14. 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.
    Applicable Area:

MIAMIBEACH

COMMISSION MEMORANDUM

TO: Honorable Mayor and Members of the City Commission
FROM: Commissioner Tanya K. Bhatt
DATE: March 13, 2024

SUBJECT: REFERRAL TO THE LAND USE AND SUSTAINABILITY COMMITTEE – 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.

BACKGROUND/HISTORY

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

If so, specify name of lobbyist(s) and principal(s): N/A

ANALYSIS

Please place the above item on the January 31, 2023 City Commission meeting agenda as a referral to the Land Use and Sustainability Committee (“LUSC”).

I would like the LUSC to consider, with input from the Planning Department and possibly from Finance and Grants, adopting meaningful zoning and tax or other financial incentives (to the extent permitted under Florida law) to encourage the conversion of existing office buildings to residential development.

There is an acute need for workforce housing, and a deep desire to limit new development. We also seek to not meaningfully add to our city’s height, nor add to landfills with unnecessary demolition. It is well accepted that the best “green” development is adaptive reuse, and since we have encouraged the significant development of new “CLASS A” office space, there may be a unique opportunity to put the underutilized, less desirable space to work for the greater good.

There is a national trend toward this type of conversion as businesses are transforming the ways they work and their office space needs. The Federal Government recently released guidelines and information on funding assistance to facilitate addressing the housing shortage, which can be found here. “Cities like Boston, New York, Chicago, Los Angeles, and Houston are doing this successfully; These efforts involve grants, zoning changes, and pilot programs. The guidebook also outlines a range of grants, including a $10 billion grant from HUD, to support these conversions.”

I am particularly interested in incentives beyond the “old chestnuts” of increasing floor area ratio (“FAR”), parking incentives, and or reductions to the mobility fee for qualifying projects. I am also interested in a tax credit or other financial incentive (again, to the extent permitted under Florida law). Any financial incentive should be phased in gradually, in order to help defray the costs of the conversion. A public benefit (such as affordable or workforce housing) could be required as a condition of any financial incentive from the City.

I ask staff to research what is working in other parts of the country, as well as identifying grant sources from all possible areas. I would also like staff to identify zoning districts where such incentives would be appropriate (e.g., districts with underutilized office space, buildings that could be good candidates, and/or districts where additional residential development would be compatible).

Meaningful zoning incentives will move the needle and increase the supply of available housing in Miami Beach utilizing the greenest way to adaptively re-use existing built environments and minimizing the risk of impacting our character of place.

SUPPORTING SURVEY DATA

N/A

FINANCIAL INFORMATION

N/A

Applicable Area

Not Applicable

Is this a "Residents Right to Know" item, pursuant to City Code Section 2-14?	**Does this item utilize G.O. Bond Funds?**
No	No

Strategic Connection
Non-Applicable

Legislative Tracking
Commissioner Tanya K. Bhatt

Sponsor
Co-sponsored by Commissioner Joseph Magazine

ATTACHMENTS:

	Description
🗋	Commercial to residential conversion - White House
🗋	Tax Credits, Grants, & Abatements for Converting Office to Multifamily - Hawkins CRE

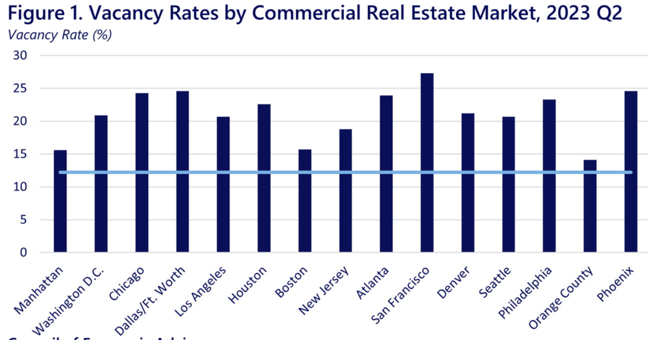
OCTOBER 27, 2023

Commercial-to-residential Conversion: Addressing Office Vacancies

The COVID-19 pandemic forced Americans to change how they live and work, with ripple effects felt across the economy. More than one third of households report working from home more frequently now than they did before the pandemic, and workers go to the office about 3.5 days a week, a 30 percent reduction from pre-pandemic norms. The changes are squeezing the commercial real estate market, which is dominated by office buildings but also includes hospitality and healthcare facilities.

Commercial real estate investment volumes fell by 64 percent year-over-year in the second quarter of 2023. At the same time, office vacancies reached a 30-year high of 18.2 percent. As shown in Figure 1, the vacancies persist from coast-to-coast. The vacancy rates have reduced foot traffic to the "office adjacent" economy, reducing demand at local businesses, including restaurants, dry cleaners, convenience stores, retailers, and hair salons. A new initiative announced today by the Biden-Harris administration helps accelerate conversions of commercial properties to residential use, presenting an opportunity to prevent such a loop.

