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EVIDENCE MATTERS

Transforming Knowledge Into Housing and Community Development Policy

Courtesy of City of Chicago

OFFICE TO RESIDENTIAL CONVERSIONS

IN THIS ISSUE

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PD&R

Message From PD&R Leadership

To address the growing crisis of housing affordability, the Biden-Harris Administration has been working tirelessly to increase the supply of housing. Last year, the administration released the **Housing Supply Action Plan** with a set of agency actions designed to boost the supply of high-quality housing in communities nationwide by improving land use policies, expanding opportunities for federal financing, and reducing barriers to housing construction.

In this issue of *Evidence Matters,* we add another approach to expanding the supply of housing: the conversion of underutilized office buildings to residential use.

Office conversion can help to increase the supply of housing in neighborhoods where it is desperately needed, including neighborhoods with rich transit access and proximity to job centers.

Converting underutilized office space to residential use has additional benefits. The rise in office vacancies since the beginning of the COVID-19 pandemic has dramatically shifted the landscape of American downtowns. As many Americans continue to work from home, the market for downtown office space has shifted. Whereas downtown neighborhoods once offered lively, mixed-use communities, they often are underpopulated during the daytime hours and nearly vacant in the evenings. Businesses serving office workers, including restaurants and bars, often struggle to survive. Cities that rely on revenue from these commercial spaces are beginning to see the budgetary impact of the changing nature of urban downtowns.

Converting underutilized office space to residential use can both increase the supply of housing *and* reinvigorate America's downtowns. With this issue of *Evidence Matters,* we detail research and case studies on the conversion of office space to residential use.

Cities nationwide have already taken bold steps to incentivize these conversions using tax abatements and other policy tools. In this issue, we highlight the work of Chicago's LaSalle Street revitalization as a model of adaptive reuse. Building from the work of local community activists, city officials in Chicago launched the LaSalle Reimagined initiative to transform the neighborhood's underutilized office space. Similarly, we point to the work of the Pittsburgh Downtown Conversion Program to convert aging commercial infrastructure in the downtown community. Acknowledging the enduring impact of the pandemic on the demand for downtown office space, the program is working with developers to incentivize conversions that include affordable housing.

In addition to these citywide examples, we highlight two individual projects — one from Baltimore and the other from Kansas City — that examine the financing of these conversions. Together, these case studies underscore how partnerships between local developers and governments aid in the conversion of these buildings.

As the Biden-Harris Administration works to increase the supply of affordable housing while acknowledging the realities of America's downtowns, converting office buildings to residential use must be part of the conversation, and HUD is taking a leading role in these conversations. Ensuring that local policymakers have the tools and resources needed to maintain healthy downtowns and increase the supply of housing is essential to the future of American cities.

— Brian J. McCabe, *Deputy Assistant Secretary for Policy Development*

Editor's Note

The United States is facing a severe lack of housing stock, and this shortage is exacerbating the nation's lack of affordable housing. Those affected are not only people who want to live close to employment centers in central business districts in urban areas but also renters and buyers nationwide.

Since the outset of the pandemic, utilization of downtown office space has heavily decreased in cities across the U.S. This edition of *Evidence Matters* examines the advantages and drivers of adaptive reuse of office buildings and office-to-residential conversion. This issue also focuses on existing regulatory, logistical, and financial barriers to conversion when attempting to revive American cities after office space utilization decreased during and after the pandemic.

The lead article, "Office to Residential Conversions," highlights the interest in and opportunities associated with office building vacancies, paying particular attention to how these vacancies are affecting the economic landscape of many U.S. cities. Although this article outlines the challenges of conversion, it also points out the financial incentives and architectural innovations that are boosting the feasibility of adaptive reuse.

This issue's In Practice article, "Cities Pursue Conversion Initiatives," highlights the LaSalle Reimagined initiative and the work to convert 5 historic office buildings into more than 1,600 mixed-income housing units. The article also discusses the Pittsburgh Downtown Conversion Program, which offers loans to developers who renovate vacant Class B and C office buildings and reserve a portion of the units for affordable housing. The article then focuses on Portland, Oregon, which has passed ordinances to facilitate conversions by waiving onerous regulatory barriers without sacrificing building safety.

Specific to this issue of *Evidence Matters* is a special In Practice article, "Office Buildings Repurposed as Affordable Housing," that highlights Kansas City's tax abatement program and Missouri's historic tax credit program to support converting empty office buildings to affordable housing. The article also discusses the Lanahan Building in Baltimore, which has employed innovative methods to overcome logistical and architectural barriers to conversion that can serve as a blueprint for similarly situated projects nationwide.

We hope that the articles in this issue of *Evidence Matters* will offer readers perspective and insight as to how we can maintain and revitalize our nation's urban cores. We welcome feedback at **www.huduser.gov/forums**.

— Parker A. Lester, *Social Science Analyst, Office of Policy Development and Research*

FEATURE

Office to Residential Conversions

HIGHLIGHTS

- Interest in office-to-residential adaptive reuse has grown as office vacancies have increased and housing remains in short supply in many parts of the country.
- Various zoning, logistical, and financial challenges make office-to-residential conversions difficult, but policy changes, architectural innovations, and financial incentives can increase the likelihood of such adaptive reuse.
- Office-to-residential conversions alone will not fix the many problems that downtown areas face, but they can contribute to broader investments and strategies to revitalize downtown economies.

As the COVID-19 pandemic caused teleworking to surge and subsequent adjustments to work patterns led to rising office vacancy rates in downtown areas nationwide, many communities have expressed growing interest in office-to-residential conversions, including both historic and modern properties. Office-to-residential conversions are both logistically and financially challenging; as a result, governments may need to provide financial incentives or relax zoning and building code requirements to make these conversions financially feasible. Brookings Institution scholar Tracy Hadden Loh cautions, "Office-to-residential conversion alone cannot solve either the current glut of office space that exists in some regional office markets or the housing crisis." Loh adds, however, that "office-to-housing conversion is a historic preservation and placemaking strategy that can contribute to the revitalization of places where office is a very dominant part of the land use mix."[1] Such revitalization can be part of broader efforts to relieve the pressures of declining office demand, reduced municipal tax revenue, and insufficient housing supply, and HUD programs can support these local efforts.

Adaptive Reuse

The United States has a long history of turning to adaptive reuse as a response

Gensler and Robert Deitchler

In Philadelphia, the vacant offices of Franklin Tower became a mix of retail, apartments, and amenities.

to changing demands.[2] A recent report by researchers at the Terner Center for Housing Innovation identifies the defining characteristics of adaptive reuse as "(1) existence of a structure to be reused, (2) functional and/or economic obsolescence of the existing building, (3) change of use, and (4) economic viability of the new project."[3] Various types of structures that have fallen into obsolescence at different times and places, including hotels, retail, schools, churches, warehouses, and factories, have been converted successfully to residential use.[4] Owners may also pursue adaptive reuse because market conditions or expectations favor alternative uses for their properties. Currently, increases in office vacancies and uncertainty about future trends in telework and office use are prompting private and public stakeholders to consider the conversion and reuse of commercial office buildings.

Although economic considerations are the primary forces driving the adaptive reuse of commercial properties, adaptive reuse offers additional benefits. For example, adaptive reuse can support sustainability by reducing demolition waste and emissions related to new construction.[5] As Emil Malizia, professor of city and regional planning at the University of North Carolina at Chapel Hill, writes, "Conversion preserves the carbon that is embodied in an existing building's structure, and less energy and fewer carbon-intensive building materials are needed than for most new construction."[6] In some cases, however, making adaptive retrofits as energy efficient as new construction can be difficult.[7] Sometimes the various costs entailed in converting particular buildings in particular contexts exceed the cost of demolition and new construction; in other cases, however, conversion can be less expensive. Fred D. Burkhardt, president and chief executive officer of Geneva Analytics, reports that building rehabilitation costs an estimated "16 percent less in construction costs and 18 percent less in construction time than new construction."[8]

Adaptive reuse can also promote a more diverse mix of uses in an area. In localities where uses traditionally have been commercial, conversions to housing and other uses such as retail and amenities can promote overall economic vitality.[9] Areas dominated by office use tend to have little economic activity on evenings, weekends, and holidays. The addition of housing brings in a population of consumers to support a 24/7 economy.[10] Increased residential use also strengthens demand for offices and allows people to live near job centers.[11]

Adaptive Reuse of Office Buildings

The precipitous increase in office vacancies in many city downtowns as employers and employees adjust to new work patterns is creating several problems: declining demand and value for commercial properties, wider economic impacts for financial institutions and investors, and declining municipal revenues. According to Kastle System's average of the top 10 markets, office occupancy rates declined from 95 percent at the end of February 2020 to

10 percent at the end of March 2020, when COVID-19 lockdowns went into effect, rebounding only to 47 percent by the end of November 2022 and 50.3 percent at the start of June 2023.[12] In Manhattan, the office vacancy rate doubled to 20 percent in the third quarter of 2022 compared with the rate before the pandemic.[13] In Washington, D.C., the office occupancy rate fell to 46 percent in January 2023.[14] As of June 2023, office vacancies were also high in smaller markets such as Denver (20.4%), Seattle (20.1%), Phoenix (18.8%), and Atlanta (19.4%).[15]

These drops in rental income, demand, and commercial property values hinder building owners, who continue to owe property taxes and must repay loans. Office loan delinquencies have risen from 1.63 percent in May 2022 to 4.02 percent in May 2023.[16] The commercial real estate research firm Trepp estimates that $270 billion in commercial loan payments are due in 2023.[17] In addition to the peril owners face if they cannot make payments and their delinquencies become defaults, lenders and investors in securities backed by the loans, including pension funds, may experience broader economic impacts.[18] Lenders will have significant incentives to renegotiate terms and avoid default and partially avoid the worst outcomes.[19]

Rising office vacancy rates are also straining municipal budgets as commercial property values and downtown economic activity decline. Taxes levied on the assessed value of commercial properties contribute approximately 20 to 40 percent toward local tax revenues.[20] Some cities such as Detroit; Washington, D.C.; and Chicago that rely heavily on commercial property taxes will experience considerable pressure to cut services, raise taxes, or both.[21] Beyond the reductions in property tax revenues, municipalities also lose out on sales taxes generated by the service and retail sectors that serve office workers, such as food and custodial services.

Many of the same cities that have experienced increases in office vacancy rates also have severe housing shortages. More than 20 million U.S. renter households were housing cost burdened in 2019.[22] Based on 2019 data, more than 50 percent of renters earning up to 100 percent of the area median income in every one of the 30 most populous cities paid more than 30 percent of their income on housing expenses.[23] Some downtown areas have very little housing or are not even zoned for residential use, and housing that is closest to or within downtown areas is often the most expensive.[24] Many downtowns, therefore, lack the diversity of uses to weather a sharp decline in demand for one type of use or that sustain economic vitality. Brookings Institution researchers Tracy Hadden Loh, Egon Terplan, and D.W. Rowlands argue that these circumstances do not mean that downtowns have too many offices; rather, they have "too little of everything else."[25]

> In localities where uses traditionally have been commercial, conversions to housing and other uses such as retail and amenities can promote overall economic vitality.

