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Policy for Commercial-to-Multifamily Conversions

The COVID-19 pandemic heavily impacted commercial real estate in the United States. Office workers began to work from home, and many downtown business districts across the country shut down temporarily or indefinitely. While restrictions have been lifted and downtown areas are again open, there has been a shift to remote or hybrid work models, impacting commercial real estate occupancy and needs. A July 2023 study predicts that demand for office space will remain on average 13% lower in 2030 than it was pre-pandemic.ⁱ At the same time, multifamily demand is booming, due to housing shortages across the country particularly but not limited to affordable housing.

As a solution to the persistent office vacancy rates and declining multifamily vacancy rates, many governments and developers have begun to explore the concept of [commercial-to-residential conversions](#). Conversion projects repurpose existing commercial buildings, typically offices, into multifamily residential buildings. The trend is growing in the news, in research, and in policy.

CONVERSIONS SUPPORT GOVERNMENT GOALS

Housing Goals

There is a widespread housing shortage across the U.S., with Moody's Analytics estimating the annual supply of new housing units to be 100,000 below new housing demand, resulting in higher rents and cost-burdened families.ⁱⁱ A recurring idea is for governments to leverage commercial-to-residential conversions as a tool to increase the supply of affordable multifamily housing on previously developed land and revitalize office spaces that have struggled to return to pre-pandemic occupancy levels; however, more examples of success are needed.

Climate Goals

By repurposing an existing building, conversions avoid carbon emissions associated with demolition and construction of a new building. Additionally, the major renovation needed to achieve the conversion creates an opportunity to turn the space into a high-performance building to save operating costs and comply with upcoming regulations such as building performance standards. Conversions can also be designed to support human health and utilize green infrastructure to reduce impacts on water resources and urban heat islands. With buildings currently responsible for about 40% of annual global carbon emissions, conversions represent a critical opportunity to decarbonize the built environment and contribute to climate goals in the Paris Agreement.ⁱⁱⁱ

Learn more in USGBC's Conversions Anthology

In September 2023, USGBC released the research & news anthology [Commercial to Multifamily Conversions in North American Cities](#), which provides a comprehensive look at information on the feasibility of conversions and the key markets in which conversions are on the rise. Key findings from the anthology include:

- Conversions are trending in the news, not necessarily in practice.
- Conversions can be difficult and expensive to achieve.
- Typical conversions produce luxury apartments, not affordable housing.
- Feasibility of conversions depends on local market and building characteristics.
- There is a greening opportunity.

USGBC continues to monitor the commercial-to-residential conversions trend and is available to support state and local governments looking to incentivize conversions of office buildings into healthy, high-performing housing.

Economic Goals

Ideally, conversions repurpose vacant office space into a thriving residential community, boosting the local economy. Calgary, Canada, for example, leveraged conversions as the central strategy to revitalize its downtown, which struggled with office vacancy rates of 30% in the 2010s. After launching a turnaround plan in 2021, Calgary has already transformed 1.5 million sq. ft. of office space into new uses, including affordable housing such as the [Neoma building](#). Calgary's Central Library has nearly returned to pre-pandemic levels, and there are proposals for new conversions into hotels, schools, and art centers, as investment flows back into the city.^{iv}

FEASIBILITY OF CONVERSIONS

While commercial-to-residential conversions present numerous environmental, social, and economic benefits, the feasibility of conversions varies greatly by jurisdiction and individual building. Consensus from developers seems to be that conversions are only feasible in older, smaller, and more vacant office buildings located in areas with zoning regulations that permit such projects; for example, CBRE defines a feasible conversion project as a downtown office building built before 1980 with more than 50% vacancy and a floor plate^v less than 15,000 sq. ft.^{vi} Research suggests a small proportion – around 3% – of commercial buildings are suitable for residential conversion.^{vii}

When conversions do occur, developers sometimes must gut the entire building because physical characteristics of the building are incompatible with multifamily use, incurring high costs. The high costs of conversions tend to result in luxury or market rate apartments, not affordable housing, for conversion projects to be financially feasible and pencil out.

State and local governments have an opportunity to take steps such as providing financial incentives for conversions and easing regulatory barriers to conversions in order to increase the feasibility of such projects as well as the supply of affordable, high-performing housing. We note that conversion projects are simply one tool in the toolkit of housing policy approaches and may not be a priority solution in all communities.

CONVERSIONS AND SUSTAINABILITY

To date, the policies that have emerged to encourage conversions have generally not included green or climate requirements; however, these developments would be subject to normal processes in a jurisdiction which may include energy efficiency requirements and other sustainability criteria. We encourage jurisdictions to consider whether green building requirements make sense for their goals and in their market. And – as noted above -- every building that is converted avoids the resources and emissions for a newly constructed building and avoids the continued energy used to maintain an empty building.

EXAMPLES OF CONVERSIONS IN POLICY

Commercial-to-multifamily conversion policies represent a relatively new approach, but several state and local governments are already beginning to incentivize or enable conversions. Policy approaches that have been adapted to apply to conversions include:

1. **Financial incentives**, such as tax abatements or subsidies, for conversion projects
2. **Expedited permitting and/or reduced fees** for conversion projects
3. **Feasibility studies** to understand the opportunity for conversions within a jurisdiction

Below are some examples of state & local policy approaches to incentivize conversion projects. The asterisked policies are featured in USGBC's *Commercial to Multifamily Conversions in North American Cities* research & news anthology.^{viii}