Figure 1. Vacancy Rates by Commercial Real Estate Market, 2023 Q2



Council of Economic Advisers
Sources: CBRE; Census Bureau
Notes: Rental vacancy rates are given for the Metropolitan Statistical Area (MSA) containing the commercial real estate market named. The light blue line indicates the national commerical real estate market's vacancy rate in Q4 2019.
As of September 25th, 2023 at 2:00pm.

Policymakers in cities including DC, New York, and San Francisco are taking actions to revitalize their downtowns through commercial-to-residential conversions, including vacant offices, hotels, and other non-office commercial spaces. Proponents of the policies see them as opportunities both to revitalize vacant real estate and address the long-run supply shortage, which is plaguing the U.S. housing market and contributing to decreased housing affordability. As of the end of 2020, the market was short 3.8 million housing units; rental vacancy rates have been, in the last four years, the lowest they've been since the mid-1980s, most recently at 6.3 percent in Q2 of 2023; and, as of 2021, 45 percent of renters are rent-burdened, spending more than 30 percent of their disposable income on housing. Conversions also present an opportunity to combat climate change. Buildings account for 29 percent of all U.S. greenhouse gas emissions, and estimates suggest rehabilitated structures can produce 50 to 75 percent fewer carbon emissions than new construction.

A new federal guidebook shows how federal tools have already been used to make conversions possible for the development of affordable housing. This is not surprising as cities also turned to commercial-to-residential conversion incentives to repurpose vacant office space during past macroeconomic downturns. New York worked to revitalize its Lower Manhattan financial district during the post–9/11 period through zoning reforms and tax incentives; as a result, developers converted 20 million square feet of office space into residential housing, doubling the local residential population. During the same period, the dot-com bubble led Los Angeles to ease zoning restrictions for older commercial buildings, incentivizing development of 12,000 housing units over 20 years. Finally, Philadelphia linked conversions to 10-year property tax abatements, and 8.2 million square feet of office space were converted to housing, increasing the city center's population by 54 percent.

Commercial-to-residential conversion projects must overcome significant physical complexities. Office buildings, especially new ones, are constructed on increasingly large floor plates to meet demand for open concept configurations. Residential buildings include, and often require, features like exterior-opening windows and in-unit bathrooms and kitchens, requiring changes in floor-to-floor height, window systems, heating and cooling units, sewers, and elevator access. Past conversion projects have tended toward pre-war office buildings designed on smaller plates, often with courtyards, and with individual offices.

Converting commercial real estate to housing also has unique financial obstacles. Office vacancies are not uniformly distributed across building age, size, quality, or geography, and vacancy statistics reflect unoccupied square footage, despite the buildings housing many tenants, each with their own lease terms. Commercial-to-residential conversions face the same zoning constraints that have led to longstanding housing shortages, including density restrictions, parking regulations, and strict use prescriptions.

In spite of the complexities, recent

work finds that 15 percent of commercial district office buildings in the 105 largest U.S. cities are suitable for residential conversion, offering the potential to add 171,470 units, or almost one half of 2022's yield of units in multifamily buildings. Developers say conversions can be completed more quickly than new construction at costs up to 20 percent cheaper than demolish-and-rebuild projects.

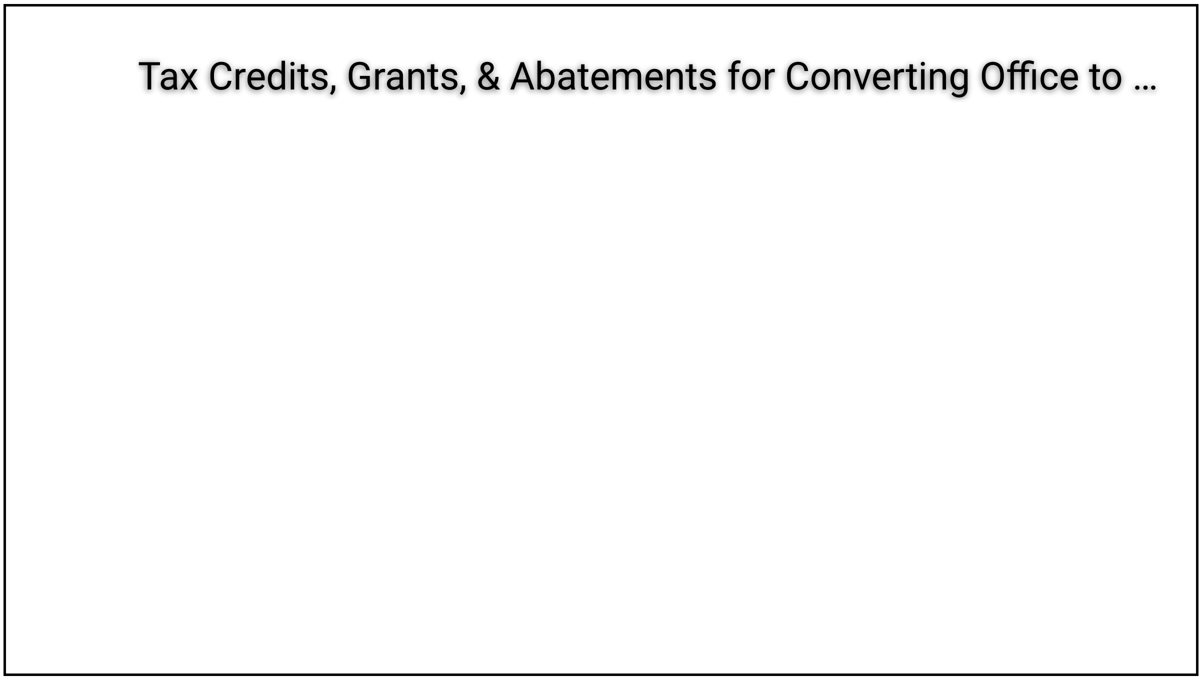
COVID-19 induced a long-run shift in office space demand and models suggest sluggish demand will continue into the next decade. Moreover, the pandemic induced a "flight to quality" in office space, shifting preferences toward high-end buildings. Ten percent of U.S. office buildings account for 80 percent of recent occupancy losses, and buildings with high vacancy rates tend to be older and in downtown submarkets. Facilities with the appropriate building, land-use, and economic characteristics can provide a new source of housing where it is badly needed, and the adaptive re-use of these properties can have the added benefits of improving the efficiency and reducing the emissions of existing buildings.

