

Statement of Purpose

Commercial Property Reuse for Residential Housing

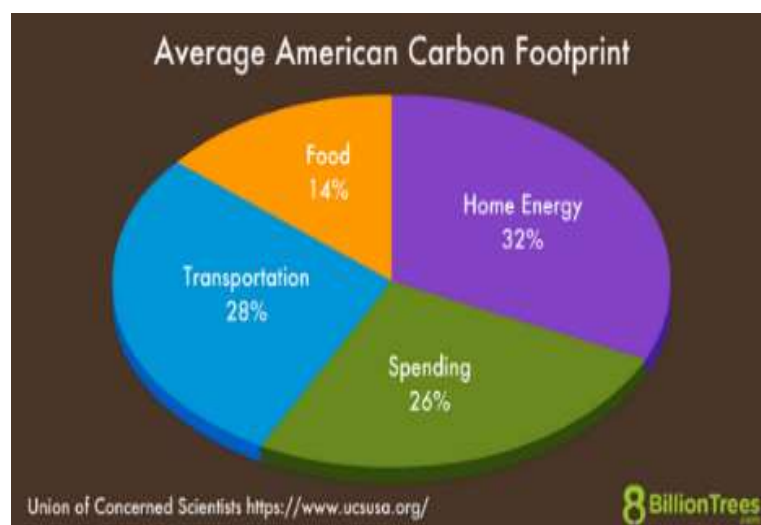
TESC MPA Application

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November 15, 2021, marks a pivotal moment in American history. Following years of political and economic turmoil amid the COVID-19 pandemic, the passage of The Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA) signaled a significant shift. These legislations, focusing on funding infrastructure projects with sustainable renewable energy through federal allocations, were allocated to local and state agencies, businesses, and private citizens via grants and tax credits. The passage of these acts not only marked a departure from the economic downturn but also represented a repudiation of neoliberal policies. The enactment of IIJA and IRA not only provided economic stability but also catalyzed a shift in societal attitudes towards renewable energy adoption. These legislative efforts introduced and emphasized terms and concepts such as "carbon footprint" and prompted discussions on individual responsibilities towards climate change mitigation. Questions regarding personal choices, such as transitioning to eco-friendly vehicles or mitigating climate change impacts without compromising economic growth, emerged as crucial considerations. This introspection revealed that Americans bear a substantial carbon footprint, the highest globally.¹

Ironically, while homeowners contribute significantly to carbon emissions (32%), not everyone has access to housing. The dichotomy between home energy usage and homelessness underscores the urgency of addressing housing inequities (America's unhoused population has increased by 12%²). The IIJA and IRA aimed to initiate a paradigm shift, emphasizing partnership and sustainable resource utilization over the elitism associated with carbon footprints. However, despite the average American's significant carbon



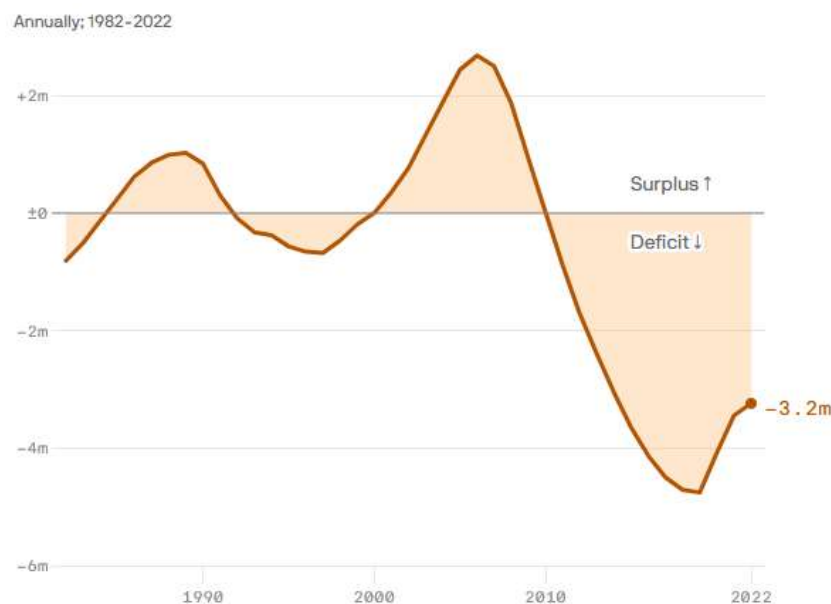
¹ Jazmin Murphy "Average American Carbon Footprint: Emissions by City and State" March 2024 <https://8billiontrees.com/carbon-offsets-credits/reduce-carbon-footprint/average-footprint-per-person/american/>

² Claire Thornton "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/>

footprint, redistributing this burden remains a formidable challenge, especially in light of projected population growth.

