INSPIRED LEADERS
SHAPING CITIES

IDA ADVOCACY HANDBOOK

SPECIFIC EFFORT: THE REVITALIZING DOWNTOWNS ACT QUALIFIED OFFICE CONVERSION TAX CREDIT

OCTOBER 2021

AUTHOR: SAMANTHA JACKSON
DOWNTOWN MESA ASSOCIATION
MESA, ARIZONA

PREPARED FOR: INTERNATIONAL DOWNTOWN ASSOCIATION
910 17TH STREET NW, SUITE 1050
WASHINGTON, DC 20006
202.393.6801 | DOWNTOWN.ORG

INTRODUCTION

The International Downtown Association (IDA) and several national and local placemaking organizations have formed the Revitalize our Cities coalition to support federal legislation to create a *Qualified Office Conversion Tax Credit*. For the first time in its organizational history, IDA is taking a leadership role in advocating for federal legislation to help downtowns recover from the pandemic and changes in how people work.

As the lead association, IDA is utilizing its national membership to advocate for the bill. IDA is looking to each of its member organizations, their employees, board members and supporters to reach out to their respective elected officials in the House of Representatives and the Senate. In addition, IDA will capture myriad voices within its membership to build a public awareness campaign that includes print, online, TV and radio messaging. The goal is to build enough positive momentum through these outlets that the bill passes Congress and is signed into law.

Service organizations, like our downtown districts, are often the most knowledgeable voices who can advocate for public policy with those who have the power to enact it. As such, every IDA member should harness their voices for change, as this legislation has the potential to sustain our districts through the rapidly changing economic climate.

This document is an "advocacy handbook" IDA is sharing to rally voices for this bill.

BACKGROUND: WHY THIS BILL MATTERS

As the world emerges from the COVID-19 pandemic, The McKinsey Global Institute's *Future of Work After COVID-19* report estimates that 20-25% of the workforce could work remotely in the future (*Lund, et al., 2021*). This structural shift can have significant, long-term consequences for America's downtowns and business districts. Without a policy response, the loss of office workers, along with the prospect of empty office buildings, threatens the long-term fiscal health of many cities, the small businesses that depend on office workers, and the vitality of America's downtowns.

In July 2021, U.S. Senators Debbie Stabenow (MI), Gary Peters (MI), and U.S. Representatives Jimmy Gomez (CA-34), Dan Kildee (MI-05), and John B. Larson (CT-01) introduced *The Revitalizing Downtown Act,* which will create the *Qualified Office Conversion Tax Credit*.

This proposed tax is modeled after the Federal Historic Tax Credit (HTC), which has been in existence since 1976. The *Qualified Office Conversion Tax Credit* would be available to spaces that are 25 years or older. Like the HTC, it provides a credit equal to 20% of the Qualified Conversion Expenses (QCEs) in converting obsolete office buildings into residential, institutional, hotel, or mixed-use properties. In addition, residential properties must ensure that at least 20 percent of units are affordable to lower-income individuals or comply with state or local affordable housing agreements. The credit is claimable over five years.

This model of tax financing works. Since its inception in the 1970s, the HTC has been utilized throughout the United States on more than 45,000 historic properties. A 2020 study by the National Park Service (NPS) found that the HTC has leveraged over $173.7B in private investment for historic rehabilitation and generated 2.8 million jobs (National Park Service, 2020).

KEY ADVOCACY POINTS: WHY THE CREDIT IS NEEDED

1. Converting obsolete office buildings to other uses promotes economic viability.

Downtowns are the economic drivers of metropolitan areas, driving tax revenue and business activity. The concentration of resources, amenities and social infrastructure make them desirable destinations. As place management professionals, we are committed to making urban neighborhoods more livable while strategically filling vacant buildings and activating public spaces (*IDA, 2019*).

The Revitalizing Downtowns Act will create the *Qualified Office Conversion Tax Credit*; a tool municipal economic development departments can use in conjunction with their downtown partners to continue evolving quality spaces to lease or sell, allowing for further generation of tax revenue at all levels of government – federal, state and local.