Office-to-residential conversion offers a potential partial solution to these problems by returning these properties to productive use and drawing people and economic activity into downtown areas. "That's the big idea," says DC Policy Center's Yesim Sayin. "You have one type of use in a building, offices, that is in low demand, and another kind of use, housing, that is in high demand, and you've got the building — it makes a lot of sense."[26] Although Sayin points out the many potential complications of conversions as well as the reasons why a conversion might not make sense in a given context, she notes that conversions have been performed successfully for decades.[27] According to data from Yardi Matrix, conversions of all types of properties yielded 2,002 apartments in the 1950s, 3,290 in the 1960s, 15,494 in the 1970s, and 32,190 in the 1980s before dipping to 25,010 in the 1990s. Conversions produced 63,909 apartments in the 2000s and 96,544 in the 2010s.[28] The pace of adaptive reuse apartment conversions has increased in recent years, with 11,090 apartments added in the 2020 to 2021 period compared with 7,762 apartments added in the 2018 to 2019 period. As of December 2022, 77,000 adaptive reuse apartments were in the conversion process. Between 2020 and 2021, office buildings have been the dominant source of buildings converted to residential use, at 40 percent, with factories, hotels, and warehouses trailing.[29] Several cities, including Calgary; New York; Denver; San Francisco; and Washington, D.C., have undertaken or are conducting feasibility studies to identify the most appropriate office properties for conversion.[30] The city-funded nonprofit Calgary Economic Development teamed with the architecture, design, and planning firm Gensler to create a scorecard to rate the feasibility of converting buildings based on factors such as floor plate size, ceiling heights, parking, and transit access. Paired with a cost model, the scorecard helped the city identify the best candidates for conversion. As of June 2022, the city was providing funding to support 3 conversion projects in

Gensler and Robert Deitchler

The large floorplates common in modern office buildings can pose challenging but not insurmountable obstacles to conversion.

its downtown, and approximately 10 additional buildings have been identified for potential conversion.[31]

Recent research finds that "15% of office buildings in the commercial districts of the 105 largest cities in the U.S. are physically suitable for conversion," and, after considering other factors such as share of tenants, 11 percent of properties are suitable conversion candidates. The study's authors, Arpit Gupta, Candy Martinez, and Stijn Van Nieuwerburgh, further find that such conversions would be financially feasible if the buildings are sold at new fair market prices and with consideration of conversion to green apartments and related valuation and tax implications; however, they conclude that policy interventions might be needed to incentivize owners to sell at those prices.[32]

Office-to-residential conversions alone will not solve the housing crisis, but they can contribute to a more comprehensive approach. Loh, Terplan, and Rowlands argue that "office conversion is a very pricey way to add just a fraction of the housing we need."[33] Although local contexts will shape the specifics of strategies to address housing shortages, general approaches apply broadly.[34] The Biden-Harris Administration's Housing Supply Action Plan, for example, highlights zoning reform to reduce regulatory barriers and investment in the preservation and construction of affordable housing.[35]

Challenges for Office-to-Residential Conversions

Office-to-residential conversions will occur only when, where, and to the extent that they make sense. A combination of legal, logistical, and financial challenges threatens the sensibility and profitability of conversions, severely limiting the number of buildings suitable for conversion. Jeffrey Havsy of Moody's Analytics explains that you "need the right physical layout, with smaller floor plates," being ideal; ultimately, he says, "It has to work financially. Rent for the apartments has to justify the costs — the cost of moving existing tenants out, the foregone office rent, and paying for the conversion."[36]

Zoning and code challenges. At the most basic level, office-to-residential conversions require that buildings be zoned for residential use. Additional zoning considerations that can affect the cost and feasibility of conversions include allowing residential use on the ground floor, parking requirements, open space requirements, and setbacks (which often are larger for residential properties than for commercial ones).[37] Conversions might also encounter costly problems related to code requirements. Building codes typically require bedrooms to have windows to provide natural light and air, but space near exterior walls might be limited.[38] Requirements that unit front doors be located within 100 feet of a staircase might also present challenges, because most office buildings have only a single, centered staircase.[39] Older buildings that might have more conversion-friendly floor plates might also have features that do not comport to modern building codes, such as fire and seismic requirements.[40] A June 2023 survey of "architects, builders, and industry professionals" by the U.S. Chamber of Commerce found that 46 percent of respondents reported that zoning or permitting rules are a barrier to office conversions.[41]

Logistical challenges. The U.S. Chamber of Commerce survey also found that 47 percent of respondents indicated that building layouts posed a barrier to conversions.[42] Many modern office buildings have large, deep floor plates, with much of each floor's square footage far from exterior walls and windows that provide natural light. These buildings also are likely to have centralized plumbing and mechanics that are not designed to reach several individual units.[43] In some cases, developers can cut out the center for a courtyard to increase exterior access, but in other cases doing so would be too costly or would affect the structural integrity of the building.[44] For these reasons, older offices may be better suited for conversion, but they may also be in shorter supply.[45] Experience from Manhattan after September 11, 2001, shows that preWorld War II buildings with smaller floor plates were the most likely candidates for conversion. However, some cities that want to promote conversions have only a small percentage of available prewar buildings.[46]

Financial challenges. Various financial considerations can make conversions less attractive or even completely unfeasible. For a potential conversion to make financial sense, the projected residential rents need to be high enough to justify forgoing office rents, which typically are higher than residential rents per square foot, and cover the expense of the conversion.[47] Several uncertainties complicate this calculation. No one is certain how office usage trends may change over the next several years. Rental prices are adjusting. Some tenants are seeking to improve the quality of their office space (a "flight to quality" office space with amenities to attract workers back to offices), and some are downsizing but not leaving entirely. For example, a September 2022 survey by the Partnership for New York City found that 22 percent of companies in the city intended to reduce their use of office space, and 20 percent said they intended to increase their use of office space.[48] During past vacancy spikes, commercial property owners have been most inclined to seek new tenants and wait for market conditions to improve, particularly in situations where selling their properties would result in a loss.[49] Developers considering potential residential rental income may project a need to construct luxury apartments, but the demand for those units may not

Smaller office buildings are especially amenable to conversion.

exist.[50] Available amenities tend to drive demand for a given area, and an area that has been long dominated by office use might have little to offer residents on nights or weekends or, Sayin notes, necessities such as a grocery store.[51]

Other cost considerations include waiting out or buying out the leases of remaining residents because even as office vacancies have increased rapidly, buildings rarely become fully vacant.[52] In addition, overcoming logistical challenges can be an expensive proposition. Hilde Remøy and Theo van der Voordt write, "Usually, building characteristics do not make conversion impossible, but can influence the financial feasibility substantially." Changes in a building's façade or shape can be especially costly.[53]

All these challenges considerably narrow the number of feasible candidates for conversion. An analysis of 300 office properties in North America by Gensler found that after taking into consideration "[c]ontext, building form, location, floor plate size and several other factors," only 30 percent were well positioned for conversion.[54]

The factors affecting the feasibility of conversions are not static. Havsy notes that as the architects, developers, and lenders involved in conversions continue to learn more about them, they may expand the set of properties for which conversion is logistically and financially possible. Even the daunting challenge of a large floor plate is not insurmountable. Architects designed a cutout through 23 floors of an office building at 180 Water Street in New York City that enabled the conversion of the 457,000-square-foot building into 580 apartments.[55] Successful adaptations like 180 Water Street demonstrate what is possible and build the knowledge base for subsequent projects.

Market considerations are also evolving in ways that will affect owners' calculations. A compounding effect may occur as successful conversions begin altering the mix of uses in an area and amenities increase, causing residential demand to grow. At the same time, successful conversions that reduce the supply of office space could increase the demand for the area's remaining office space. Finally, policy changes can reduce barriers to — and offer incentives for — conversions to make them more viable.

Policy Responses

Loh, Terplan, and Rowlands note that it is an open question whether the private sector must adjust to changing circumstances or whether the public sector should intervene to some degree to incentivize conversions. They write that "the public interest in conversion and the potential beneficiaries must be clearly defined in order to justify any public financial support." They also caution that governments that act too hastily could "inadvertently subsidize the wrong behavior."[56] Furthermore, the conditions affecting this calculation vary from market to market. For example, an analysis by the Citizens Budget Commission concludes that current market conditions in New York City might not require tax incentives to spur conversions to market-rate residential units, but such incentives likely are needed to promote mixed-income conversions.[57] Havsy concurs, saying, "[T]here's a need for affordable housing, but that's not what this solves. Rarely are these conversions going to be affordable housing; the cost is much too high."[58] Local policymakers will have to weigh these considerations to determine how and when they might intervene. Reductions in municipal revenue, particularly in cities that have relied more heavily on commercial property taxes, may pressure local governments to act. Several cities already have taken measures (in some cases dating back well before the COVID-19 pandemic) to facilitate and incentivize office-to-residential conversions.

> Should local policymakers decide to intervene with subsidies, property tax abatement and tax credits are among the most common options to incentivize conversions.

