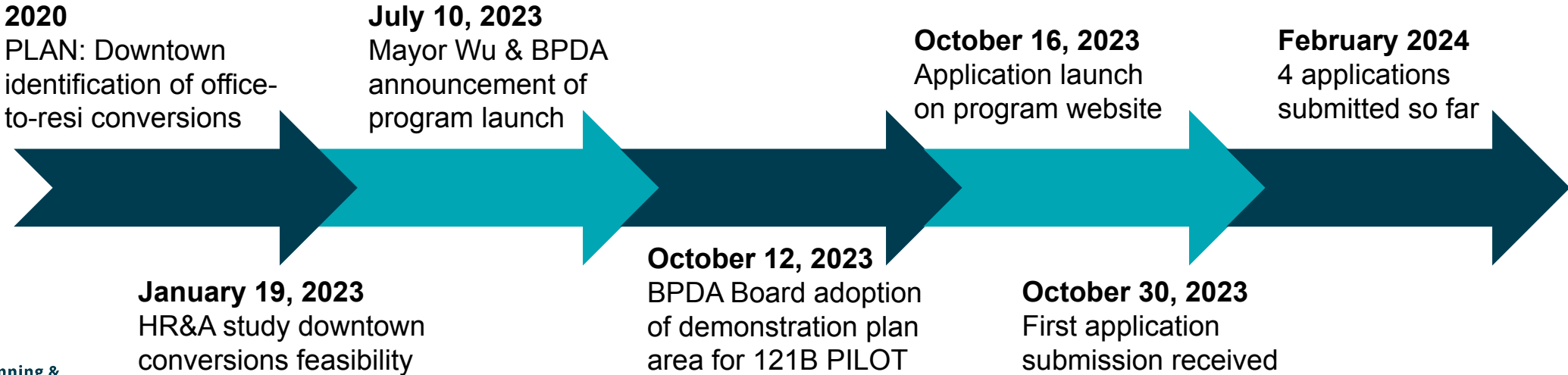


# Boston Downtown Conversion Program

*Office-to-Residential Adaptive Reuse*

# Timeline of Downtown Conversion Program

- Identification of office-to-residential conversions during PLAN: Downtown
- HR&A Advisors consultant report: Downtown Office Conversion Study
- Mayor Wu’s announcement of the Downtown Conversion Program
- BPDA Board adoption of the PILOT plan



# Why Convert Office to Residential

## *Federal & State Context*

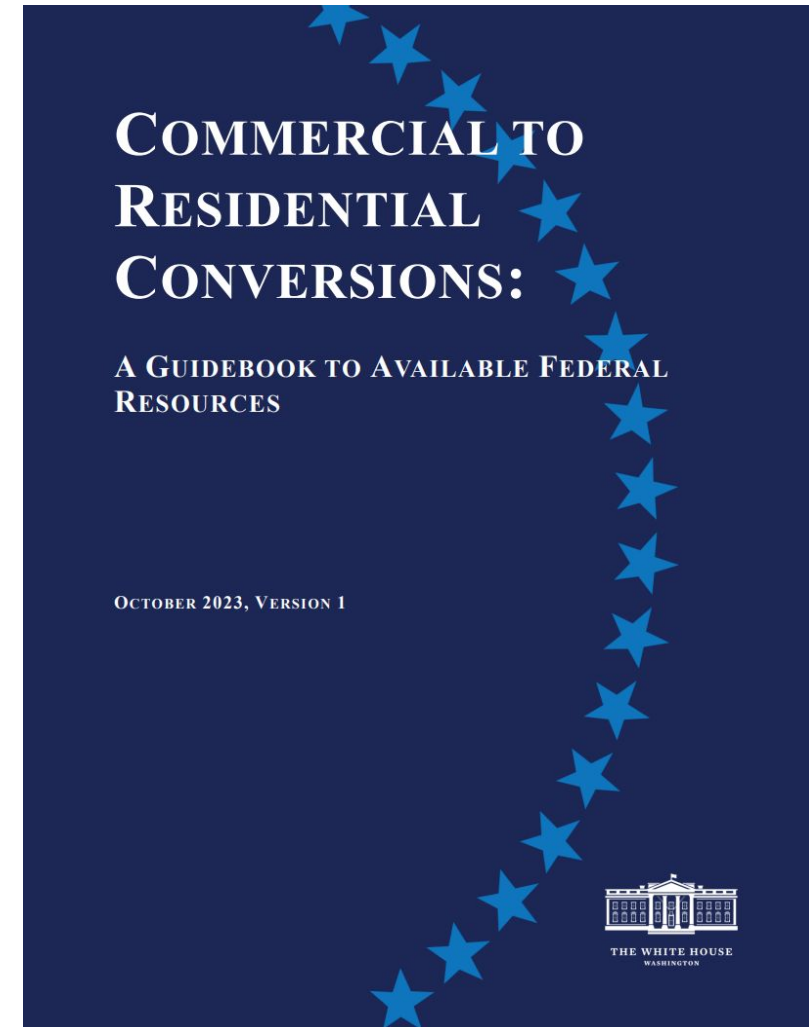
- **Commercial buildings in most US cities have 20-30% vacancy**
- Tenants anticipate 50% space reduction
- Interest rates have doubled since many buildings were last financed
- Upcoming refinancing needs as existing loans mature and most lenders pause
- Other programs: Chicago, Pittsburgh, NYC, DC, San Francisco, and Calgary