2. Office conversions are more sustainable than demolition.

Conversion assures that buildings remain economically viable while reducing the emission of toxic construction waste. According to the EPA, in 2018, the United States generated 600 million tons of construction and demolition debris, 90% of which was generated from demolition alone. Of that, 145 million tons ended up in landfills (*EPA, 2018*).

The United Nations Environment Program estimates that the construction sector is responsible for up to 30% of the world's greenhouse gas emissions. Activities such as mining, processing, manufacturing and transporting construction materials result in the release of gases that contribute to climate change (*Souza, 2020*).

Adaptive reuse is one of the greenest types of construction, saving 20-30% on construction costs over creating an entirely new building (Grabar, 2021). Reuse also saves time, returning a building to the market faster over a new build. Office conversions conserve natural resources and minimize the need for new materials.

3. Office conversions can provide more affordable housing.

The Revitalizing Downtowns Act includes language that supports affordable housing by requiring that residential conversions meet certain targets. Underutilized office space can now be found in desirable, walkable, mixed-use communities with access to employment and transit options. In some downtown areas, office properties were built on formerly thriving communities of color that were razed under the guise of economic development. Conversion to affordable housing can ensure beneficial outcomes for low-income communities and communities of color traditionally marginalized in land use and development decisions (*Jakabovics and Drew, 2021*).

4. Revitalizing downtowns offers greater entrepreneurial opportunities.

Renovation can breathe new life into a space by garnering public attention, which in turn can lead to increased street-level activity at all times of day and days of the week. Pedestrian traffic typically supports the local economy; individual pedestrians often patron the businesses they pass by, and thus a refurbished office tower gives rise to greater entrepreneurial opportunities.

RESPONDING TO ARGUMENTS AGAINST THE BILL

Not every obsolete office building has an ideal floorplate to convert into housing, especially those with deeper floors and fewer windows. These types of structures may instead find new life as institutional and industrial facilities; schools (public, charter, private K-12+, college, university), laboratory spaces, and self-storage units which meet a downtown's demand for off-site storage facilities are some of the innovative uses in office conversion projects. Certain buildings may lend themselves to mixed-use properties that become hotel, office, residential and retail (*Farivar, 2021*).

In one successful conversion project, there were dedicated storage areas on every floor for residents to utilize, along with a three-level gym, a movie-screening room, double-floor sports bar with golf simulators and video gaming equipment, a pet spa and dog run, co-working/workshop areas, and a rooftop pool deck and outdoor entertainment area (*Smith, 2019*).

5. Office conversions have high first-costs, creating a barrier to their use

Although adaptive reuse has some financial savings over demolition, the price of converting office to residential remains cost-prohibitive for most developers. Kitchens and bathrooms need to be added along with the plumbing lines to supply them. Electrical, mechanical, ventilation, and fire protection systems will need to be overhauled, especially in a dated building where the parts have outlived their usefulness. Dated office finishes like drop ceilings and carpet must be removed, and often the facade will need to be replaced to improve insulation, views, and ventilation (*Chung, 2020*). Office towers, especially those built after World War II, are windowless toward the middle, requiring architectural maneuvering to capture natural light for each dwelling. In some markets, it is estimated that conversion costs $100,000 per apartment created.

Any proposed legislation will likely garner some opposition. It's essential to be prepared to respond to criticisms that opponents may make. For the *Revitalizing Downtowns Act* and the subsequent creation of the *Qualified Office Conversion Tax Credit*, arguments could include:

1. Argument: "It's hard to give up the more lucrative office rents in exchange for housing units."
   Response: *From 2010 through 2015, apartment rent growth exceeded rent growth for office product nationally; that is not the case now, but Baltimore and Dallas are markets that have used tax credits to support office conversion with great success. (Shirokow-Louden, 2018)*

2. Argument: "Even though offices are currently empty, companies typically sign long leases and are not relinquishing their office pads."
   Response: Even before the pandemic, cities around the country have been experiencing elevated office market vacancy. This is an ongoing trend that will outlast the pandemic.

3. Argument: "It is cheaper to build a new four- to five-story apartment complex on underutilized land than it is to convert an existing office building to housing."
   Response: Underutilized land is not as desirable or sustainable as current urban, walkable, amenity-rich areas like downtowns.