Regulatory flexibility. A first step could be to reduce regulatory barriers that outright prohibit conversions or make them prohibitively costly. Loh suggests to policymakers, "Before throwing money at the problem, try getting out of the way."[59] Zoning changes may be needed, for example, to allow conversions of office buildings located in commercial zones that do not allow residential uses.[60] Ideally for the developer, the zoning would allow residential development as a by-right use that does not require an application or discretionary review process.[61] Garvin and Madden advise that zoning regulations allow use conversions within the same envelope, lot and unit size requirements, and setbacks. They also suggest that localities ensure flexibility so that use changes or the use change threshold (for example, applying certain development standards if a structure is more than 50% changed) do not trigger nonessential but prohibitive requirements, such as parking, landscape, and open space requirements.[62] New York City's Office Adaptive Reuse Task Force (OARTF) recommends reevaluating prohibitions on new residential use in zoning districts. The task force also suggests allowing developers to convert offices to different forms of housing, including supportive housing and dormitories.[63]

Building codes that might present logistically or financially prohibitive

Cities such as Washington, D.C. are seeking to facilitate office-to-residential conversions to address increasing office vacancies and a shortage of housing.

challenges can be revised or waived. For example, New York City's OARTF has recommended "flexible regulations" for all office buildings constructed before 1991, not just buildings in certain large business districts.[64] Other changes such as streamlined reviews, reduced or waived fees, and reduced or waived parking requirements can also incentivize conversions.[65] Localities could also relax requirements such as a mandate for bedroom windows, which could be especially helpful for allowing the conversion of more recently constructed office buildings.[66]

Tax abatement and credits. Should local policymakers decide to intervene with subsidies, property tax abatement and tax credits are among the most common options to incentivize conversions. As noted above, financial incentives may be necessary to spur conversions with affordability components. Havsy suggests that property tax abatements are the best option because they do not require municipalities to spend money upfront, and the future tax revenue they would have to forgo is less than the revenue they would lose from an unconverted building whose value has significantly declined.[67] Philadelphia has used a property tax abatement program to encourage adaptive reuse since 1997.[68] Recent changes that adjust the general abatement program to phase down benefits over time have exempted conversions to residential use so that they retain a 10-year abatement.[69] Building on the work of the Office-to-Affordable-Housing Taskforce, which was first convened before the pandemic, policymakers in Washington, D.C. are considering expanding an existing property tax incentive for commercial to residential conversions in a program called Housing in Downtown.[70] In Kansas City, the greater ease of converting older buildings has dovetailed with the Missouri historic tax credit program to help finance conversions, such as that of a historic federal courthouse into Courthouse Lofts.[71] Similarly, in Dallas, a state historic tax credit adopted in the early 2000s has helped facilitate office-to-residential conversions.[72] Gupta, Martinez, and Van Nieuwerburgh suggest the potential of combining office conversions with programs supporting environmentally sustainable development, including Fannie Mae and Freddie Mac's Green Bonds program as well as certain provisions of the Inflation Reduction Act such as energy-efficiency rebates.[73]

Policy interventions often introduce internal tension. Sayin notes that "on the one hand, the government is trying to make conversions cheaper, and on the other hand the requirements that come along with receiving government money, like local hiring and affordability requirements, can make it more expensive." Local policymakers have to decide not only whether to intervene but also — if they do — how much public investment to make and what public benefits to require. If policymakers require too little from developers in return for their investment, they may end up subsidizing economic activity that would have happened on its own without public investment; if they require too much, private actors might decide not to pursue conversions at all.

Past Efforts

Although office vacancy trends shifted suddenly and dramatically at the onset of the COVID-19 pandemic, neither office vacancies nor adaptive reuse office-to-residential conversions are new phenomena. Research on past conversions can offer insights for policymakers today.

In the early 1990s, as part of the Lower Manhattan Revitalization Plan, New York City implemented a property tax incentive program, 421-g, to encourage office conversions. The Citizens Budget Commission studied the program to draw lessons from it. The 421-g incentive was used in conversions that created 12,865 units at a cost of $1.2 billion ($92,000 per unit). Another 17,000 units were converted or built without the incentive, supporting the conclusion that at least some of the conversions would have occurred without the incentive. In addition, conversions continued after the program expired, although at a slower pace. Most projects taking advantage of the 421-g program — 90 percent of the buildings and 61 percent of the converted space — involved buildings constructed before 1945.[74]

The Los Angeles Adaptive Reuse Program, adopted in 1999, has contributed to conversions accounting for 12,000 units in the city's downtown.[75] Only 16 percent of the units created, however, have been affordable.[76] Building on this experience, and with an eye toward boosting the city's housing supply, Los

New York City implemented a property tax incentive program in the early 1990s to encourage office conversions as part of its plan to revitalize Lower Manhattan.

Angeles City Planning has proposed an expansion of the adaptive reuse ordinance to apply citywide and to include more recently built buildings (the original program applied only to buildings completed before 1974). The proposed update would facilitate conversions through faster, by-right approvals for conversions of buildings 15 years and older rather than defining eligibility by a fixed date.[77]

The city of Cleveland has been a leader in creating apartments through adaptive reuse, with 5,356 units created in 36 buildings since the 1970s. Of these, 1,873 units and 13 buildings were former office buildings. The Rust Belt city has a high share of older buildings with small floor plates that are more amenable to residential conversions.[78] The former home of a Cleveland newspaper, the 15-story Leader Building, was built in 1913 and is now a mix of apartments and offices.

HUD and Other Federal Efforts

Although no current federal program is devoted explicitly to encouraging office-to-residential adaptive reuse, several existing HUD funding streams, including Section 108, Section 221(d)(4), Section 220, and the Community Development Block Grant (CDBG) program, can support conversions. HUD's Section 108 Loan Guarantee Program, which provides low-cost financing for development projects, could be applied to office conversions.[79] Similarly, HUD's Section 221(d)(4) program provides mortgage insurance for the substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families and elderly and disabled households, and HUD's Section 220 program provides mortgage insurance for the substantial rehabilitation of rental housing in areas that local governments have selected for revitalization.[80] Grants from the CDBG program have built-in flexibility to be used for various community projects that could include conversions.[81] The Millenia Companies, for example, is using Section 108 guaranteed funds to help rehabilitate the historic Huntington Building in Cleveland for housing, commercial, retail, and museum uses, with at least half of the housing units reserved for low- and moderate-income households.[82] The project also uses a $40 million tax credit award through Ohio's Transformational Mixed-Use Development Program and historic preservation tax credits, among other sources of financing.[83]

Havsy suggests that federal policymakers can help research and highlight promising practices and successes in conversions. He adds that guidance on environmental impacts could be helpful in understanding the advantages of conversions, such as avoiding demolition and reducing new, carbon-intensive concrete construction.[84] Loh says, "I believe there is a need for a new tax credit — perhaps more than one — tailored to different elements of the problem that can promote flexibility and resilience in the built environment and [get] the most out of our existing infrastructure through adaptive reuse."[85] Michigan Senator Debbie Stabenow has proposed legislation specifically designed to promote office-to-residential conversions with affordable housing components. Stabenow's Revitalizing Downtowns Act would allow developers a tax credit of up to 20 percent of the cost of an office-to-residential conversion that reserves 20 percent or more of its units for residents earning no more than 80 percent of the area median income.[86]

A Partial, Promising Solution

"Instead of latching on to office-to-housing conversion as a one-size-fits-all solution to multiple difficult problems," says Loh, "it is important that downtowns, cities, and regions invest in workforce and economic development in office-using sectors of the economy, siting/locating diverse destinations downtown (such as entertainment, arts, health care, retail, sports, and education) and aligning public policy and spending on public safety, governance, transportation, and placemaking on evidence-based strategies that we know work and deliver a return."[87] Office-to-residential conversions can play a role in such a transformation, but they need to be joined with a broader set of strategies and investments. Sayin notes that even in areas where conversions have been most successful, neighborhood transformation, as with Wall Street, takes time.[88] Local and federal policymakers must determine whether to intervene to facilitate office-to-residential conversions and, if so, which strategies and policies to adopt. When done well, these conversions offer numerous benefits — replacing a low-demand use with a high-demand use, boosting municipal revenue, increasing the diversity of uses in a given area, reducing demolition waste, and reusing existing construction instead of engaging in new construction and its associated environmental costs. The good news, says Havsy, is that "[p]eople are getting better at this, and we are making big gains on the cost side. Buildings that might not have been feasible 5 years ago are now able to be converted. We're learning new things every day."[89] EM

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Cities Pursue Conversion Initiatives

As remote work necessitated by the COVID-19 pandemic led to high vacancies in downtown office buildings, many U.S. cities are repurposing vacant office spaces into residential units to increase the affordable housing supply. Several cities have proposed new programs that offer public funding, tax incentives, and regulatory changes to facilitate office-to-residential conversions. One of the nation's largest such efforts to date is the city of Chicago's LaSalle Street Reimagined initiative.[1] Launched in September 2022, the initiative will repurpose vacant office buildings along LaSalle Street in Chicago's historic financial district to add more than 600 affordable housing units along with retail amenities.[2] In April 2022, the city of Pittsburgh initiated the Pittsburgh Downtown Conversion Program (PDCP), offering financial assistance for projects that convert vacant office space to mixed-income housing. Portland, Oregon, adopted legislation in March 2023 to support conversions in its downtown by lowering the cost of seismic retrofits necessary for older office buildings. In addition to increasing affordable housing opportunities, these local conversion initiatives have the potential to revitalize and improve vibrancy as urban downtowns recover from the pandemic.

Adaptive Reuse in Chicago's LaSalle Street Corridor

The area known as the Loop is Chicago's official downtown area, bordered by Lake Michigan to the east, the Chicago River to the north and west, and Ida B. Wells Drive to the south. Within the Loop is LaSalle Street, home to Chicago's financial district.[3] Approximately 85 percent of the real estate on LaSalle Street consists of office space. Compared with other areas of the city's downtown, the LaSalle Street corridor

HIGHLIGHTS

- **Through tax increment financing, Chicago's LaSalle Reimagined initiative will support the conversion of 5 historic office buildings into more than 1,600 mixed-income housing units featuring ground-floor retail and other resident and neighborhood amenities that will increase foot traffic downtown.**
- **The Pittsburgh Downtown Conversion Program offers loans to developers who renovate vacant Class B and C office buildings and reserve at least 20 percent of the units for low-income households.**
- **The city council of Portland, Oregon, passed two ordinances to facilitate conversions by waiving system development charges and lowering the previous seismic design standard to one accepted nationally without sacrificing life safety performance during an earthquake.**

Photo courtesy of City of Chicago

In September 2022, Chicago officials launched the LaSalle Reimagined initiative and issued an invitation for proposals for office-to-residential conversion projects.

has a "monoculture of office use," with law firms and banks occupying most of the historic buildings, many of which date back to the early 1900s.[4] In 2006, the city designated LaSalle Street as the LaSalle/Central tax increment financing (TIF) district to make resources available to rehabilitate historic buildings that already were experiencing high vacancies because of economic change. The TIF district designation also was intended to spur retail development and improve public spaces and streets.[5] From 2000 to 2022, occupancy rates in the corridor declined 22 percent — the largest decline experienced among comparable downtown streets. In August 2022, the city commissioned a market analysis that determined that 26 percent of office space in the LaSalle Street corridor — the equivalent of roughly 5 million square feet — was vacant, more than any other part of the central business district.[6] The COVID-19 pandemic and its accompanying increase in remote work has exacerbated these high vacancy rates. Several businesses in the corridor, including Bank of America, moved to more modern buildings in other areas of Chicago's downtown.[7]

LaSalle Street's revitalization process began with several community engagement activities to determine shared goals. During the height of the COVID-19 pandemic, the city spent 6 months conducting virtual workshops with several stakeholders, including community leaders, public officials, business owners, developers, and tourism officials, to develop recovery strategies.[8] The 2021 Central City Recovery Roadmap emerged from these discussions, which, in addition to recommending streamlined regulatory and financial assistance for adaptive reuse projects, also suggests adding livability features that repurpose the ground floors of historic buildings to house entertainment venues, grocery stores, restaurants, and retail. The roadmap recommends making downtown attractive to new residents by pairing artists with property managers for art installations; enabling grocery stores to expand onto sidewalks for special events; and encouraging more resident-focused activities to activate the downtown, such as farmers markets, pop-up shops, festivals, and other family-friendly events. The roadmap subcommittees identified 90 action items, with one focused on the future and market potential for historic buildings on LaSalle Street, Michigan Avenue, and State Street.[9] In January 2022, Urban Land Institute Chicago launched a technical assistance panel (TAP) whose members toured LaSalle Street and conducted interviews with approximately 70 stakeholders, including business and property owners, residents, and city officials. TAP members suggested that LaSalle Street would eventually witness renewal with or without city intervention because competitive investors would acquire and renovate buildings. Investors not needing city funding can bypass city council approval because flexible downtown zoning laws allow upper-floor office-to-residential conversions, noted Cynthia Roubik, assistant commissioner for the Chicago Department of Planning and Development (DPD). However, city intervention through financial incentives such as TIF funding can direct these revitalization efforts, achieving more public benefits than what the private market alone can accomplish.[10]

> The city's approach to expanding these upward growth trends aims to make access to housing and amenities more equitable for all households.