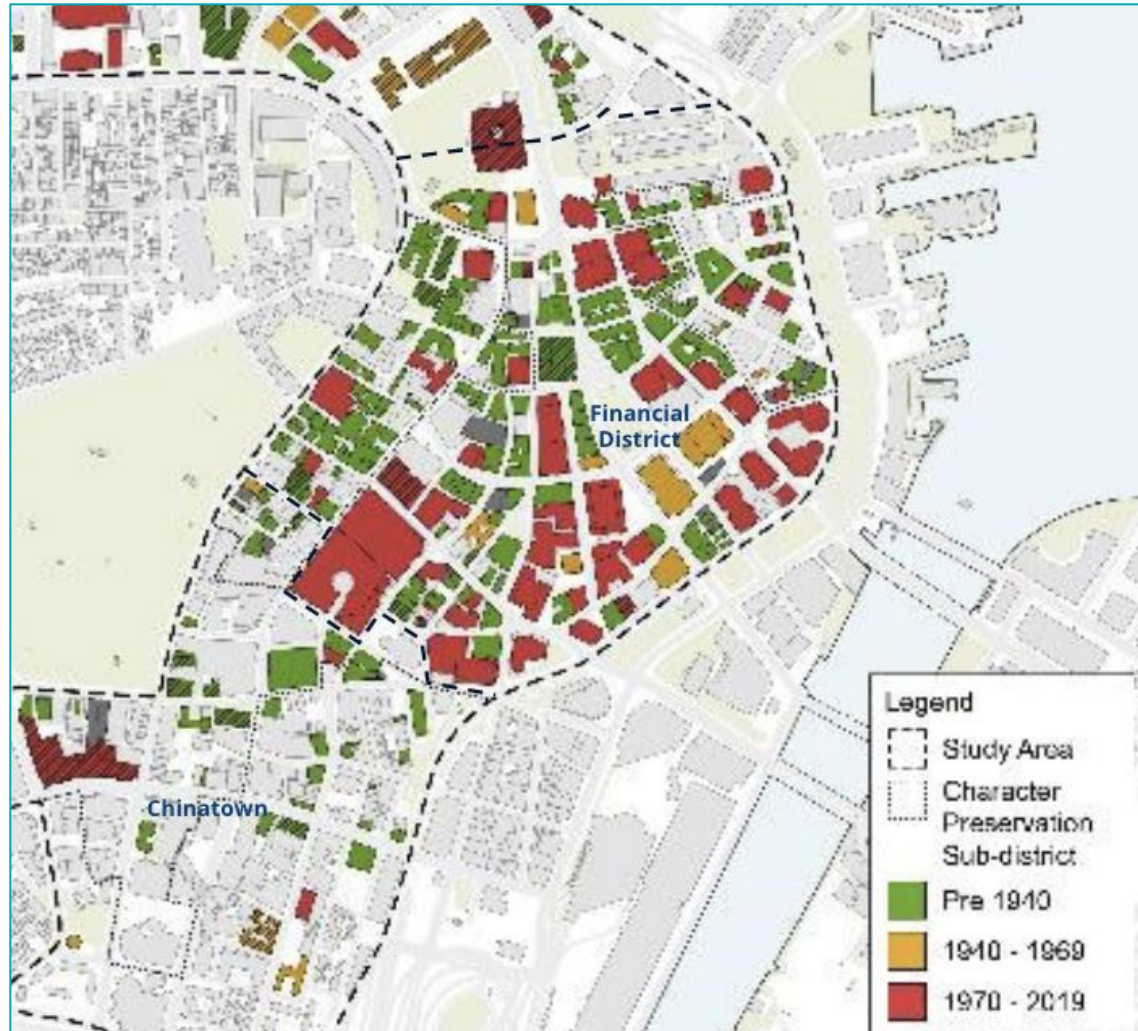
# Federal & State Recognition of the Need

