical systems. Option 2 assumes the reuse of existing HVAC and electrical systems plus the reuse of 50% of the existing shell space. In practice, developers are more likely to seek out and prioritize buildings for conversion that have the most intact systems to minimize MEP costs. Thus, **$296/GSF in hard costs,** within the Option 2 range, is used for modeling purposes. Additional due diligence on a per-building basis would be required to refine cost estimates further.

CONSTRUCTION COST ESTIMATES	OPTION 1	OPTION 2
Selective Demolition	*Demo at all floors*	*50% of existing shell maintained*
Hazardous Materials Abatement	*Includes abatement allowance*	*Abatement not required*
Fire Protection	*Existing systems reused*	*Existing systems reused*
Plumbing	*Existing service/stacks reused*	*Existing service/stacks reused*
HVAC	*New systems required*	*Existing systems reused*
Electrical	*New systems required*	*Existing systems reused*
Construction Cost Estimate	**$401/GSF**	**$296/GSF**
Low-High Estimate	*$381 - $441/GSF*	*$281 - $326/GSF*

An industry-standard soft cost estimate of 15% of hard costs is included to account for architectural, engineering, permitting, and legal fees. A 5% contingency on hard & soft costs was also added per standard practice. $5,000 per bed in furnishings, finishes, and equipment (FF&E) is also included.

Acquisition Costs

Due to the unknown dynamics of a potential development scenario, additional due diligence will be required on a per-building basis to identify a reasonable acquisition cost. Variables that would likely impact property value at the time of purchase include operating income, market cap rates, building condition, and available sales comps.

In addition to property value, there are multiple likely development scenarios for this product typology. These include, but are not limited to: The existing property owner self-develops the conversion; the existing property owner contributes the land as collateral in a joint-venture development; a foreclosed or bank-owned property is purchased by a developer at a discounted purchase price; a potential land swap between property owners; or a standard purchase at market value.

The development pro forma includes a purchase price/acquisition cost of **$30/GSF** or **$5.4 million.**

Financing Assumptions

Since the study aims to evaluate overall project level feasibility by assessing unlevered returns only, project financing assumptions and their impacts on anticipated debt and equity are not incorporated into the financial feasibility analysis.

DEVELOPMENT COSTS	TOTAL	PER GSF	PER BED	PER UNIT
Land/Building Purchase	$5.36M	$30		
Construction (Hard) Costs	$52.91M	$296	$126,000	$147,000
Soft Costs (15%)	$7.94M	$44		
Contingency (5%)	$3.04M	$17		
FF&E [1]	$2.10M	$12	$5,000	
Total Project Costs	**$71.35M**	**$399**	**$169,900**	**$198,200**

PROJECT ASSUMPTIONS	
Exit Cap Rate	5.75%
Terminal Sale Commissions	3.0%

5-YEAR CASH FLOW ($ millions)	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Rental Income [2]		4.64	4.77	4.92	5.06	5.22
Vacancy Loss [3]		-1.85	-0.48	-0.49	-0.51	-0.52
Other Income [4]		0.65	0.69	0.71	0.73	0.76
Effective Gross Revenue		3.43	4.99	5.14	5.29	5.45
Operating Expense [5]		-1.95	-2.04	-2.11	-2.17	-2.23
Capital Reserves		0.00	-0.15	-0.16	-0.16	-0.17
NOI		**1.48**	**2.79**	**2.88**	**2.96**	**3.05**
Total Before Tax Cash Flow [6]	**-77.42**	**1.48**	**2.79**	**2.88**	**2.96**	**3.05**
Terminal Value (Yr 10), Net Cost of Sale	61.45					
Unlevered IRR	**1.9%**					

[1] Furnishings, Finishes, and Equipment
[2] Average weighted rent of $10,714 per bed times 420 beds; at a 3% annual escalation.
[3] Assumes a 2-year stabilization/lease-up period and a stabilized occupancy of 90%.
[4] Total annual retail rent, office rent, parking and bike parking monthly fees. 3% annual escalation.
[5] OpEx includes common area maintenance, operations, insurance, and management fees. 3% annual escalation.
[6] Total before tax cash flow in year 0 includes estimate of anticipated construction loan interest carrying costs.

Returns

The project's feasibility was evaluated by developing an operating pro forma and financial model, employing industry-standard methodologies and metrics.

Two key metrics for assessing project performance are the unlevered and levered Internal Rate of Return (IRR). IRR measures both the project's performance and profitability, indicating the expected return on initial capital investment. Property developers and investors use preferred benchmark thresholds for both unlevered and levered IRRs when evaluating a project's financial feasibility.

Unlevered IRR assesses general project feasibility and does not calculate the impact of project financing. Lending institutions typically review a project's unlevered IRR as part of the underwriting process. This report focuses primarily on unlevered IRR as a measure of overall project feasibility.

Levered IRRs are determined based on specific financing assumptions, and targets vary based on risk tolerances of individual investors and other project sponsors, among other factors.

Scenarios

The baseline scenario assumes conservative conditions, including market-rate, undiscounted acquisition costs, traditional market-rate financing, and no local public assistance. In reality, interested developers are likely to pursue a number of strategies to reduce development costs by leveraging programs and other subsidies available to them, often with public subsidy or other support.