Jurisdiction	Policy	Description	Status
<i>Financial Incentives</i>			
City of Boston, MA*	Downtown Residential Conversion Incentive Pilot Program	Tax abatement of up to 75% for up to 29 years for downtown office buildings that convert to residential use. Must comply with affordability requirements and the Massachusetts stretch energy code.	<i>Active</i> ; applications due June 2024 with construction started by October 2025.
City of Calgary, AB*	Downtown Calgary Development Incentive Program	Provided grant of \$75 per square foot of existing office space that would be converted to residential, waived need for a development permit, and expedited approval process.	<i>Paused</i> ; program dates August 2021 – October 2023. Committed \$153 million to the program and leveraged \$567 in private investment, resulting in 13 active conversion projects and 4 under review. Program still open for office conversions to post-secondary institutions and end-of-life office demolitions.
State of California*	2022-2023 California State Budget	Allocates \$200 million in 2022-23 and \$250 million in 2023-24 to convert existing commercial or office space to affordable housing. The funding is administered through California Department of Housing and Community Development's Infill Infrastructure Grant Catalytic Qualifying Infill Area Program.	<i>Active</i> ; effective June 2022 – June 2024.
City of Chicago, IL*	LaSalle Street Reimagined Initiative	Provides Tax Increment Financing (TIF) and other incentives for select commercial to mixed-income residential conversion projects in the LaSalle Street corridor.	<i>Applications closed</i> ; 5 initial adaptive reuse proposals consisting of 1,600 units of mixed-income housing were selected to receive City financial assistance.
City of Washington, DC*	Housing in Downtown Program	20-year property tax abatement for select conversion projects in downtown DC.	<i>Active</i> ; part of 2023 Comeback Plan and approved in FY23 budget. FY24 budget increased the program cap to \$2.5M in FY24-26, \$6.8M in FY27, and \$41M in FY28.
State of Wisconsin*	WI AB 268	Establishes a commercial-to-housing conversion revolving loan fund, offering no-interest loans of up to \$1M	<i>Active</i> ; enacted June 2023

		for conversion projects to affordable housing.	
<i>Expedited Permitting/Reduced Fees</i>			
State of California*	AB-2011 Affordable Housing and High Road Jobs Act of 2022	Authorizes developers to submit applications to build housing on land that is zoned for commercial use through a streamlined, ministerial approval process, as long as a certain percentage of the housing is affordable.	<i>Active</i> ; signed into law September 2022, effective July 1, 2023 - January 1, 2033.
State of California*	SB-6 Middle Class Housing Act of 2022	Allows housing development in commercial zones, without requiring rezoning.	<i>Active</i> ; signed into law September 2022, effective July 1, 2023 - January 1, 2033.
City of Portland, OR*	Ordinance 191202	Exempts office-to-residential conversions from paying system development charges, up to \$3 million per project.	<i>Active</i> ; passed in March 2023, effective until July 2027.
City of Portland, OR*	Ordinance 191203	Lowers the seismic improvement standards for conversion projects (and in turn, the cost of required seismic retrofits).	<i>Active</i> ; passed in March 2023, effective until July 2027.
State of Oregon	OR HB 2984	Requires local governments to allow commercial-to-residential conversions without needing a zone change or conditional use permit. Limits collection of system development charges.	<i>Active</i> ; enacted July 2023, effective January 1, 2024
<i>Feasibility Study/Task Force</i>			
City of New York, NY*	Local Law 43 of 2022	Establishes a task force to study and make recommendations regarding the conversion of vacant or commercially unviable office space to other uses.	<i>Complete</i> ; enacted 1/15/22, released the Office Adaptive Reuse Study in January 2023
City of Washington, DC*	D.C. Law 22-103 Office-to-Affordable-Housing Task Force Establishment Act of 2018	Establishes an Office-to-Affordable-Housing Task Force to determine whether transitioning existing vacant commercial office space to affordable housing would help address DC's affordable housing crisis.	<i>Complete</i> ; effective June 2018, Office-to-Affordable Housing Task Force Report published August 2019. Follow-up report published November 2020.

City of Denver, CO*	2023 Budget	Earmarks \$75,000 of American Rescue Plan Act (ARPA) funds to study the feasibility of converting 10-15 high-rise downtown office buildings into housing.	<i>Complete</i> ; approved in 2023 budget, report released July 2023.
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Endnotes

ⁱ McKinsey Global Institute, Empty spaces and hybrid places: The pandemic's lasting impact on real estate (2023), available at <https://www.mckinsey.com/mgi/our-research/empty-spaces-and-hybrid-places>.

ⁱⁱ Moody's Analytics, Overcoming the Nation's Daunting Housing Supply Shortage (2021), available at <https://www.moodyanalytics.com/-/media/article/2021/Overcoming-the-Nations-Housing-Supply-Shortage.pdf>.

ⁱⁱⁱ Architecture 2030, Why the Built Environment, available at <https://www.architecture2030.org/why-the-built-environment/>.

^{iv} Washington Post, Opinion | The model city for transforming downtowns? It's in Canada. (2023), available at <https://www.washingtonpost.com/opinions/2023/05/18/calgary-downtown-revitalization-plan/>.

^v A floor plate is a term that refers to the amount of square footage that can be leased on each floor of a building. Along with shape, the floor plate is a key determinant in whether residential spaces could be created with adequate external walls for windows, in other words to limit the windowless rooms which are undesirable in residential buildings.

^{vi} CBRE, The Rise and Fall of Office to Multifamily Conversions: A Real Estate Investigation (2023), available at <https://www.cbre.com/insights/viewpoints/the-rise-and-fall-of-office-to-multifamily-conversionsa-real-estate-investigation>.

^{vii} Moody's Analytics, Why Office-to-Apartment Conversions are Likely a Fringe Trend at Best (2022), available at <https://cre.moodyanalytics.com/insights/cre-trends/office-to-apartment-conversions/>.

^{viii} USGBC, Commercial to Multifamily Conversions in North American Cities (2023), available at <https://www.usgbc.org/resources/commercial-multifamily-conversions-north-american-cities>.