Forecasts by the United Nations predict a substantial increase in the global population, exacerbating housing shortages. By 2050, the world's population is expected to reach 9.7 billion, with a corresponding demand for housing. This demographic shift necessitates the creation of 96,000 new affordable housing units daily by 2030, according to UN projections. Addressing this challenge appears rhetorical: expand housing to accommodate population growth. However, existing housing shortages, particularly evident in the US, where there is a deficit of 3.2 million units, pose a significant obstacle.³

The concept of commercial property reuse has garnered public support as housing prices escalate, rendering homeownership unattainable for many. An article from Axios indicates that existing housing units relative to population demand in the U.S.⁴ is at -3.2m deficit, putting single-family housing at a scarcity as shown in the following chart titled “America’s housing Shortage Explained in One-Chart”.⁵



³ United Nations Population Division World Population Prospects 2022 <https://population.un.org/wpp/>

⁴ Sami Sparbar “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>

⁵ Sami Sparbar “America’s housing shortage explained in one chart” December 2023 Axios News Hines analysis of Census Bureau and Moody's data

As Axios cites, “we’re [Sic – in the US] a multi-prong plan is needed to overcome the current housing crisis: as building single homes alone is not going to overcome this deficit anytime soon.”⁶ In the post-COVID-19 economic fall-out, commercial property has declined in value 2023 (investments fell by 64% with 30-year high vacancy rate of 18.2%⁷). Along with current all time high loan interest rates, housing is an unaffordable option for many. Some would state the current housing crisis is a market failure: the whole is greater than the sum of the parts and in the post-COVID economy, there is an opportunity to have one issue be a solution for another: reuse of commercial property for residential housing.

The concept of commercial property reuse has gained public support as housing prices have increased to “unaffordable” in cities around the globe increasing the spur the conversation of commercial property reuse. January 2020- December 2021 a significant increase in Commercial to Housing renovation with the rental of 28,000 new rental apartments⁸

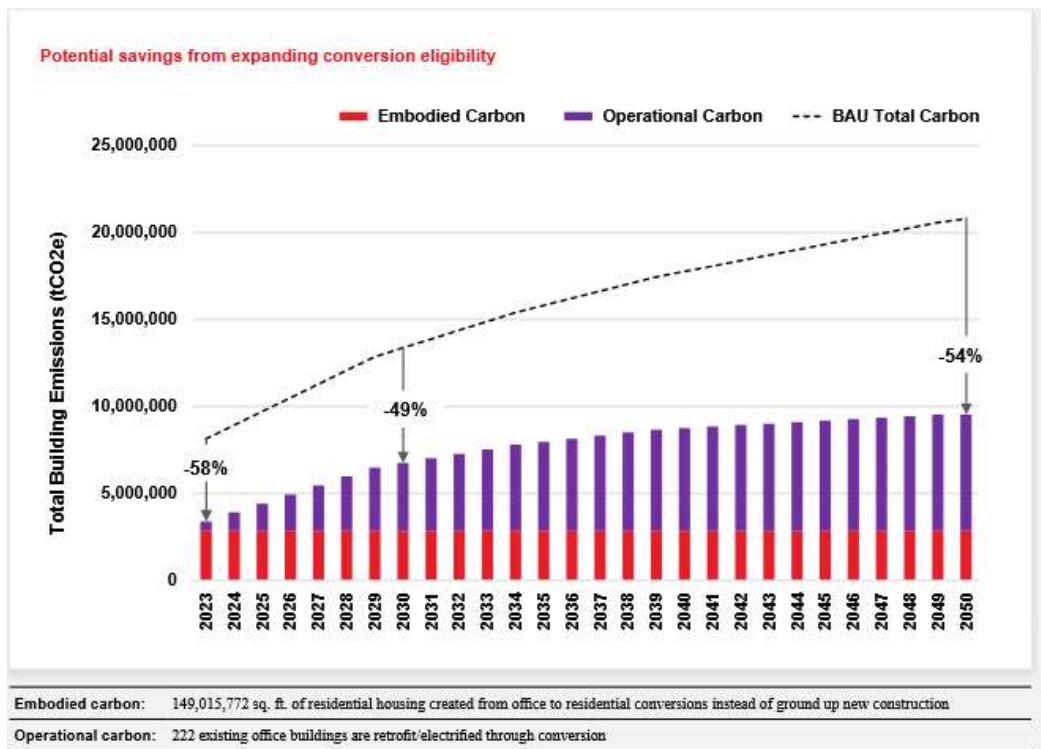
This supply-side approach advocates for increased production through tax incentives and reduced regulatory barriers, incentivizing property owners to update non-compliant properties to meet current emission standards. The following graph by NYC Planning department identifies the potential savings accumulated by conversion of commercial properties with the potential of being net neutral.⁹

⁶ Sami Sparbar “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>

⁷ 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/>

⁸ Michael Kolomatsky “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>

⁹ NYC Planning <https://www.nyc.gov/site/planning/data-maps/open-data/dwn-pluto-mappluto.page>



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.¹⁰ 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.

