

Public Policy Memo

Commercial Property Reuse for Residential Housing

TESC MPA Application

Claire Kehn March 2024



Problem: Can Commercial Reuse solve the Housing Crisis. This is a current needed due to a current U.S. Housing shortage and an opportunity as Commercial property declines in property value. Washington State alone forecasted future housing need is 112,000 new homes over the next 20-years. Seattle alone housing forecast needs 1,000-2,000 Apts/Condos in the next 7-Yrs. About 14% of office space is empty or available for sublease across the Puget Sound region, including Seattle, Tacoma and the Eastside, the highest share since 2010.¹

Necessary Partnerships are needed with Private investors and Government. The Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA) signaled a significant shift allocated funds through grants and tax incentives to reduce emissions in infrastructure. Re-purposing commercial buildings that would otherwise lay vacant/torn down and/or owner fined based on the inability to meet current standards buildings can be re-zoned and retrofitted to become residential. Though office buildings are the highest of converted units, Factories, Hotels, Warehouses, Schools, and Churches can be converted into residential.²

Local and State Incentives such as Washington State Legislative bills SB615/HB2308 mitigate the opportunity adding incentives to re-use commercial property. Developers are incentivized to retrofit their properties with: property tax exemptions state sales and use taxes paid during the conversion with various stipulations of use and itemization of lessen the carbon footprint and emissions.

Federal Incentives as mentioned include Grants to off-set pre-development, acquisition, construction, and below market Loans. Tax Incentives and deductions converting to Energy Efficient Commercial Buildings.

Seattle has successful converted 2-properties to residential: 12- floors of the tower at Third and Lenora

¹ Heidi Groover "WA Lawmakers weigh tax breaks for developers turning offices to homes" The Seattle Times February 2024 <https://www.seattletimes.com/business/real-estate/wa-lawmakers-weigh-tax-breaks-for-developers-turning-offices-to-homes/>

² Kolomatsky ,Michael "Homes became Offices and Offices became Homes" New York Times November 2022 <https://www.nytimes.com/2022/11/24/realestate/apartment-converted-adaptive-reuse.html>

in Seattle, and 201 Queen Anne Ave. N in Seattle.³

Over time, converted properties offer potential cost savings while mitigating environmental impacts. Commercial property owners are incentivized to embrace conversions through a combination of regulatory easements, grants, tax credits, and low-interest loans.⁴ However, despite these incentives, several challenges persist: the rental rate of the housing is not always affordable, not all properties can be converted, the conversion process is slow, and converting properties is a bail-out package to the commercial property sector.

While the IJIA and IRA represent significant strides towards addressing housing challenges, transparency and oversight are crucial to prevent perceived bailouts. Collaborative partnerships between government, private sectors, and communities are essential to ensure equitable distribution of grants and incentives. By leveraging public-private partnerships, policymakers can navigate the complexities of housing affordability and sustainability, fostering inclusive economic growth.

³ Heidi Groover “WA Lawmakers weigh tax breaks for developers turning offices to homes” The Seattle Times February 2024 <https://www.seattletimes.com/business/real-estate/wa-lawmakers-weigh-tax-breaks-for-developers-turning-offices-to-homes/>

⁴ The White House Commercial to Residential Conversions: A Guidebook to Available Federal Resources 10.23 Version 1 October 2023

References

Groover ,Heidi “WA Lawmakers weigh tax breaks for developers turning offices to homes” The Seattle Times February 2024 <https://www.seattletimes.com/business/real-estate/wa-lawmakers-weigh-tax-breaks-for-developers-turning-offices-to-homes/>

Kolade ,Sherri K “Bagley Development Transforms Artists Building into Residences @ 150 Bagley: Michigan Chronical April 2022<https://www.detroitchamber.com/bagley-development-transforms-artists-building-into-residences-150-bagley/>

Kolomatsky ,Michael “Homes became Offices and Offices became Homes” New York Times November 2022 <https://www.nytimes.com/2022/11/24/realestate/apartment-converted-adaptive-reuse.html>

Murphy, Jazmin “Average American Carbon Footprint: Emissions by City and Sate” March 2024 <https://8billiontrees.com/carbon-offsets-credits/reduce-carbon-footprint/average-footprint-per-person/american/>

Sparbar, Sami “America’s housing shortage explained in one chart” December 2023 Axios News <https://www.axios.com/2023/12/16/housing-market-why-homes-expensive-chart-inventory>

Thornton , Claire “The Number of Homeless people in America Grew in 2023 as high cost of living took a toll” December 2023 <https://www.usatoday.com/story/news/nation/2023/12/15/homelessness-in-america-grew-2023/71926354007/>

Thompson ,Steve “1 in 4 public housing units sit vacant during D.C. affordability crisis Washington Post October 2022, <https://www.washingtonpost.com/dc-md-va/2022/10/19/dc-public-housing-vacancy-spirals/>

The White House Commercial-to-residential Conversation: Addressing Office Vacancies October 2023 <https://www.whitehouse.gov/cea/written-materials/2023/10/27/commercial-to-residential-conversion-addressing-office-vacancies/>

NYC Planning <https://www.nyc.gov/site/planning/data-maps/open-data/dwn-pluto-mappluto.page>

Editorial Board “Just look at why it’s so hard to turn offices into homes” September 2023
<https://www.washingtonpost.com/opinions/interactive/2023/city-downtown-conversion-office-building/>

United Nations Population Division World Population Prospects 2022
<https://population.un.org/wpp/>