## *Federal & State Context*

- Additional Federal resources identified by the White House for conversions
  - TIFIA & RRIF (transit-oriented development) low-interest loans
- Exploring potential State funding sources available to Boston
  - Potential grants in Gov. Healey's proposed Housing Bond Bill



# Why Convert Office to Residential Now



## Boston Context

- Boston downtown office vacancy  $\approx$  21% (vs. residential vacancy  $\approx$  4%) and projecting to rise to 30%
- Average Boston office occupancy  $\approx$  60%
- Employers shifting to high amenity new buildings to woo workers back
- Commonwealth expected to vacate 250k sq ft of leases in 2024
- Class B & C office buildings most at risk (*e.g. recently toured a well-maintained 100yr old building with 80% vacancy*)

# Goals of Mayor Wu's Conversion Program

Office conversion is one tool that can be utilized in combination with other City actions to revitalize Boston's Downtown.



- Respond to the **changing streetscape and work environment** impacted by the pandemic



- **Create much needed housing Downtown**, including affordable rental units on site



- Encourage diverse uses to drive foot traffic throughout the day and create a more **vibrant urban core**



- Achieve sustainability goals through the **adaptive reuse of buildings**

- Facilitate repurposing of older underutilized office buildings into new multifamily residential rental units in the Downtown area

# Boston Downtown Conversion PILOT

## Key Elements

### Program Process

- **29 yr, 75% residential abatement**
- As-of-right zoning for change of use *(in Downtown and where applicable)*
- Faster Article 80 process to save time and money
- Streamlined permitting
- City resources to help move projects

### Program Requirements

- Apply by June 2024
- **Fully permitted by Oct 2025**
- Meet new Inclusionary Zoning requirements
- Comply with new “Stretch Code” green energy standards *(as required)*
- **Adaptive reuse only**
- 2% Transaction charge