According to a 2022 study by the Chicago Loop Alliance, a local community advocacy group, 90 percent of Loop households earning a median income of $75,000 or less are housing cost burdened, paying more than 30 percent of their income for housing. In 2022, fewer than 1 percent of all units in the Loop (239 units) were designated as affordable, and only 23 affordable units were under construction.[11] Within the LaSalle Street corridor itself, however, no affordable housing units exist, and none were planned for development before 2023. Roubik noted that residential construction in downtown Chicago has been very strong even in the midst of the pandemic. Between 2000 and 2022, the number of leased multifamily units in the LaSalle Street corridor increased by 113 percent. But this growth focused inequitably on luxury rental units and condos, Roubik explained. The city's approach to expanding these upward growth trends aims to make access to housing and amenities more equitable for all households. In summer 2022, the city met individually with property owners and community groups active in the corridor to gather support for conversions and mixed-use development.[12] These public engagement and data collection efforts laid the groundwork for the LaSalle Reimagined initiative and helped the city determine the feasibility of office-to-residential conversions.

LaSalle Reimagined Initiative

In September 2022, the Office of the Mayor, DPD, Department of Housing (DOH), Chicago Department of Transportation (CDOT), and Department of Cultural Affairs and Special Events (DCASE) launched the LaSalle Reimagined initiative and issued an invitation for proposals (IFP) to developers interested in converting millions of square feet in office space to residential units using TIF subsidies and other funds. The initiative aims to transform LaSalle Street from "an office-oriented monoculture to a dynamic, mixed-use environment that leverages the corridor's historic properties and public spaces."[13] In addition to being in the

LaSalle/Central TIF district, the initiative requires conversion projects to designate at least 30 percent of the total units as affordable for households earning up to 60 percent of the area median income (AMI). Proposals must also include plans to add retail amenities that promote a mixed-use environment.[14] DPD looks favorably on proposals that include minority-owned and women-owned businesses either as part of the construction team or as property owners. DPD does not limit the selection to developers with a proven track record, but the department is also willing to accept proposals from emerging developers who show strong potential for success. The city is committed to partnering early with developers and businesses to "reposition downtown in a way that is more inclusive" and provide "housing options for all the workers in the city," Roubik stated.[15]

A total of nine developers responded to the IFP; the city selected three of the proposals in March 2023 but allowed additional developers meeting the eligibility requirements to submit applications. The initial application round helped DPD gauge developer interest. "We didn't know what was possible, so it was a little bit of a leap of faith. When we received so many great projects, we were very excited," said Roubik. In April and May 2023, the city received and accepted two more applications for a total of five projects.[16]

One of the approved projects is the conversion of 208 South LaSalle Street, which previously housed the Continental and Commercial National Bank, to The LaSalle Residences. The building, which dates to 1914, was added to the National Register of Historic Places in February 2007 and designated a Chicago Landmark in December 2007. A total of 222,500 square feet will be repurposed for 280 studio, one-bedroom, and two-bedroom units, of which 84 will be affordable.[17] In 2020, Bank of America vacated 900,000 square feet across 20 floors of the 1934 Field Building at 135 South LaSalle Street. This project will convert 750,000 square feet to 430 studio, one-bedroom, and two-bedroom units, of which 129 units will be affordable. The Harris Bank Building, located at 111 West Monroe Street, is a 1910 high-rise landmark that will become The Monroe Residences and Hotel. The 610,000 square feet of converted office space will include 105 affordable units out of 349 studio, one-bedroom, and two-bedroom units on the top floors with a hotel below. The renovation will include a lightwell to brighten the space. Unlike the other projects, which have straightforward construction plans, the addition of the lightwell to 111 West Monroe will make this conversion project among the most challenging of the LaSalle Reimagined projects because it involves carving out the floorplate, noted Roubik. All the projects will add ground-floor retail such as grocery stores and restaurants.[18]

For the conversion of 105 West Adams Street, project developers Celadon

Courtesy of City of Chicago

Of the five projects in the LaSalle Reimagined Initiative, 105 West Adams Street will offer the largest percentage of affordable units, in addition to a grocery store and coffeeshop.

Photo courtesy of City of Chicago

In June 2023, the Chicago Department of Planning and Development showed local business owners through vacant ground-floor retail spaces on LaSalle Street to spur interest in future business opportunities that can revitalize the neighborhood.

Partners and the Blackwood Group aim to create 247 apartments in the historic 1927 high rise, with 185 units (75%) designated as affordable. The project will also include other amenities, such as a fitness center, rooftop decks, a community room, and a grocery store and coffee shop. Celadon Partners is the only affordable housing developer participating in the initiative, and out of the five proposals, its project will offer the largest percentage of affordable housing. In addition, Blackwood Group is a certified Minority-Owned Business Enterprise, furthering DPD's goals for including a diverse construction workforce. The project will cater to students and downtown employees who earn between 40 and 80 percent of AMI. The developers of 30 North LaSalle Street, a historic 44-story building originally constructed in 1974, will create 349 total units, of which 105 will be affordable.[19] The development costs for all five proposed residential projects total approximately $889 million, with an estimated total TIF request of more than $260 million.[20] In addition to the residences, the budget for each project covers the necessary building improvements to exterior walls and interior systems to bring them up to code.[21]

Once completed, the projects will add 1,655 housing units with 608 units affordable to low- to moderate-income households and downtown workers, representing the largest announced office-to-residential conversion venture in the nation as of May 2023. As Roubik noted, 37 percent of the converted units will be affordable, exceeding the city's 30 percent affordability goal for the initiative. These conversion projects will also lower the upper-floor vacancy of commercial buildings by approximately 50 percent. Public support for the LaSalle Reimagined initiative has exceeded the city's expectations, said Roubik. "We're not forcing anybody to do this, and that's why we were so pleased by the results that we received."[22]

Layered Financing

DPD's biggest challenge is examining the layers of financing for each project, said Roubik.[23] TIF funding helps developers recoup revenue lost from renting a portion of the units at affordable rates.[24] Without TIF financing, some developers would not add affordable units, and some "would also not even do the proposal at all," Roubik explained. Developers consider TIF a reliable funding source because the district receives a substantial amount of annual tax revenue. At the end of 2021, the LaSalle/Central TIF district had a balance of approximately $197 million collected from local property taxes and other proceeds. In addition to TIF, the projects will combine historic tax credits, low-income housing tax credits, and tax-exempt bonds. Some projects plan to use the Class L tax incentive granted by the Cook County Assessor's Office, which reduces the property tax rate for designated landmarks or buildings within a Chicago Landmark District. In addition to review by DPD and DOH, all five projects undergo underwriting to assess each developer's financial health and vet their track record for repaying loans. Next, the applications will be presented to the Community Development Commission and city council for approval, a process anticipated to occur in fall 2023. The projects will invest approximately $1 billion in the corridor.[25] The 3 initial projects will create more than 1,600 temporary construction jobs and more than 600 permanent jobs in hospitality, retail, and food services. The Monroe Residences and Hotel will contribute approximately $5.9 million in state and municipal tax revenue to downtown.[26]

Creating a Complete Neighborhood

Peter Strazzabosco, deputy commissioner of DPD, emphasized that the area must also be "an actual neighborhood with all the amenities that these new residents would expect to have."[27] An August 2021 "Lunch on LaSalle" event sponsored by the Building Owners and Managers Association of Chicago (BOMA) in partnership with the city and the Chicago Loop Alliance featured food trucks and live music, which attracted residents and visitors to the corridor.[28] Roubik noted that BOMA and the Chicago Loop Alliance have attended all of the DPD events and are strong supporters of the LaSalle Reimagined initiative. On weeknights in summer 2022, the Chicago Loop Alliance hosted "Activate LaSalle," which featured local musicians and artists in a festival-like atmosphere. DCASE is also examining future cultural initiatives such as a pop-up public art program in vacant storefronts, a lighting design competition, seasonal festivals, and an architecture engagement program. To encourage business development, DPD led a tour for more than 100 potential retailers in June 2023 that visited vacant ground-floor storefronts on LaSalle Street. DPD also held a networking event that paired property owners with businesses. DPD also has partnered with CDOT to transform the current imposing streetscape into a more inviting space. In early fall 2023, DPD and CDOT will begin a visioning process followed by a streetscape redesign. The new streetscape installation will coincide with the office-to-residential conversion projects slated for completion between 2025 and 2026.[29]

Pittsburgh Launches a Conversion Program

Much like the office monoculture of LaSalle Street, most of the buildings in downtown Pittsburgh originally were constructed for office, warehousing,

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Pittsburgh will support the conversion of vacant office buildings into residential units in the Golden Triangle through developer loans administered by the Urban Redevelopment Authority of Pittsburgh.

