

MIAMI BEACH

COMMITTEE MEMORANDUM

TO: Land Use and Sustainability Committee Members

FROM: Eric Carpenter, City Manager

DATE: October 10, 2024

TITLE: DISCUSS CREATING ECONOMIC AND ZONING INCENTIVES TO ENCOURAGE THE CONVERSION OF EXISTING OFFICE BUILDINGS TO RESIDENTIAL, WHICH IDEALLY EXPLORE NEW INCENTIVES (ECONOMIC OR OTHER) BEING USED IN OTHER STATES, RATHER THAN RELYING ON EXISTING OPTIONS WHICH WE MIGHT NOT WANT TO ENCOURAGE, SUCH AS FLOOR AREA RATIO (FAR) AND PARKING INCENTIVES, REDUCTIONS TO THE MOBILITY FEE, IN ORDER TO INCREASE THE SUPPLY OF AVAILABLE HOUSING IN MIAMI BEACH.

RECOMMENDATION

The Administration recommends that the Land Use and Sustainability Committee (LUSC) discuss and conclude the item with no further action.

BACKGROUND/HISTORY

On March 13, 2024, at the request of Commissioner Tanya K. Bhatt and co-sponsor Commissioner Joseph Magazine, the Mayor and City Commission (City Commission) referred a discussion regarding incentives for the conversion of existing office buildings to residential, pursuant to item R9 E, to the LUSC. On May 1, 2024, the LUSC discussed the item and continued it to the July 9, 2024 LUSC with direction to staff to further research available tax incentives and grants for office to residential conversions. On July 9, 2024 the item was deferred to a future meeting date, with no discussion.

ANALYSIS

As noted in the attached memorandum from the March 13, 2024 City Commission meeting (item Attached R9 E), the sponsor would like the LUSC to discuss meaningful zoning, tax or other financial incentives (to the extent permitted under Florida law) to encourage the conversion of existing office buildings to residential development. Attached are relevant articles provided by the sponsor as part of the referral, pertaining to the conversion of existing office uses to residential development.

As offices are an allowable use in commercial districts, the conversion to residential would be permitted. In terms of commercial districts to encourage such conversions, the medium to higher intensity districts, such as CD-2, CD-3 and CPS-2 would be viable options, as these areas have large office buildings and are generally located within proximity to transit. In particular, the areas along the 5th Street corridor, 41st Street corridor and the area between Lincoln Lane North and 17th Street, would be suitable.

UPDATE – October 10, 2024 LUSC

The Administration has further researched potential options for office to residential conversions, including available financial and tax incentives, as well as grants. The following is a summary of these findings:

General Information

In communications with developers having knowledge of and experience with office to residential conversions, the following is noted:

- Office to residential conversions tend to be the most successful when there is an oversupply of office space within a given area. This usually creates lower office lease rates, making the cost associated with a residential conversion more appealing. However, in Miami Beach, as well as the greater Miami area, the office market still appears to be strong and there are no indications of an oversupply of office space or reduced office lease rates.
- The cost of an office to residential conversion, in most newer office buildings, can be very expensive. The conversion cost in smaller, older buildings (e.g., 3 stories or less) is generally less expensive.

Grants

The Grants Management Division of the Finance Department did some research and found that a previous Housing and Urban Development (HUD) grant opportunity closed in October 2023, with no plans for additional funding. The Grants Management Division investigated other opportunities for office-to-residential conversions, but there are none that are currently available. The Grants Management Division will continue to explore any future opportunities.

Tax Incentives

Although tax incentives are not currently readily available in Florida, other major cities in the United States have utilized such incentives. Some of these include San Francisco, Boston and New York. For informational purposes, the following is a summary of the incentives in these cities, as provided by developers with experience in office to residential conversions:

San Francisco

San Francisco recently passed Proposition C, which waives the transfer tax for any office to residential conversions (with no mandatory affordable housing component), but the transfer tax is only one time and ranges from 0.5% - 6%. This waiver is not nearly as significant as the tax abatements offered in Boston and New York.

The following are weblink references with more information on the above:

- <https://voterguide.sfelections.org/local-ballot-measures/measure-c>
- <https://sfstandard.com/2024/03/05/san-francisco-election-2024-prop-c-result-office-conversions/>

Boston

The Boston program is a 29-year tax abatement program for office to residential conversions (with affordable housing requirements) and has received some traction (6 proposals since launch in October 2023). The average tax abatement would be 75% for 29 years and building permits would need to be obtained by October 2025, so timing is tight. The program is scheduled to sunset by mid-2024.

The following are weblink references with more information on the above:

- <https://www.bisnow.com/boston/news/multifamily/rockland-trust-finances-first-downtown-residential-conversion-project-123222>
- <https://product.costar.com/home/news/464311385>
- <https://www.bostonplans.org/projects/office-to-residential-conversion-program>

- <https://www.bisnow.com/boston/news/multifamily/boston-launches-program-to-incentivize-office-to-residential-conversions-121154>

New York

The New York program is a 35 year tax abatement program for office to residential conversions (with affordable housing requirements) that recently received budget approval. However, residential units must remain affordable in perpetuity even though the tax abatement is only for 35 years. The timeframe on the New York program is also tight with construction having to begin by June 2026 to be eligible for the full abatement. The abatement is reduced to 25 years after June 2026 until 2028. The abatement sunsets in June 2031.

The following are weblink references with more information on the above:

- <https://www.bisnow.com/new-york/news/office/marc-holliday-is-all-in-on-office-to-resi-as-housing-deal-nears-123853>
- <https://www.bisnow.com/new-york/news/multifamily/new-york-state-passes-budget-with-421-a-replacement-good-cause-and-more-123892>
- <https://therealdeal.com/new-york/2024/05/06/friend-or-foe-heres-what-the-new-tax-break-means-for-office-to-resi-conversions/>

Since residential uses are permitted in office buildings, the Administration does not believe amendments to the Land Development Regulations of the City Code (LDRs) are needed at this time. Should the market for such conversions evolve over time, zoning incentives could be explored at a future date.

FISCAL IMPACT STATEMENT

No Fiscal Impact Expected

Does this Ordinance require a Business Impact Estimate? No
(FOR ORDINANCES ONLY)

The Business Impact Estimate (BIE) was published on .

See BIE at: <https://www.miamibeachfl.gov/city-hall/city-clerk/meeting-notice/>

FINANCIAL INFORMATION

Not Applicable

CONCLUSION

The Administration recommends that the Land Use and Sustainability Committee (LUSC) discuss and conclude the item with no further action.

Applicable Area

Citywide

Is this a “Residents Right to Know” item, pursuant to City Code Section 2-17?

Is this item related to a G.O. Bond Project?

Yes

No

Was this Agenda Item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying? No

If so, specify the name of lobbyist(s) and principal(s):

Department

Planning

Sponsor(s)

Commissioner Tanya K. Bhatt

Co-sponsor(s)

Commissioner Joseph Magazine

Condensed Title

Discuss Creating Economic And Zoning Incentives To Encourage The Conversion Of Existing Office Buildings To Residential, Which Ideally Explore New Incentives (Economic Or Other) Being Used In Other States, Rather Than Relying On Existing Options Which We Might Not Want To Encourage, Such As Floor Area Ratio (Far) And Parking Incentives, Reductions To The Mobility Fee, In Order To Increase The Supply Of Available Housing In Miami Beach.