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Biden Administration Encouraging Conversion of Empty Offices into Affordable Housing

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One of the lasting impacts of the COVID-19 pandemic is the ability of many Americans to work effectively from home. As a result, commercial office spaces are experiencing all-time vacancy rates across the county, with some markets reaching as high as 25%. The popularity of remote work has caused many large tenants to drastically reduce their footprint at the end of their lease term. Landlords are not the only ones struggling, however, as reduced foot traffic has decreased demand in the local economy of the surrounding business districts.

In response to post-pandemic vacancy rates, the Biden Administration has announced a multi-agency initiative to promote the conversion of empty office spaces into residential housing. The initiative involves the departments of Housing and Urban Development and Transportation, among others, that will make billions available to incentivize conversions in order to address high vacancy rates in addition to the long-standing shortage of affordable housing. Recent estimates predicted the housing market was short by 7 million rental units, so policymakers see the opportunity to revitalize vacant real estate into affordable housing as a win-win.

The Biden Administration has released the Commercial to Residential Federal Resources Guidebook, which provides information on federal programs that may be utilized by owners, developers, investors, and lenders to support commercial-to-residential conversions. These programs include grants, low-interest loans, loan guarantees, and tax incentives that may be used to support development.

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- The Department of Transportation will release new guidance on how the Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation & Improvement Financing (RRIF) programs can be used to support conversions. The TIFIA and RRIF programs have over $35 billion in funds to make low-interest loans that can be used to support the acquisition and development of conversion projects.
- The DOT will also release new rules allowing transit agencies to repurpose vacant properties in large transportation hubs by transferring properties to developers, non-profits, and local governments.
- HUD's Community Development Block Grant Program may also provide funds to support the acquisition and development for state and local governments
- The Department of Energy's Clean Energy Financing Program may provide loan guarantees to support the financing of energy-related components of commercial-to-residential conversions.
- The Department of Treasury will set forth new rules for tax incentives that may be utilized by multifamily housing developers to lower the costs of energy-efficient upgrades to converted property

Although there is great enthusiasm and public support to convert vacant commercial properties into residential housing, the realities of such projects present unique challenges. The structure and layout of commercial office buildings are fundamentally different from their residential counterparts. Plumbing and HVAC, for example, would have to undergo costly redevelopment to facilitate use as residential units (commercial layouts typically have two large bathrooms on each floor, but a residential conversion would require plumbing to accommodate bathrooms for each unit). Certain structural components of commercial property, such as deep floor plans, would also have to be redesigned to ensure that residential units have enough natural light.

The high costs associated with renovating commercial spaces have made the prospect less appealing to developers. However, the renewed public support and the available financial resources could help bridge the gap and provide new opportunities for communities, developers, and investors.