> The program supports developers through loans for office-to-residential conversion projects that reserve 20 percent of their units for low-income households.

retail, or other commercial uses. Pittsburgh's central business district (CBD) or downtown, commonly referred to as the Golden Triangle, is bordered by the Allegheny River to the north and the Monongahela River to the south and east. The onset of the COVID-19 pandemic significantly reduced demand for office space across downtown Pittsburgh as more people began to work remotely. Compared with prepandemic activity levels, pedestrian traffic downtown has decreased by one-third, and downtown employment has decreased by half. Thomas Link, chief development officer at the Urban Redevelopment Authority of Pittsburgh (URA), indicated that these shifts are the result of an overall downward trend in office demand and occupancy rates.[30] During the first quarter of 2019, the downtown office occupancy rate was 87.1 percent, but by the height of the pandemic, in December 2020, the downtown office occupancy rate had dropped to 8 percent. At the end of 2021, downtown Pittsburgh had approximately 11 million square feet of vacant office space across 154 buildings. Although the downtown office occupancy rate has shown signs of rebounding, as of June 2023, it was 23 percent, still significantly below prepandemic levels. In addition, the downtown residential occupancy rate declined modestly because of the pandemic. From the first quarter of 2019 to the fourth quarter of 2020, the downtown residential occupancy rate fell from 94.2 percent to 81.6 percent. By the first quarter of 2023, however, the area had rebounded to an occupancy rate of 91.5 percent.[31] One explanation for the rebound comes from a 2022 resident survey led by the Pittsburgh Downtown Partnership (PDP), a nonprofit community development organization, that found that 57 percent of respondents preferred to live downtown for walkability, proximity to employment, and access to urban amenities such as entertainment venues, transit, and restaurants. PDP suggests that doubling the Golden Triangle's residential population from roughly 7,000 to 14,000 residents could benefit local businesses and bring more foot traffic to the area.[32] Many downtown workers, however, are unable to live near their employment because of the lack of affordable housing units.[33] The Golden Triangle has 290 affordable housing units, roughly one-third the number of available affordable units in Lowerhill and Uptown, two adjacent neighborhoods in the greater downtown area. Approximately 41 percent of Golden Triangle residents earn less than $75,000 per year.[34] According to 2021 American Community Survey 5-year estimates, 25.6 percent of Golden Triangle residents are housing cost burdened, paying more than 30 percent of their income in rent.[35]

The Pittsburgh Downtown Conversion Program (PDCP) emerged from discussions among URA and several stakeholders, including the city, mayor's office, Allegheny County, state of Pennsylvania, and PDP to jumpstart the economic recovery of downtown through financial support for converting vacant, aging Class B and C office buildings into residential units. Launched in April 2022, PDCP will help address the "pandemic's lasting economic impact on Downtown Pittsburgh's office market and the need for new workforce and affordable housing units by supporting the conversion of fallow office buildings into housing," said Link.[36] The program supports developers through loans for office-to-residential conversion projects that reserve 20 percent of their units for low-income households. "Replacing to the best extent possible lost office workers with residents will support the economic vitality of downtown Pittsburgh. More downtown residents mean more shoppers and patrons for small businesses and cultural assets, livelier parks, and more inviting streets," said Link.[37]

Eligibility Requirements

To initiate the PDCP, the city partnered with URA, the state, and Allegheny County.[38] URA administers and manages PDCP and issues subordinate loans to eligible developers. It serves as the "fiscal conduit of city, state, and local dollars invested through the PDCP, by underwriting PDCP applications, entering agreements, and servicing PDCP investments," said Link. In October 2022, URA's board approved the PDCP guidelines and issued a request for proposals in January 2023. Eligible projects must be in the CBD and reserve at least 20 percent of units for households earning no more than 80 percent of AMI, with affordability preserved for a minimum of 40 years after occupancy. The long-term affordability requirement will be ensured by a Declaration and Agreement of Restrictive Covenants issued during the loan closing and kept on file in the Office of the Recorder of Deeds of Allegheny County.[39] The program also emphasizes projects that prioritize leasing to downtown employees earning no more than 60 percent of AMI. In addition, the program provides tenants with source of income discrimination protection by prohibiting any project that receives program financing from denying housing to tenants holding housing choice vouchers.[40] Developers interested in PDCP can submit an application, along with the $500 application fee, to URA through its Ion Wave Technologies Platform.[41]

URA requires all PDCP projects to adhere to fair housing and accessibility standards. All projects must include visitable features such as zero-step entryways and wide doorways and halls to allow wheelchair access.[42] Project developers must submit an Affirmative Fair Housing Marketing Plan to URA that outlines their outreach efforts to eligible residents in target groups.[43] Each project proposal must also include a Minority and Women Business Enterprise Narrative (MWBE Narrative) in collaboration with URA's MWBE Program Office. For projects that cost more than $250,000, URA requires developers to ensure that at least 18 percent and 7 percent of the project workforce is composed of minority-owned businesses and women-owned businesses, respectively. The MWBE Narrative should highlight targeted outreach efforts to MWBE groups and the developer's history of meeting MWBE metrics with other projects. Developers should also explain project areas that they can subcontract to MWBE firms.[44]

Financing Development

Link explained that although the city has a track record of conversions, many are solely market-rate projects, and URA believes that "it is important to bring a mix of affordability to downtown housing." Affordable units tend to face financing gaps because they require the same construction expenses as market-rate units do. Although the city's Local Economic Revitalization Tax Act offers tax abatements to incentivize affordable housing development, foster job creation, and revitalize distressed areas, PDCP will contribute additional funding for projects facing financing gaps that tax abatement programs cannot close, Link stated.[45] PDCP's total budget is $9 million, which includes American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF).[46] Of the $9 million in ARPA SLFRF, $3 million comes from the state and $2.1 million comes from the city. URA invested a total of $900,000, and Allegheny County invested $3 million.[47] URA will distribute PDCP development loans for eligible projects based on a review of applications and will award the most funding to projects that create deeply affordable units. The maximum funding per project is $3 million at the 50 percent of AMI level, $2 million at the 60 percent of AMI level, and $1 million at the 80 percent of AMI level, or the PDCP loan will cover 40 percent of total development costs, whichever is less. Developers must pay closing costs equivalent to 2 percent of the PDCP loan. Developers can use program funds for construction and soft costs such as architectural and structural engineering changes related to the conversion but not for developer fees, financing fees, and pre-development costs. Acquisition costs are considered only on a case-by-case basis.[48] URA staff will examine developers' financial background during the underwriting process to determine their eligibility for the program. Developers must be up to date on all city, state, and federal taxes and cannot be delinquent on any previously issued URA loans.[49] Before closing on the URA PDCP loan, the developer must already own the property, which must be vacant before construction begins. URA disburses the PDCP loans as a reimbursement once it has inspected the completed work, and it bases the disbursement schedule on project deliverables or a percentage of

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The Triangle Building is the first project selected for a PDCP loan to convert the property into 15 residential units above a ground-floor grocery store and café.

construction work completed. Developers must submit quarterly reports that include invoices, receipts, checks, contracts, project status updates, and other records to inform URA of their progress. After completing the project, developers must submit annual reports to URA that include rent ledgers, tenant length of occupancy, security deposits, and lease end dates to ensure that they adhere to the loan repayment schedule and affordability requirements.[50]

The U.S. Department of the Treasury requires recipients to spend ARPA SLFRF by December 31, 2026.[51] URA anticipates that PDCP will disburse all ARPA funds well before the 2026 deadline, and the city is exploring other resources to sustain the program once the initial funding ends. One potential funding source is the state's additional ARPA funding reserves.[52] URA favors projects that finance development costs using funding from additional sources, including private debt and equity and federal tax credits such as historic tax credits, new markets tax credits, and low-income housing tax credits. Following a cash flow analysis of the developer's operating income, URA will establish a yearly or amortizing monthly repayment schedule for PDCP loans. The loan term is based on the term of the first mortgage or set at 40 years from the project completion date, whichever is longer.[53]

Supporting Downtown Vitality

In May 2023, URA issued its first PDCP loan totaling $300,000 to convert the Triangle Building at 926 Liberty Avenue. The property, which was originally constructed in 1866, will be renovated to include 15 residential units along with a ground floor café and small grocery store. Three units will be affordable to residents earning incomes at or below 50 percent of AMI, and the remaining will be available at market rents.[54] The second project slated for conversion, The Pittsburgher, is located at 428 Forbes Avenue and will add a mix of 130 market-rate and affordable units. Link indicated that developers have a strong interest in the program and are "eager to participate." As of June 2023, URA is working with many other prospective PDCP developers, and other potential projects may emerge from these discussions. URA hopes that PDCP's success will spur additional investment in downtown office-to-residential conversion projects.[55] PDP's goal is to convert approximately 4 million square feet of office space in the Golden Triangle into residential units, but reaching this milestone will require considerably more investment.[56] As Link stated, "We are grateful for the initial funding. As we dig deeper into the need, we expect to find a level of demand for the PDCP that current funding levels cannot fully address." Link noted that the initial $9 million in funding could increase downtown's population by several hundred residents.[57]

> Several of Portland's underused or vacant office buildings were constructed before 1994 and do not meet the current standard for residential building codes for earthquakes.

PDCP aims to foster a vibrant downtown that is accessible to local workers, especially lower-income workers.[58] PDP has spearheaded several events to enliven the downtown area, such as weekly markets and public art installations that draw visitors, residents, and employees to enjoy cultural events downtown. Downtown Pittsburgh's Market Square, the site of several community events, is accessible by public transit and within walking distance of adjacent neighborhoods. PDP hosts a farmers' market in Market Square that runs from May through October each year and features local produce and goods from area farmers and businesses as well as local musicians that provide entertainment. A vibrant night market draws residents from 5:00 pm to 10:00 pm from June through October. On evenings and weekends, residents can attend free yoga classes in Market Square from May to October.[59] These efforts have helped pedestrian traffic in the Golden Triangle rebound to prepandemic levels, with approximately 60,000 people visiting Market Square every week.[60] In 2013, PDP developed the Downtown Activation and Public Art initiative, which commissions local artists to enhance the vibrancy of downtown through visual and interactive pieces. The artwork has helped revitalize areas in the Cultural District through sculpture, murals, nature, and art that transforms bike racks and water fountains.[61] As more residents relocate downtown, continuing these efforts to boost neighborhood vitality will be critical.

In June 2023, Pittsburgh's city council approved a $40,000 cap on zoning review fees for large developments to keep costs manageable for local developers.[62] Link said that "this change in zoning would make the 'minor' interior conversions that are part of the PDCP much simpler to undertake. In concert with available PDCP funding, these changes should make affordable housing development via office conversion a more viable option for developers." URA is hopeful that PDCP will serve as a model for other urban downtowns nationwide to show that investing in office-to-residential conversions is necessary for pandemic recovery. The conversion projects have reduced office vacancies in downtown Pittsburgh, which can help enhance the market for the remaining available commercial


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Portland has adopted a nationally accepted seismic design standard that will maintain life safety performance during an earthquake and lower the cost of retrofits for developers.

office space. “In other words, we hope to see a ‘right-sizing’ of the supply of office space that reflects post-pandemic demand,” said Link.[63]

Portland Passes Ordinances To Facilitate Conversions

Like other U.S. cities, Portland, Oregon, is recovering from the COVID-19 pandemic, which spurred a significant decline in office space occupancy in its downtown. As of June 2023, the office vacancy rate in downtown Portland was approximately 25 percent. Since 2015, the city has also faced a housing emergency; experts indicate that Portland is experiencing an affordable housing shortage of approximately 20,000 units, which is contributing to the city’s weak recovery from the pandemic.[64] A 2023 study led by the University of Toronto’s School of Cities and the University of California Berkeley examined downtown activity using mobile phone locational data across 63 large cities of at least 350,000 people in the United States and Canada. From December 2022 to February 2023, the researchers found that Portland had the third-worst level of downtown activity, ranking 61st — a significant drop from the March 2020 to May 2020 period, when Portland ranked 14th in downtown activity. From December 2022 to February 2023, activity in Portland had reached only 40 percent of its 2019 prepandemic level.[65] These trends have led the city to enact strategies to bring people and investment back to downtown.

