

Cross-sector Partnerships Could Help Convert COVID-emptied Urban Commercial Buildings into Affordable Housing

William B. Eimicke and David Wu
February 2021

The short supply of affordable housing threatens the viability of major cities across the United States and around the world. A possible silver lining of the now year-long COVID-19 pandemic cloud is the empty office, hotel and retail space it helped to create. The pandemic will end but a significant number of commuting office workers, hotel guests and in-person shoppers have moved on (and will stay online). Cross-sector partnerships can accomplish the complicated task of converting those empty but often debt-laden spaces into thousands of high-quality, well-located housing for low- and moderate-income families and individuals.

The Challenge

The lack of affordable housing in major cities such as New York, San Francisco, Miami, and Metropolitan Washington DC threatens their viability—even teachers, firefighters, nurses, and middle-income working families are forced to commute several hours a day or leave their region. In simple terms, the costs associated with the production of housing in these cities produces rent and ownership cost levels affordable only to upper-middle income and wealthy families and individuals. Government assisted units can meet only a small percentage of the need and many middle-income families make too much money to qualify for assisted units and not enough to pay market rates.

COVID-19 is creating a new real estate market reality in these cities which will likely continue for years after the pandemic has passed—significant numbers of office workers are now working at home via internet platforms, they are shopping and dining via internet delivery services, and many fewer tourists and business travelers are filling up the hotel rooms (and many of those who do come are staying in lower cost Airbnb and other short-term rental spaces). This is very bad news for the owners of these commercial properties, the banks that finance them and the city governments that depend heavily on local property taxes from this property class.

The Opportunity

By the end of 2020, approximately 14% of midtown Manhattan New York City office space was vacant—the highest rate in over a decade. Only one in ten office workers were commuting into the office. Litigation between landlords and tenants, even at the highest end of the market, are accelerating and lawmakers at the local, state and federal levels are imposing and proposing moratoriums on unpaid rents and charges.

Converting at least some of more than 140 million square feet of older and less than prime commercial space into affordable housing in New York City would benefit all parties—current owners and lenders of these spaces, cities needing property tax revenues and the thousands of families and individuals in need of affordable housing.

Some zoning changes will be required but in many places like midtown Manhattan, there is no existing neighborhood to object—in fact the new neighborhoods will create demand for existing and new local



businesses. Governments can encourage the conversion with favorable zoning changes and tax abatements, lowering rent levels. Affordability will also be enhanced by the lower cost of conversion instead of new construction. Estimates from the National Trust's Research and Policy Lab and actual conversion from around the USA indicate reuse is about 40% of the cost of new construction.

Some of these conversions have already been done or are underway. In Jacksonville, Florida, over 100 hotel rooms are being converted into apartments and are projected to rent 10-15% below the market. Similar conversions are planned in Charlotte, North Carolina. In downtown Cleveland, over 4.5 million in vacant commercial space has been converted to affordable housing and hotels. Over the past decade, vacant commercial and industrial spaces along the new High Line park have been converted into mixed income housing, transforming a dangerous and largely empty area into a diverse place for families of all income levels.

Scaling Up

To transform this very good idea into a transformational national program will require a cross-sector collaboration of commercial real estate developers, their lenders, existing commercial tenants, federal, state and local governments, unions, housing advocates, and local residents among others. To get such a diverse set of stakeholders in cities across the nation, conveners of reputation, expertise and money are needed. There will likely be different conveners in different places but we see the Ford Foundation, Rockefeller Foundation, Gates Foundation, Chan-Zuckerberg, Bloomberg Philanthropies, New York City Partnership, and The Urban Land Trust as just a few of the organizations that have the clout to help make this idea a reality and have shown an interest in the subject.

Sources

<https://www.nytimes.com/2020/12/11/nyregion/nyc-commercial-real-estate.html>

<https://www.crainsnewyork.com/commercial-real-estate/cuomos-commercial-residential-conversion-proposal-faces-major-obstacles>

<https://www.fastcompany.com/90528263/coronavirus-has-emptied-out-office-buildings-could-they-help-solve-americas-housing-crisis>