- 1) Affordability¹¹: The rental rate of conversion units that are affordable: only 1/5 of the conversions are “affordable”. Fair value pricing remains outside of the low-income price point.
- 2) Ease of Conversion: not every property can be converted. Conversions are based on property size, exterior-opening windows, and in-unit bathrooms and kitchens. This requires changes in

¹⁰ The White House Commercial to Residential Conversions: A Guidebook to Available Federal Resources
10.23 Version 1 October 2023

¹¹ 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/>

floor-to-floor height, window systems, heating and cooling units, sewers, and elevator access¹². Research is indicating only 15% of commercial properties can be converted. Per Washington Post 2023 Q2 vacancy report the percentage of vacant office space and the coordinate conversations underway/planned state the limitations of reusing commercial property.¹³

CITY	▼ VACANT OFFICE SPACE	CONVERSIONS UNDERWAY OR PLANNED
San Francisco	27.3%	2.3%
Dallas	24.6%	1.9%
Chicago	24.3%	2.2%
Atlanta	23.9%	1.1%
Philadelphia	23.3%	0.8%
Salt Lake City	23.0%	0.7%
Washington, D.C.	20.9%	1.4%
Los Angeles	20.7%	0.7%
U.S. average	18.2%	1.4%
New York	15.6%	0.6%
Cleveland	15.5%	10.8%

Vacancy data are as of Q2 2023. Conversion data are as of Q3 2023. New York is for Manhattan only.

Source: CBRE THE WASHINGTON POST

- 3) Conversation process is slow¹⁴: Local governments do not have the capacity to quickly move projects through the permit approval process.
- 4) Equity: government intervention may inadvertently benefit property owners over vulnerable populations

An example cited from Detroit illustrates how public funds subsidized the conversion of a commercial property into affordable housing raised questions about fairness and accountability. In a post-neoliberal economic landscape, proponents argue for a fair-market approach, where property owners bear the full cost of conversion or risk losing their assets. In the example, the 150 Bagley

¹² The White House Commercial-to-Residential Conversion Addressing Office Vacancies October 2023
<https://www.whitehouse.gov/cea/written-materials/2023/10/27/commercial-to-residential-conversion-addressing-office-vacancies/>

¹³ Steve Thompson “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/>

¹⁴ 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/>

property, only 30-units are affordable housing (.2%); with public funds subsidizing 81% of the renovation. Local/State and Federal inadvertently found themselves in the property management business.¹⁵

HUD Mortgage Insurance Transforms Vacant Building into Vibrant Residential Structure

The Residences at 150 Bagley in Detroit was originally constructed in 1935. The building functioned continuously as an office building, including a bank, on the ground floors until largely vacated in 1983. After several failed attempt to restore the building, in 2022, HUD provided critical financing to convert the building into mixed-use housing including apartments and commercial space. When the rehabilitation is completed, the project will have 100 one-bedroom and 48 two-bedroom units, 10,535 square feet of commercial space on the first floor and basement, and 183 parking spaces through an additional rider to the ground lease. The units will be market-rate with 30 units set aside for households earning up to 80% of the area median family income. The rehabilitation will make the building eligible for HUD's Green and Energy Efficient Housing mortgage insurance premium standards. Total development costs are estimated at \$80 million, with the HUD 221d4 mortgage making up \$42 million and rehabilitation (historic preservation) credits make up another \$12 million.

Final Capital Stack

HUD 221d4 mortgage	\$42,312,400
Federal Rehabilitation Credits	\$12,008,680
Detroit Economic Growth Corporation	\$7,100,000
Michigan Economic Development Corporation	\$12,300,000 *
The City of Detroit Housing and Revitalization	
Department CDBG Funds	\$3,000,000
Developer Cash	\$4,118,244

Total Development \$80,839,324

*Includes \$5,300,000 that was added in the last 30 days and restructures the TIF. The property will enjoy two 12-year real estate tax abatements for this project; one piece is tied to the residential portion and the other to the small commercial piece of the building.

Whereas, in a post-neoliberalism true fair-market economy the business owner would shoulder the entire expense or lose the property, members of the local community were giving \$80M in tax revenue instead of increasing their ability to build their own wealth and independence.

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.

¹⁵ Sherri Kolade "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/>

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