Several existing federal programs already support commercial-to-residential conversions, and the Biden-Harris Administration aims to further facilitate commercial-to-residential conversions through new actions announced today through its Housing Supply and Action Plan. The Community Development Block Grant, which provides $3 billion annually to support community housing and revitalization projects for low- and moderate-income families, and new actions make it easier to use these funds for acquisition, pre-development and construction associated with conversions. This compliments other actions like HUD's recently announced $860,000 in grant funds to study office-to-residential conversions undertaken since the pandemic. Similarly, new DOT policies unlock $35 billion in available lending capacity for development projects at below market interest rates, which will make conversions easier to finance.

The announcement today also catalogues the broad set of federal tools that can be used for conversions. This includes the Historic Tax Credit, which has supported more than 47,000 properties and created more than 150,000 low- and moderate-income housing units since its inception. New opportunities will continue to arise.

Tax Credits, Grants, & Abatements for Converting Office to Multifamily

Miami CRE Syndicated



The Discussion: Navigating the Challenges of Office to Multifamily Conversions: A Closer Look at Incentives

Introduction:
In a recent episode of "America's Commercial Real Estate Show," Guest Ron Gart with Seyfarth delves into the complexities and challenges of converting office properties to residential spaces. The conversation explores the current state of the commercial real estate market, particularly the struggles faced by office properties in certain markets. The focus then shifts to the incentives provided by governments, both local and federal, to encourage and support this transformation.

About Guest Ron Gart, Partner at Seyfarth:
The episode features Ron Gart, a partner at Seyfarth, a prominent law firm in the U.S., as the guest expert. Ron provides insights into the difficulties associated with office-to-residential conversions, addressing factors such as national vacancy rates, remote working trends, and distressed office loans. He emphasizes the broader impact on communities, including reduced tax income for municipalities and potential repercussions for surrounding businesses.

Government Initiatives and White House Guidelines:
Ron highlights the significant role governments play in addressing the challenges posed by distressed office properties. He specifically mentions the White House's recent release of a "Commercial to Residential Conversion Guidebook" on October 27th. This guidebook outlines existing federal programs, totaling 21, aimed at supporting developers, owners, and lenders in converting office spaces into residential units.

Incentives and Programs:
The conversation covers various incentives provided by governments, including tax abatements, tax credits, tax increment financing, and reductions in transfer taxes. Ron emphasizes the importance of zoning changes, especially in urban areas, to permit residential use. The guidebook

identifies programs such as rehabilitation tax credits, loan guarantees from the Department of Energy, and funds from the Department of Transportation for transit-oriented development projects.

Local Efforts and Grants:
Ron details the local efforts made by cities like Boston, New York, Chicago, Los Angeles, and Houston to incentivize office-to-residential conversions. These efforts involve grants, zoning changes, and pilot programs, all aimed at fostering affordable housing and revitalizing urban areas. The guidebook also outlines a range of grants, including a $10 billion grant from HUD, to support these conversions.

Closing Thoughts and Call to Action:
In closing, Ron stresses the urgency of addressing the conversion of distressed office properties to residential spaces. He emphasizes the need for a collaborative approach involving city planners, governmental bodies, and community members. Ron encourages stakeholders to explore and leverage the available incentives to mitigate the potential negative impacts on communities, tax revenues, and surrounding businesses.

Conclusion:
The episode sheds light on the evolving landscape of commercial real estate, with a particular focus on repurposing struggling office buildings around the country (not so much so in Miami). By examining government initiatives, incentives, and the White House's guidelines, the conversation provides valuable insights for industry professionals, developers, and community members grappling with the challenges of transforming office spaces into vibrant residential hubs.