Public subsidies are typically available as grants or loans. Grants directly offset total development costs, reducing the project's overall cost. Grants effectively lower the required equity and debt, positively impacting both the levered and unlevered IRR.

Public subsidies can also be repayable loans with more favorable debt terms compared to traditional lending, such as a lower interest rate or a higher loan-to-cost ratio (i.e. less investor equity is required). These terms can reduce the annual cost of debt service on the loan, primarily impacting levered IRR by leaving more residual cash flow for investor returns.

To test the impact of these conditions on the baseline scenario, three alternative scenarios were developed based on the relative availability and ease of applying for and securing the various potential forms of assistance. Scenario 1 assumes a relatively low effort, while Scenario 3 requires a high degree of coordination with multiple public entities, though still within the range of possibility.

Scenario 3 also shows an anticipated level of subsidy required to achieve an unlevered IRR of approximately 8%, which may be understood as a threshold for project-level feasibility.

Scenario 1: No Acquisition Costs

Alternative Scenario 1 assumes no acquisition costs. This can be achieved in cases where a building is vacant or underperforming to the point where it no longer provides any value in its current state and is acquired at essentially no net cost to the buyer. Alternatively, municipalities sometimes purchase underperforming properties and donate them to developer entities as a form of public assistance for redevelopment purposes.

Scenario 2: No Acquisition Costs, Local Grant

In addition to no acquisition costs, Scenario 2 assumes local assistance in the form of a grant equal to 5% of project hard and soft costs.

Scenario 3: No Acquisition Costs, Additional Local Grant

Scenario 3 incorporates the assumption of an additional grant via a local funding mechanism in addition to no acquisition costs and the initial grant incorporated into Scenario 2. The City of Chicago has dedicated several funding streams towards downtown initiatives such as adaptive reuse and affordable housing production, including direct tax increment financing (TIF) assistance through the LaSalle Central TIF District. By leveraging these sources, Scenario 3 assumes an additional grant equal to approximately 30% of project hard and soft costs.

POTENTIAL SOURCES	TYPE OF FUNDING	SOURCE		UNLEVERED RETURNS	LEVERED RETURNS
No Acquisition Costs	Grant	Local	City agency could purchase a vacant property and sell to developer at no cost;	X	X
Local Grant	Grant	Local	City fund or local funding mechanism such as TIF (Tax Increment Financing)	X	X
Below-Market Financing [1]	Loan	Local, State, or Federal	Low-interest rate loan offered through existing local, state, or federal program (e.g. HUD)		X

[1] *Possible funding mechanism not reflected in the returns of this report.*

BASELINE: $30/SF Acquisition	
RETURNS	
Acquisition Cost	$5.4M
Subsidy/Equity	$0
Total Project Costs Net of Subsidy [1]	$71.4M
Stabilized NOI	$2.79M
Unlevered IRR	1.9%

SCENARIO 1: No Acquisition Costs	
RETURNS	
Acquisition Cost	$0
Subsidy/Equity	$0
Total Project Costs Net of Subsidy [1]	$66.0M
Stabilized NOI	$2.79M
Unlevered IRR	2.9%

SCENARIO 2: No Acquisition Costs 5% Subsidy	
RETURNS	
Acquisition Cost	$0
Subsidy/Equity	$3.0M
Total Project Costs Net of Subsidy [1]	$63.0M
Stabilized NOI	$2.79M
Unlevered IRR	3.4%

SCENARIO 3: No Acquisition Costs 35% Subsidy	
RETURNS	
Acquisition Cost	$0
Subsidy/Equity	$22.0M
Total Project Costs Net of Subsidy [1]	$44.0M
Stabilized NOI	$2.79M
Unlevered IRR	8.2%

Findings and Implications

Under the different scenarios tested, the project produces an unlevered IRR between 1.9% and 8.2%. Scenario 3 may produce returns high enough to reach feasibility, but it is dependent on individual investor and lender tolerances, portfolios, and preferences. The baseline scenario and Scenarios 1 and 2 would likely require an additional level of subsidy to attract necessary capital.

Regardless of the return metrics, the flexible co-living concept and model succeeds in its ability to deliver much-needed housing at a lower cost. It is estimated that this concept can deliver a dwelling unit with a baseline development cost of approximately $198,200 per unit, while the current cost of developing a traditional studio unit in the city of Chicago can exceed approximately $400,000.[2] If subsidy dollars could be dedicated to this concept, **the units produced per dollar of public assistance can greatly exceed what is generated under existing housing delivery models since the cost per bed is about one-half the cost of building a traditional studio.**

As housing affordability continues to erode and downtown office vacancy rates remain elevated, this concept can unlock additional office-to-residential conversion opportunities. Policymakers can consider supporting the implementation of office-to-flexible co-living conversions due to the outsized impact that the concept has on housing production in an area of critical need. If successful, cities will be able to deliver low-cost housing in a much more efficient and cost-effective manner, providing thousands of secure, modern, and attractive homes to our nation's downtowns.

[1] Reflects development costs before construction loan interest.
[2] Gensler benchmark study of studio construction costs, February 2025

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Chicago, Illinois

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