4. Argument: "Conversion development applications are down in many major cities."
   Response: This is due in no small part to the costs of conversions. This tax credit makes financing conversion projects feasible.

5. Argument: "The owner of a struggling office may opt to subdivide and market smaller spaces. The property may undergo renovations to make it more competitive for re-leasing. Rent can be lowered to attract Class B-type tenants. These options are considerably cheaper than a conversion."
   Response: The Qualified Office Conversion Tax Credit is a tool that can be used to convert spaces by owners or developers who have an interest in adaptive reuse. It is not going to be used by everyone, but in those cases where owners want to convert, it provides the needed financing to do so.

6. Argument: "Adaptive reuse does not always work with affordable housing. It works best with real estate whose value has dropped to a point where the incremental value created by the conversion far exceeds its incremental cost."
   Response: The Qualified Office Conversion Tax Credit incentivizes affordable housing by requiring that residential conversions provide a minimum of 20% of units for affordable housing.

7. Argument: "Before ramping up new tax abatement programs (which results in lost tax revenue), the government can simplify zoning laws and speed up the approval process for housing developments."
   Response: We agree that changes to zoning laws and streamlined applications would be tremendously helpful, and using the Historic Tax Credit as an example, the returns on this program outweigh the cost of the program, as revitalizing downtowns will lead to more tax revenue for municipalities, states and ultimately the federal treasury.

DEMOCRACY REFLECTS THE WILL AND ACTION OF ENGAGED CITIZENS

Marlene Lobberecht, 2011

America is reflected through its incredible diversity. Gathering and amplifying voices from both large and small cities, of all backgrounds and creeds, is important to this effort.

Advocacy: By definition, advocacy is to speak in favor of support or urge by argument; recommend publicly. Once an issue has been identified, advocacy involves educating others on the issue, sharing a solution, and building support so that the solution can be acted upon. Advocacy is done in good faith, with transparency, and without deception. An effective advocate:

- Understands the impact of the issue
- Understands the solution and is open to hearing other arguments
- Knows who has the power to implement the solution
- Understand the public process necessary in enact the solution
- Builds effective partnerships to reach the solution
- Commits to reaching the solution

Here are some tips as you get involved with legislative advocacy:

1) Know your representatives
2) Follow the progress of The Revitalizing Downtowns Act – S.2511 (IS) (search govinfo.gov)
3) Share your story – how vacant office is impacting your district, what could a conversion tax credit could do
4) Connect with your local community and educate them on The Revitalizing Downtowns Act; why should they care, what does it mean for them?
5) Communicate with your legislator by email, call or mail – avoid using a form letter or script (but IDA does provide some sample language you can use as the basis for your pitch – link here)
6) Organize a "letter campaign" – this is a call to action, ask those in your community (board members, property owners, small business owners, residents, like-minded colleagues) to also reach out to their representatives to support The Revitalizing Downtowns Act.
7) Invite your legislator to visit your district so they can see firsthand how empty office buildings are hurting your downtown district and impacting small businesses who rely on downtown employees as customers. Let them see the loss of sidewalk traffic.
8) Work with the media: IDA is coordinating PR efforts; consider whether it makes sense for you participate in these efforts.
9) Visit your legislator
10) Connect with members of the Revitalize Our Cities Coalition and be a part of the strategy to pass this important piece of legislation.

REVITALIZE OUR CITIES COALITION

The Revitalize Our Cities Coalition is made up of more than thirty economic development organizations across 20 states and the District of Columbia.

Coalition members include:

Metro Hartford Association

California Downtown Association

SPUR (Regional Planning and Policy Organization for San Francisco Region)

Real Estate Board of New York City (REBNY)

Center City Association of Los Angeles

Central Houston Inc.

Downtown Dallas Inc.

Downtown Sacramento Partnership

Indy Chamber

Greater Louisville Inc. (GLI)

Downtown Cleveland Alliance

Greater Cleveland Partnership

City of Akron/Greater Akron (OH) Chamber

City of Dayton

Center City Cincinnati Development Corporation (3CDC)

Downtown Denver Partnership

Pittsburgh Downtown Partnership

Greater Pittsburgh Chamber of Commerce

Greater Portland Inc.