For 7 months in 2022 and early 2023, the city examined the feasibility of repurposing vacant office buildings to produce affordable housing units. Portland Mayor Ted Wheeler’s office consulted with local stakeholders including neighborhood associations, property owners, multifamily housing developers, construction firms, architects, and engineers to consider the feasibility of office-to-residential conversions and the incentives needed to spur such projects. The mayor’s office also gathered perspectives on office-to-residential conversions from staff at Prosper Portland — the city’s economic and urban development agency — and ECONorthwest, an independent research firm studying urban planning issues in Portland.[66] These discussions considered many factors, especially Portland’s location near the Cascadia Subduction Zone, a fault line in the Pacific Ocean with the potential to produce a 9.0+ magnitude earthquake in Oregon.[67] Several of Portland’s underused or vacant office buildings were constructed before 1994 and do not meet the current standard for residential building codes for earthquakes. Older Class B and C office buildings are the types considered for office-to-residential conversions because they are in less demand for office use and tend to lack employee amenities. However, they are at high risk for collapse during earthquakes because of their unreinforced masonry construction. These buildings would need expensive seismic retrofits to be suitable for residential use.[68]

Since the 1990s, Portland has expanded seismic building codes to increase safety. In 1994, the city began requiring upgrades to older buildings when, for example, a change of occupancy shifts more than one-third of a building's floor area from office use to residential use. Chapter 24.85 of the City of Portland Building Code ranks building occupancies into six "relative hazard classifications," with 1 being the lowest hazard level and 6 being the highest. "Converting from an office use to a residential use represents a change in relative hazard classification from 3 to 4," said Doug Morgan, plan review manager in the city of Portland's Bureau of Development Services (BDS).[69] The higher hazard classification requires seismic improvements because of changes in the floor area and occupant load.[70] The costs to bring an older building up to the current seismic code can range from $50 to $125 per square foot.[71] The city recognized that without financial incentives, downtown office buildings would remain vacant and likely would not be converted.[72]

Making Seismic Retrofits Feasible

In March 2023, Portland's city council unanimously passed two ordinances to streamline office-to-residential conversions.[73] Effective March 15, 2023, Ordinance 191202 exempts from system development charges (SDCs) eligible projects that convert office space to residential use and undertake seismic retrofits to make buildings safer in an earthquake. SDCs, which are one-time fees developers pay to the city for a proposed new use of a property, offset city costs associated with disruptions to storm drains, sewer systems, parks, water systems, and transportation that result from project development.[74] Many developers avoid conversion projects because the projected SDCs often exceed tens of thousands of dollars.[75]

To take advantage of the SDC exemption, developers must submit permit applications for their conversion projects to BDS by July 1, 2027. The 2027 deadline is intended to encourage developers to speed up project development within a 4-year period. The total exemption cannot exceed the costs required to complete the seismic improvements or $3 million, whichever is less. Under this ordinance, property

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Portland will waive system development charges for conversion projects located in high-opportunity areas that are close to employment, transit, education, and other amenities.

owners must agree to maintain the building's residential use for at least 10 years. Although the ordinance itself does not impose affordability requirements, developers must comply with the city's Inclusionary Housing program guidelines, which require any proposed residential development with 20 or more units in the central city to designate 10 percent of units as affordable at 60 percent of the median family income (MFI) or 20 percent of units affordable at 80 percent of the MFI.[76] The city ranks neighborhoods based on several variables including access to education, jobs, transportation, and amenities such as parks, medical care, grocery stores, and recreation. The resulting "opportunity map" ranks neighborhoods on a scale of 1 to 5, with a high-opportunity area having a score of 5. The high-opportunity neighborhoods with a score of 5 are concentrated in the downtown core, "offering a mix of desirable services and opportunities where the city generally aims to increase access," said Christina Ghan, policy director with City Commissioner Carmen Rubio.[77] Conversions using the SDC exemption must be located in a high-opportunity area with a score of 5.

A second ordinance (Ordinance 191203), also effective March 15, 2023, lowers the seismic design standards for office-to-residential conversion projects. Before this ordinance, a change of occupancy to residential fell under the American Society of Civil Engineers (ASCE) 41 Basic Performance Objective Equivalent to New Building Standards, which required retrofits to the existing building to achieve performance equivalent to the standard of new construction.[78] With this ordinance, however, buildings can now follow the ASCE 41 Basic Performance Objective for Existing Buildings seismic improvement standard assigned to existing buildings. The lower standard will reduce the cost of retrofits for developers. Although the ordinance lowers the seismic standard for conversion projects, BDS indicates that this reduction will still maintain "life safety performance" and ensure that the converted buildings will be sturdy enough to ensure that people can exit safely. This standard is accepted nationally and matches the residential building requirements in other earthquake-prone cities such as San Francisco.[79]

Financial assistance to make these retrofits possible could have larger spillover effects. Morgan suggested that "the conversion of vacant or underutilized office space to residential use has [the] potential to contribute to the revitalization of the central business district while also contributing to housing needs of the region."[80]

Development Process

BDS will oversee the conversion application process and offer clients technical assistance throughout the preliminary design and permitting phase until construction is complete. As of June 2023, BDS had not yet received an application for an office-to-residential conversion project, but the bureau's staff members are working closely with interested developers by "providing internal avenues for subject-matter experts to provide more specific feedback related to permit requirements and potential fees to convert these buildings," said David Kuhnhausen, permitting services manager in BDS.[81] Developers interested in conducting an office-to-residential conversion project in Portland can contact the customer success team at BDS, which will request further information about the project's location, scope, anticipated number of residential units, and number of floors to be converted. The bureau will then match the developer with a BDS staff member who will guide them throughout the preliminary planning phases and assemble a project team composed of staff from several city review bureaus, including development services, environmental services, fire and rescue, housing, transportation, urban forestry, and water.[82] BDS understands "the complexity associated with this scope of work," said Kuhnhausen, and the single point of contact at BDS will "foster increased collaboration and idea-sharing... with customers." The single point of contact is available throughout the renovation process to answer questions.[83] Before developing architectural plans, the developer must conduct a site visit with their point of contact, an architect or designer, and the project team to share the vision for the property and identify possible challenges with the site. For in-depth feedback, BDS staff members recommend that developers schedule an "early assistance" meeting with the project team to ensure a thorough permit application and discuss project fees and any city-required upgrades to the building.[84]

Early Progress

As of June 2023, several developers have contacted BDS to express interest in converting three buildings and schedule an early assistance meeting. There is "potential for other interested customers to do so as well," noted Kuhnhausen, but many developers are weighing the costs and benefits of conducting conversion projects.[85] One possible conversion project is located at 2121 Southwest Fourth Avenue in Portland's Innovation Quadrant near the CBD, with many restaurants and amenities within walking distance. The current building owner is examining the costs of seismic retrofits and has expressed interest in converting 2 or 3 floors of the 6-floor building to live-work residential units, which could add about 24 to 36 new studio, one-bedroom, and two-bedroom units.[86] Although this and other projects are still in the feasibility study stage, the city expects that once it receives and processes applications, the actual SDC exemption per project will be much less than the $3 million cap. In addition, the city expects fewer than 20 buildings to be financially and structurally ready to proceed with conversions and make use of the exemption before the 2027 deadline. The two ordinances are laying the groundwork for office-to-residential conversions to proceed, but several stakeholders emphasize that more affordable housing strategies will be needed to significantly reduce Portland's housing shortage.[87]

The city hopes that the two ordinances will foster new investment in vacant office buildings and spur downtown revitalization and activation of public spaces. In June and July 2021, Portland's city council allocated $7.4 million in ARPA SLFRF to support several pandemic recovery efforts, with $165,000 allocated to business revitalization and activation from 2020 to 2022.[88] In addition, the Portland Events and Film Office (EFO) at Prosper Portland collaborates with several public, private, and nonprofit partners to sponsor events downtown. In April 2023, EFO awarded approximately $550,000 to event producers, 76 percent of whom identify as black, indigenous, or people of color, who will bring cultural events and activities downtown and boost the local economy.[89] Downtown activation paired with office-to-residential conversion projects will create a complete neighborhood with amenities for new residents to explore.

Conclusion

Offering public financing and incentives for office-to-residential conversion projects can be a useful strategy for cities looking for ways to increase affordable housing supply and revitalize downtown areas that have witnessed a rise in office vacancy rates because of the COVID-19 pandemic. Chicago, Pittsburgh, and Portland have all adopted different approaches to facilitating conversions. The LaSalle Reimagined initiative in Chicago is using a TIF strategy to support developers undertaking downtown conversion projects. In addition to increasing affordable housing, the initiative will have a broader impact on neighborhood revitalization through projects that will incorporate hotels, ground-floor retail, and streetscape improvements to bring more people downtown. In Pittsburgh, URA is using local, state, and ARPA SLFRF funds to offer loans for conversion projects. Although PDCP has a smaller budget than does Chicago's initiative, URA hopes that the success of its conversion projects with the initial funds will spur more public investment in the future and, as Link noted, serve as proof that "this type of program and investment is necessary for postpandemic recovery." URA anticipates that the program will eventually increase downtown Pittsburgh's vibrancy and tax revenue.[90] Recognizing that the city's existing building code and seismic retrofit requirements hindered conversion projects, Portland acted to make seismic retrofits less costly while ensuring that the converted buildings maintain a life-safety standard. All three cities have also enacted programs to activate downtown streets and increase foot traffic through ground-floor amenities, sidewalk events, and markets. The conversion initiatives in these cities are too new to gauge their success, and the projects are still pending, but they have the potential to help low- and moderate-income households access housing near employment centers and spur the vitality of downtown areas through mixed-use developments. EM

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Office Buildings Repurposed as Affordable Housing

HIGHLIGHTS

- **Historic tax credit and tax abatement programs facilitated the conversion of one of Kansas City's most problematic vacant office buildings to affordable housing.**
- **Reuse of the Lanahan Building in Baltimore involved several interventions, including preserving the historic front façade and designing floorplans that accommodate existing structural elements.**
- **These two office conversions are examples of the interplay among building conditions, the regulatory environment, and local incentives that support downtown revitalization.**

With the COVID-19 pandemic changing longstanding patterns of living and working, several U.S. cities are promoting the conversion of vacant and underutilized office buildings to residential use to boost their housing supply and revitalize their downtowns as mixed-use neighborhoods. Even before the pandemic, however, the adaptive reuse of underused office buildings was prevalent in many downtown markets. Although office-to-residential conversions offer cities several advantages, they can also present challenges depending on the building form, local market conditions, land use regulations, and the availability of public subsidies and incentives. These challenges can be particularly acute for conversions to affordable housing. This article examines office-to-affordable-housing conversions in Kansas City, Missouri, and Baltimore, Maryland, which, as of 2020, were among the 10 U.S. cities with the most adaptive reuse projects resulting in residences. In these two cities, office buildings were most often the buildings being converted.[1] In Kansas City, the Professional Building was renovated in 2006 to create 132 units of affordable housing. The six-story Lanahan Building near Baltimore's Inner Harbor, which was constructed in 1906, was converted to affordable housing during the pandemic.

