# MANHATTAN COMMERCIAL REVITALIZATION PROGRAM (M-CORE) LAUNCHED TO TRANSFORM AGING OFFICE BUILDINGS

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**US Real Estate Alert**

As many companies settle into hybrid work models, office occupancy rates in the United States have flatlined during the first half of 2023. In the Borough of Manhattan (the Borough) in New York City, upwards of 255 million square feet of office space—nearly half of the Borough's total 450 million square feet of office space—has been identified as underperforming, and at least 13.6% of Manhattan's office space remains entirely vacant,[1] with some leading commercial real estate services companies reporting even higher vacancy rates.[2] Further, the decreased number of office workers on any given weekday has created significant challenges for commercial business districts, particularly in Manhattan, which customarily generates 58.5% of all office and retail property tax revenue for New York City[3] and 45% of all jobs in New York City.[4]

On 11 May 2023, the New York City Economic Development Corporation and the New York City Industrial Development Agency (NYCIDA) launched the Manhattan Commercial Revitalization Program (M-CORE), designed to help office owners decrease vacancy and create high-quality spaces sought by world-class commercial tenants while also enticing workers back into offices. M-CORE will provide a range of tax benefits to Manhattan office owners in order to support transformative renovations of aging commercial office buildings, with the goal of making as much as 10 million square feet of Manhattan office space more attractive to businesses. The positive net economic benefit of M-CORE on New York City is estimated to be between US$750 million and US$844 million, with an additional positive economic impact of approximately US$2.3 billion through construction spending and increased employment.[5] Similar tax incentive programs are under consideration by other US municipalities, including San Francisco, where Mayor London Breed recently supported a proposal where companies that move into San Francisco office space could receive annual discounts of up to US$1 million off of their gross receipts tax for a period of three years.[6]

## ELIGIBLE PROPERTIES

In order to be eligible to apply for M-CORE, a commercial office building must (1) be located south of 59th Street in Manhattan (excluding the Hudson Yard Financing Area and Penn Station Area General Project Plan), (2) have been built prior to the year 2000, and (3) consist of at least 250,000 gross square feet.

## MINIMUM INVESTMENT REQUIREMENT

Furthermore, asset sponsorship must be willing to commit a minimum capital investment of 75% of the subject office property's current assessed value for the land and building as determined by the New York City Department of Finance (DOF) for the most recent year in order to be eligible for M-CORE benefits. While a minimum capital

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investment of 75% of the assessed value of the office property may seem high, it is important to note that (1) the assessed value for an office property is equal to the property's market value (as determined by the DOF) multiplied by 45%,[7] so the required minimum capital investment would be 33.75% of the office property's market value, and (2) DOF's determination of market value may be significantly different (and potentially somewhat less) than how market value would typically be determined for business purposes.

## AVAILABLE TAX BENEFITS

Office properties that are selected for M-CORE will receive an array of incentives with respect to property tax, sales tax, and mortgage recording tax:

### Property Tax

The land and building taxes for the existing improvements at the office property may be stabilized at pre-improvement value upon entering M-CORE. Then, the building taxes that are assessed due to the incremental increase in value resulting from property improvements completed under M-CORE may be abated for up to 20 years, with a phaseout of 20% per year over the final four years of the abatement period. Put more simply, building and land taxes will remain flat at the pre-improvement value for up to 16 years, followed by a four-year phaseout.

### Sales Tax

The existing 8.875% sales tax in New York City may be waived for purchases of materials used to (1) renovate the office property or (2) equip facilities at the office property.

### Mortgage Recording Tax

Financing that ownership obtains for the office property in connection with M-CORE-related improvements may receive a partial exemption of mortgage recording tax, with a reduced mortgage recording tax rate of 0.3% versus the standard 2.8% for New York City.

## SELECTION FOR M-CORE

Applications to M-CORE will be evaluated by NYCIDA staff on several key aspects, including: (1) the scope and budget of the transformative improvements to the office property, (2) the sponsorship's tenant attraction plan, (3) project readiness, and (4) compliance with applicable local laws and regulations, including Local Law 97 (emission reduction targets). The application process will be competitive, and NYCIDA will consider applications representing a combined total of 10 million square feet of eligible office space.

In addition to the criteria noted above, selections will be made based on the strength and feasibility of the applicant's proposal. Strong proposals must demonstrate ownership's near-term plans for significant renovations that will introduce new (1) layouts, (2) building systems, (3) infrastructure, (4) energy efficiency improvements, (5) common areas, (6) health and wellness measures, and (7) programming and amenities that are sought after by existing and prospective tenants. Applications should also provide strategies on ground floor uses that will draw foot traffic and activate (i.e., stimulate) the surrounding commercial area.

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## HOW TO APPLY

Preapplications for M-CORE will be available starting on 8 June 2023. Our Real Estate lawyers are available to assist with drafting such applications and with any other questions you may have regarding M-CORE.

# FOOTNOTES

[1] Press Release, N.Y. City Econ. Dev. Corp., NYCEDC Announces Launch of NYCIDA Manhattan Commercial Revitalization Program (May 11, 2023), https://edc.nyc/press-release/nycedc-announces-launch-nycida-manhattan-commercial-revitalization-program.

[2] JLL New York Office Insight - Q1 2023 (April 11, 2023) cites a New York office vacancy rate of 16.1% for the first quarter of 2023.

[3] N.Y. City Econ. Dev. Corp., *supra* note 1.

[4] *Id*.

[5] *Id*.

[6] J.D. Morris, *These are the incentive Mayor Breed wants to give companies to move to S.F.*, SAN FRANCISCO CHRONICLE (Feb. 9, 2023), https://www.sfchronicle.com/sf/article/sf-breed-tax-break-business-17771923.php.

[7] *See Definitions of Property Assessment Terms*, N.Y. CITY DEPT. OF FINANCE, https://www.nyc.gov/site/finance/taxes/definitions-of-property-assessment-terms.page (last visited June 9, 2023).

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