Downtown Seattle Association

Chicagoland Chamber of Commerce

Central Loop Alliance (Chicago)

Downtown Partnership of Baltimore

Minneapolis Downtown Council

Minneapolis Regional Chamber

MKE Downtown (Milwaukee)

Federal City Council and DC BID (Washington, DC)

Greater St. Louis Inc

Newark Downtown Alliance

REV Birmingham / Birmingham Business Alliance

Downtown Little Rock Partnership

City of Grand Rapids / Downtown Grand Rapids Inc.

City of Detroit / Downtown Detroit Partnership / Detroit Regional Chamber

City of Lansing

Centro San Antonio

Additional Support National Organizations

- US Conference of Mayors
- International Economic Development Council
- Accelerator for America

RESOURCES

Chung, P. (2020 July 29). *Not every obsolete office building is cut out to become apartments*. Greater Greater Washington. Retrieved from: https://ggwash.org/view/78585/not-every-obsolete-office-building-is-cut-out-to-become-apartments-2

Day, N. (2020 July 28). *Unused buildings will make good housing in the world of COVID-19*. The Conversation. Retrieved from: https://theconversation.com/unused-buildings-will-make-good-housing-in-the-world-of-covid-19-142897

Environmental Protection Agency. (2018). *Advancing Sustainable Materials Management: 2018 Fact Sheet*. Environmental Protection Agency. Retrieved from: https://www.epa.gov/smm/sustainable-management-construction-and-demolition-materials

Farivar, C. (2021 July 25). *Why empty offices aren't being turned into housing, despite lengthy vacancies*. NBC News. Retrieved from: https://www.nbcnews.com/business/real-estate/why-empty-offices-aren-t-being-turned-housing-despite-lengthy-n1274810

Grabar, H. (2021 April 20). *Could Your Empty Office Turn Into Apartments?* Slate. Retrieved from: https://slate.com/business/2021/04/residential-conversions-housing-offices-manhattan-boston.html

International Downtown Association. (2019 April). *IDA Toolkit*. Retrieved from: https://downtown.org/wp-content/uploads/2019/04/IDATK18_NarrativeToolkit_040419.pdf

Jakabovics, A., Borgardus Drew, R. (2021 March 16). *How Commercial Property Conversion Can Expand Housing Supply?* Enterprise. Retrieved from: https://www.enterprisecommunity.org/blog/how-commercial-property-conversion-can-expand-housing-supply

Lobberecht, M. (2011) *Tips for Public Policy Involvement*. Retrieved from: https://www.ncfr.org/sites/default/files/tips_for_public_policy_involvement_book.pdf

Lund, S., Madgavkar, A., Manyika, J., Smit, S., Ellingrud, K., Meaney, M., Robinson, O. (2021 February). *Future of Work After COVID-19*. McKinsey Global Institute. Retrieved from: https://www.mckinsey.com/featured-insights/future-of-work/the-future-of-work-after-covid-19

National Park Service, Rutgers School of Planning and Public Policy. (2020 October). *Annual Report on the Economic Impact of the Federal Historic Tax Credit for Fiscal Year 2019*. Retrieved from: https://www.nps.gov/tps/tax-incentives/taxdocs/economic-impact-2019.pdf

Psoriasis Action Network. *How Citizens Can Change Public Policy*. National Psoriasis Foundation. Retrieved from: http://faculty.washington.edu/jwilker/353/howabillbecomesalaw.pdf

Shirokow-Louden, A. (2018 July). Obsolete Office Properties Are Being Successfully Converted into Multihousing. Newmark. Retrieved from: https://www.nmrk.com/insights/real-insights/obsolete-office-properties-are-being-successfully-converted-into-multihousing

Smith, S. (2019 July 30). *Supply Meets Demand: Converting Office Space to Multifamily*. Globe St.com. Retrieved from: https://www.globest.com/2019/07/30/supply-meets-demand-converting-office-space-to-multifamily/?slreturn=20210707223032

Souza, E. (2020 January 13). *Embodied Energy in Building Materials: What it is and How to Calculate It*. ArchDaily. Retrieved from: https://www.archdaily.com/931249/embodied-energy-in-building-materials-what-it-is-and-how-to-calculate-it