Manginelli Productions

The historic 16-story Professional Building in downtown Kansas City, which was constructed in 1929 as a medical building for doctors and dentists, was repurposed as a 132-unit affordable apartment building.

Office-to-Residential Conversion in Kansas City

Kansas City has undergone several stages of downtown revitalization efforts since the 1950s, and the city has seen $5.2 billion in new development between 2000 and 2010. During this time, adaptive reuse projects became a significant component of these revitalization efforts as Class B and C office buildings were converted to residences.[2] In 2006, one vacant downtown building, the Professional Building, was converted to affordable housing by The Alexander Company (TAC), a Wisconsin-based developer that specializes in affordable housing and historic preservation.[3]

While searching for new business opportunities, officials from TAC scheduled exploratory visits with stakeholders in Missouri's two most populated cities, Kansas City and St. Louis, to learn which obsolete buildings concerned them the most.[4] The 16-story Professional Building, standing vacant and blighted on a principal downtown street, was one of the buildings that Kansas City officials identified as a priority for conversion.[5]

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The apartments in Professional Building Lofts, which are affordable to residents who earn less than 60 percent of the area median income, have full kitchens and laundry rooms.

This building, constructed in 1929, was vacated in 1991 and had fallen into disrepair. The city issued numerous code violations and eventually declared the building dangerous.[6]

TAC acquired the building in 2004 and began converting it into Professional Building Lofts with apartments and commercial spaces.[7] Despite its poor physical condition, TAC saw several advantages in the old office building. The building, which is listed in the National Register of Historic Places, in part because of its architectural significance as one of the first Modernist-style buildings in Kansas City, has two distinguished street façades. Stone piers rising to the crenelated parapet dramatically accentuate the building's full height. Bas-relief carvings of geometric shapes on the piers and between them under the bands of windows enhance the building's curb appeal. The windows run the length of the building's façade, set between the piers in pairs and triplets, flooding the interiors with ample light.[8]

According to Kendra Bishop, director of marketing and public relations for TAC, the building was vacant, so financing and construction could begin without waiting for existing tenants' leases to expire. In addition, the layout of the building was conducive to residential conversions.[9] Like most office buildings constructed in the early 20th century, the Professional Building had a relatively small floor plate measuring 96 feet by 118 feet. Unlike modern buildings with larger floor plates, which must supplement exterior wall windows with costly lightwells to meet building code requirements for light and ventilation, older buildings such as the Professional Building can often meet code requirements using existing windows, simplifying their conversion to apartments. Furthermore, because multifamily residences were already allowed by right, TAC did not need to undergo a costly rezoning process.[10]

The renovated Professional Building Lofts offers 132 apartments above 11,000 square feet of first-floor commercial space.[11] The apartments are reserved for households making up to 60 percent of the area median income (AMI), except for 2 units that serve households earning up to 50 percent of AMI. Seventy-two of the units have one bedroom, and the remainder have two.[12] All units have a full kitchen with stainless steel appliances and a laundry room. The building also offers a community room, rooftop terrace, and fitness center. The first-floor commercial space is partially occupied by a restaurant and law firms. Residents are within easy walking distance of jobs, services, and amenities.[13] The city's three high-frequency, bus rapid transit routes and several local bus routes stop in front of the building, and the KC Streetcar is two blocks away.[14]

Table 1: Financing for Professional Building Lofts

Federal low-income housing tax credit equity	$5,700,000
State low-income housing tax credit equity	$1,800,000
Federal historic tax credit equity	$4,390,000
State historic tax credit equity	$2,900,000
Industrial Development Authority tax-exempt bonds	$4,900,000
HOME Investment Partnerships Program financing	$535,000
Deferred developer fee	$815,000
Total	**$21,040,000**

The conversion of Professional Building Lofts cost more than $21 million (approximately $32 million in 2023 dollars), nearly one-third of which was financed through federal and state low-income housing tax credits (table 1).[15] A similar amount came from federal and state historic tax credits, which required TAC to preserve the building's façade.[16] The federal Historic Rehabilitation Tax Credit program allows developers who rehabilitate certified historic structures to claim a tax credit equivalent to 20 percent of eligible costs if they meet the Secretary of the Interior's Standards for Rehabilitation.[17] Missouri's Historic Tax Credit program, which was one of the first state-level equivalents to the federal program, gives investors a credit equal to 25 percent of eligible costs.[18] Financing for the development also included funds from the HOME Investment Partnerships Program provided through the Kansas City Missouri Homesteading Authority and tax-exempt bonds from the city's Industrial Development Authority.[19] In addition to this permanent financing, the city's Planned Industrial Expansion Authority granted Professional Building Lofts a property tax abatement. The abatement, authorized by Missouri's Chapter 353 program to encourage the redevelopment of blighted properties, was granted for 25 years.[20]

TAC executives believe reuse projects can help create affordable housing and activate city streets, but they note some difficulties. The company currently has trouble finding office buildings that are fully vacant. Chris Qualle, director of design and construction for TAC, notes challenges in making older buildings accessible or bringing them up to code, such as remodeling older staircases, which often are narrower and steeper than current codes allow.[21] Qualle and Dave Vos, a development project manager for TAC, also say that most office buildings constructed since the 1960s have larger floor plates that make conversion to residences more difficult. Furthermore, Vos says that zoning requirements can hinder development, although he has noticed that cities are reducing their parking requirements because automobile use in downtowns is generally lower than in the suburbs. Vos also believes that more cities should offer property tax abatements for historic rehabilitation projects, especially

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Professional Building Lofts is located near jobs, amenities, services, and public transportation options.

those for affordable housing, and he suggests that local governments expedite the permitting process for adaptive reuse projects.[22]

Downtown Resurgence

The Professional Building Lofts' opening in 2006 catalyzed downtown growth, according to Bishop. In subsequent years, downtown Kansas City saw significant investment, including a new stadium and new corporate headquarters for H&R Block.[23] Throughout the 2010s, the city's downtown also saw a significant increase in residents, netting more than 4,000 new households through both new construction and rehabilitated housing. These projects, including conversions of offices to residences, continued to benefit from state historic tax credits, property tax abatements, and favorable downtown zoning regulations.[24] The city has also established a housing trust fund and created a department of housing and community development to facilitate affordable housing projects. In addition, the city offers floor area and building height bonuses and requires inclusionary housing in developments that benefit from city financial incentives.[25]

Repurposing Office Space in Baltimore

High office vacancy rates and increased demand for multifamily housing have made the adaptive reuse of downtown office buildings in Baltimore increasingly common in the 2020s. In 2022, Baltimore added nearly 400 new apartments through office-to-residential conversions, the third-highest number of conversions in the nation.[26] One such conversion project is the 1906 Lanahan Building, which originally was the headquarters and distillery for a whiskey company and later served as the Baltimore Oriole Cafeteria.[27] In 2018, the building's owner proposed an off-market sale to Osprey Property Company, a local developer that specializes in constructing new affordable housing.[28]

In January 2020, Osprey purchased the 6-story building to convert it into a 40-unit affordable housing development.[29] The renovated building, renamed 22 Light Apartments, opened to residents in June 2021.[30] Thirty-six of the units are available to residents earning up to 30, 50, or 60 percent of AMI, and the remaining units rent at market rate.[31] The units, ranging from 650 to 1,050 square feet, have one to three bedrooms, a living and dining area, and a kitchen with energy-efficient, stainless steel appliances. Common amenities include a community room, business center, fitness center, and laundry room.[32] Rooftop solar panels reduce utility costs in these common areas.[33]

2 West Photography

The conversion of the Lanahan building included preserving the windows and ornamental features of the building's historically significant front facade.

The ground level has two street-facing retail spaces, one of which is occupied by a convenience store.[34]

As the company's first conversion of a nonresidential building into residences, 22 Light Apartments expanded Osprey's portfolio into a new category of construction and presented a challenge. Tyler Grote, executive vice president of Osprey, says that the company had to assemble design and construction leaders who understood that this project required close teamwork and a willingness to learn as the project progressed.[35]

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Hotel to Housing: Santa Fe Suites

In 2020, during the COVID-19 pandemic, the U.S. hotel occupancy rate dropped to 37 percent from 66 percent the previous year.[1] At the same time, cities across the nation undertook emergency measures to locate housing for the rising number of people experiencing homelessness.[2] Many cities considered addressing both problems simultaneously by converting underutilized hotels and motels into affordable apartments. As part of its S3 Santa Fe Housing Initiative to provide housing for people experiencing homelessness, the city of Santa Fe, New Mexico, has partnered with local organizations to repurpose underused motels into permanent supportive housing.[3]

In 2020, having received an influx of federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds that had to be expended by the end of the year, the city decided to purchase the Santa Fe Suites and convert the motel into permanent affordable housing for low- and moderate-income residents. Constructed in 1999, Santa Fe Suites was a 122-unit motel consisting of 8 two-story buildings.[4] The city identified this property for residential conversion because the extended-stay rooms, which had kitchenettes, could be quickly converted to apartments. In addition, the building was in good condition and required few repairs. The property also had enough units to make a mixed-income project with social services financially feasible.[5]

The city reached out to nonprofit Community Solutions, a national organization that works with communities to end homelessness, to purchase the land and property for $8 million, using $2 million of the city's CARES Act funds. Community Solutions also received approximately $2 million from a New Mexico Mortgage Finance Authority CARES grant. The remainder of the project was financed through social impact investments and a conventional mortgage.[6] The physical

Kyra Thomson

Because Santa Fe Suites had been designed for extended stays, the city of Santa Fe and Community Solutions were able to convert the former motel rooms into apartments with minimal physical renovations.

conversion process went quickly because the former motel rooms required few renovations to become studio apartments, although further upgrades to the units and common areas are underway. To create a room for resident services and a property manager's office, Community Solutions only had to renovate the motel's original front desk area. The developer also installed new security cameras and inspected the electrical and fire alarm systems before the development opened. However, the conversion did require rezoning the property to allow its residential use; as part of the rezoning approval, Community Solutions had to add stormwater management facilities.[7]

The repurposed Santa Fe Suites has 122 studio apartments, some of which are occupied by households who were long-term residents of the hotel before its conversion. The units have spacious bedrooms and fully equipped kitchens. Half of the apartments are permanent supportive housing (PSH) units for individuals who are experiencing or are at risk of experiencing homelessness.[8] The Santa Fe Affordable Housing Trust Fund, which is supported by development fees, provides rental subsidies for the PSH units.[9] The remaining units are workforce apartments with no income restriction. With the monthly rent as of August 2023 set at $950, the market-rate units are still less than the city's median rent of $1,800 for a one-bedroom apartment.[10]

Local nonprofit St. Elizabeth Shelters and Supportive Housing operates the property and provides case management.[11] With funding through the city's CARES Act monies, St. Elizabeth and its partners offer onsite services such as health screenings and assistance with job applications and tax preparation. Staff also offer transportation to grocery stores, medical appointments, and other services. Community Solutions plans to transfer ownership soon to St. Elizabeth.[12]

Community Solutions hopes future federal assistance for affordable housing creation, preservation, and operation will be as flexible as CARES Act funding.[13] Since 2022, other similar hotel conversions have been proposed in Santa Fe, some of which were also city initiated. In May 2022, the city used American Rescue Plan Act funds as well as community development block grant funds and its housing trust fund to purchase the Lamplighter Inn, which will be converted into 58 units of affordable housing.[14]

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CONTINUED FROM PAGE 29

22 Light Apartments is a contributing building in the city's Business and Government Historic District, which is listed in the National Register of Historic Places, and its rehabilitation had to follow the Secretary of the Interior's Standards for Rehabilitation. Osprey coordinated with the Maryland Historical Trust to preserve the detailing and character of the façade and alter it as little as possible. Joe Ijjas, senior associate for Soto Architecture and Urban Design and lead architect for the project, says that his firm accomplished this goal by cleaning and repairing the façade details and retaining the large wood-framed windows. To improve the energy efficiency of the existing windows, the developer installed storm windows inboard of the original windows while replacing the windows on the other façades with modern, energy-efficient windows.[36]

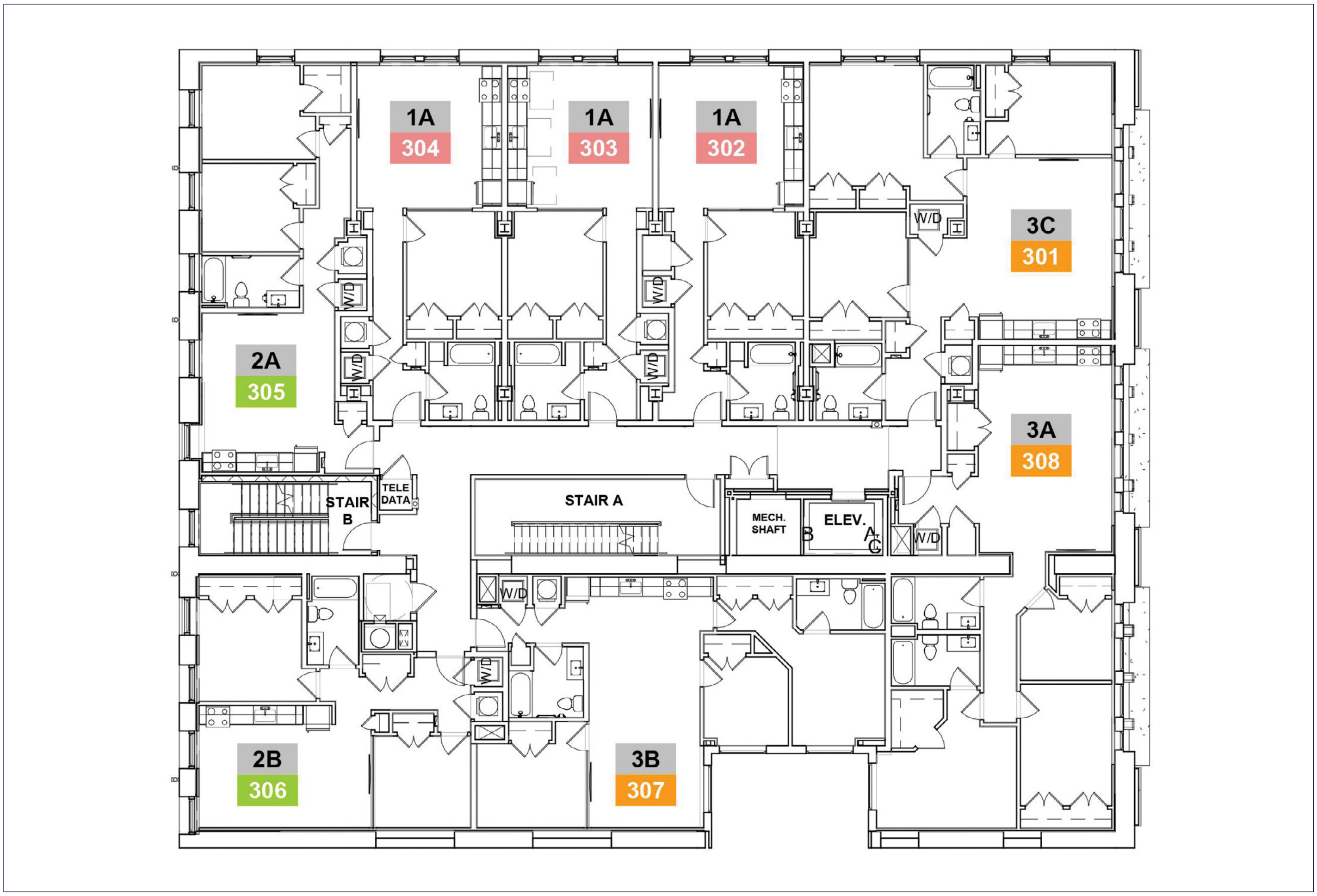
Table 2: Funding for 22 Light Apartments

Federal LIHTC equity	$14,250,000
Baltimore City Department of Housing and Community Development loan	$1,000,000
Maryland Department of Housing and Community Development loan	$2,000,000
Private bank loan	$3,000,000
Total	**$20,250,000**

Inside the building, the developer demolished the original bathrooms at the center of each floor and removed the old office walls to accommodate modern apartments. Some of the building's interior features were repurposed; for example, the developer used an old elevator shaft in the middle of the building to run ductwork, wires, and cables to each floor. Another feature required a more significant workaround: a load-bearing, 3-foot-thick masonry wall with limited openings that bisects the building. The wall, which extends through all six stories, along with the completely windowless south façade, limited both natural light penetration into the building and layout options for the apartments. The project team needed to cut a 10 foot by 20 foot lightwell into an exterior wall to admit natural light into the units on each floor. Without the lightwell, and with the structural interior wall, Ijjas

2 West Photography

All but four units in 22 Light Apartments are reserved for households earning up to 60 percent of the area median income.



Soto Architecture & Urban Design

22 Light Apartments' development team inserted a light well on the building's windowless southern facade (bottom) that provides natural light to rooms in two apartments on each floor.

says, "you basically had a third of the building that would have had a really hard time getting more than two small units on each floor."[37]

One of the project's bigger challenges was that the office space was partially occupied by tenants, which delayed testing for asbestos contamination and structural soundness until the purchase was finalized. In March 2020, COVID-19 restrictions halted construction, which was able to resume shortly afterward once health protocols were enacted. Fortunately, the pandemic-related delays in the supply chain felt by many in the industry were not a major issue during the conversion.[38]

Affordable Downtown Apartments

The project's location offered several advantages, according to Grote. The building is in a zoning district that created no significant constraints: multifamily residential development is allowed, and no off-street parking is required. The building is in one of the city's most transit-friendly areas, with easy access to the subway and light rail systems as well as several bus routes.[39] The apartments are also close to two regional rail stations, one of which is served by Amtrak. Residents are a short walk from grocery stores, pharmacies, healthcare providers, restaurants, and other services. Popular attractions such as the Inner Harbor, National Aquarium, Oriole Park at Camden Yards, and the M&T Bank Stadium are also within a 15-minute walk.

Two-thirds of the $21 million development cost for the conversion came from low-income housing tax credit (LIHTC) equity (table 2). The state and the city also provided loans, the latter of which was from the HOME Investment Partnerships Program.[40] The loans were competitive, although Grote says those awards quickly followed the LIHTC award.[41]

Downtown Revitalization

Grote says the city appreciated the needed affordable housing, which not only brings workers and customers for nearby businesses but also contributes to the vitality of downtown.[42] Downtown Partnership of Baltimore (DPOB), a nonprofit that promotes the downtown's community and economic development, considers rapid residential growth the top priority for downtown, as stated in the organization's 2011 strategic plan.[43] A guiding principle of the plan is that a diverse economy and population are fundamental to a thriving city and that finding new uses for underused buildings is an important component of the area's revitalization.[44] "Downtown needs more residents, and the broader goal to activate downtown post-COVID is to lean in on the residential growth and lifestyle," says Lauren Hamilton, DPOB's chief marketing officer. "The development of 22 Light Street is very helpful to the street as a whole."[45] Although 22 Light Apartments is currently one of the only conversions to affordable housing in downtown Baltimore, other adaptive reuse projects with low- and moderate-income housing are under construction.[46] A city-owned property is being converted into 62 apartments.[47] Two former hotel towers near the Inner Harbor also will be transformed into 558 apartments in 2024.[48] These projects are part of more than $3 billion in new development that has been completed or is under construction in downtown Baltimore since 2018. Additional downtown developments totaling $3 billion are planned.[49]

Conclusion

In several ways, Professional Building Lofts and 22 Light Apartments exemplify the advantages of converting older office buildings in downtown areas to housing. The buildings' small footprint and layout simplify their conversion. Both projects benefited from public policies and incentives intended to promote downtown revitalization. Following decades of public-private efforts, the downtown locations of these buildings are walkable, with nearby entertainment, shopping, services, and employment opportunities, and city officials and their partners continue to make these downtowns more attractive places to live, work, play, and learn. Both cities' zoning ordinances permitted downtown office-to-residential conversions without changing any zoning, density limitations, or additional parking requirements. Federal, state, and local support for the conversions in the form of tax credits and financing supported the buildings' use as affordable housing. These strategies and supports, along with additional incentives as needed, can be useful tools for other cities needing to increase their affordable housing supply and revive their downtown areas through the adaptive reuse of underutilized office buildings. EM

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- "Addressing Homelessness Through Hotel Conversions" (2021), by Carolina Reid, Shazia Manji, and Hayden Rosenberg, highlights strategies and lessons learned from 13 hotel conversion projects in the United States that were designed to mitigate homelessness. **ternercenter.berkeley.edu/wp-content/uploads/2021/12/Hotel-Acquisitions-Final-December-2021.pdf**.

- "Adaptive Reuse: Transforming Office Space to Residential Space" (2022), by Emily L. Maino and Chelsea M. Marx, presents successes, opportunities, and challenges associated with office-to-residential conversion projects in Denver, Colorado. **www.ottenjohnson.com/Templates/media/images/alerts/Otten%20Johnson%20Alert%20-%20Adaptive%20Reuse-%20Transforming%20Office%20Space%20to%20Residential%20Space%201222.pdf**.

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For additional resources archive, go to **www.huduser.gov/portal/periodicals/em/additional_resources_2023.html**.

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