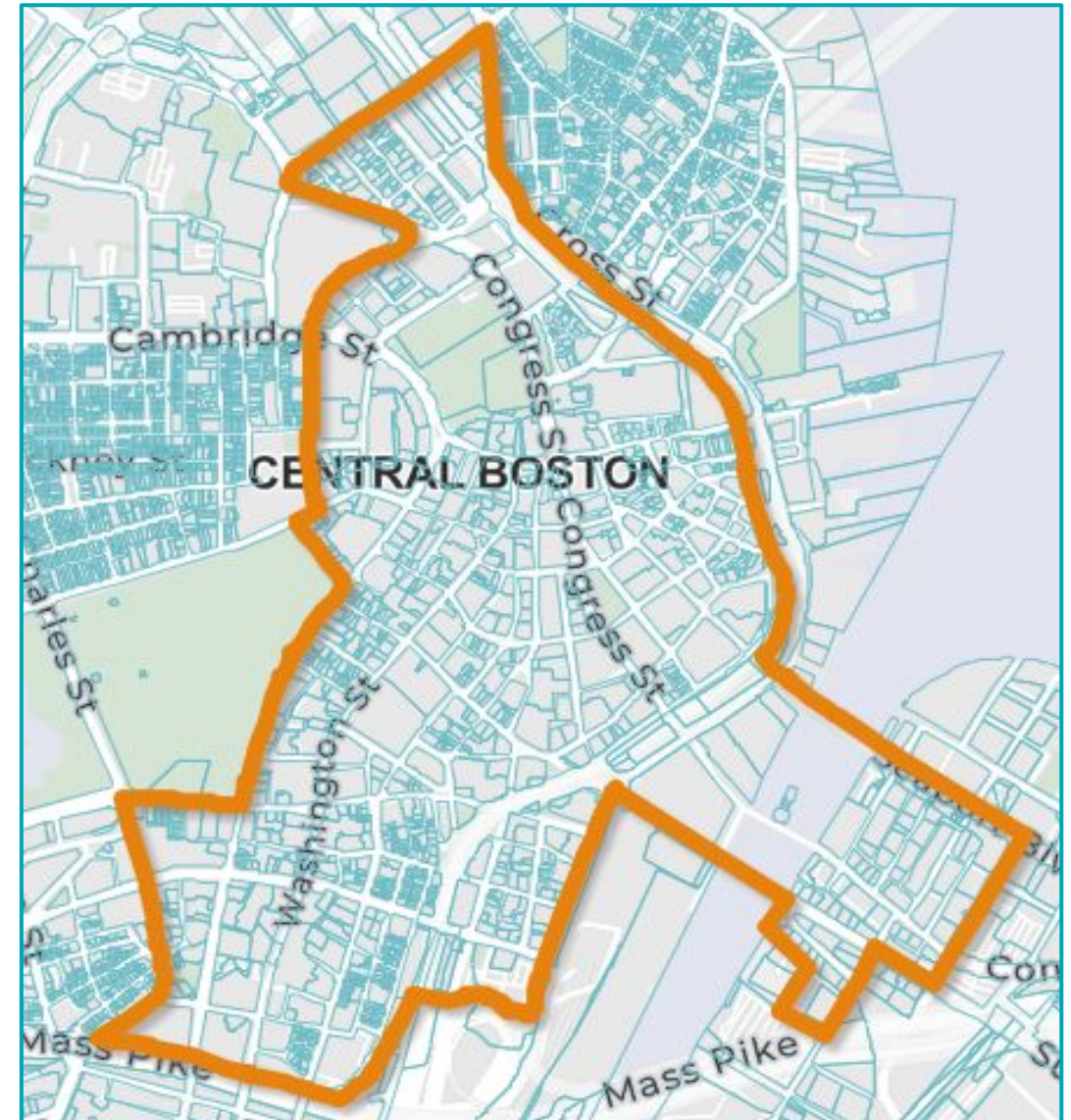
<https://www.bostonplans.org/conversion>

# Initial Progress of Program

## Current Status

- **Application has been live for 4 month**
  - Received 4 applications / 170 units
- A number of additional active candidates
  - Mostly within Demonstration Plan Area
  - Range of project sizes (e.g. 15 unit / 6 stories and 150 unit / 11 stories)
  - Variety of participant profiles from office owners to potential acquirers

## Demonstration Plan Area





# Program Next Steps

## Article 80 & 121B for the 4 Applicants

- Public meeting for 281 Franklin St. project on Jan. 23, 2024
  - Article 80 small project
  - 121B agreement
- Tentative March BPDA board meeting
- Anticipate Spring 2024 public meetings
- 281 Franklin St. Construction target: Summer 2024

*Respond to post-pandemic lasting economic shifts*

*Activate properties currently facing high office vacancies*

*Create an active Downtown beyond work hours*

*Build much-needed housing, including affordable rental*

# Costs & Challenges Facing Adaptive Reuse

The decision to convert an office building to another use is highly dependent on five key inputs. *(identified by HR&A Advisors consultant report)*



## Market conditions

- Current and projected performance of both office and residential markets
- Alternate uses (e.g. lab, hotel, etc.)



## Physical attributes and location

- Floor-plate size
- Elevators and stairs
- Operable windows
- ADA compliance
- Fire systems
- HVAC and utilities



## Construction cost to convert the building

- Hard and soft costs
- Existing leases
- Construction and lease-up period
- Interest rates
- Loan availability



## Building performance and characteristics

- Vacancy rates
- Rent levels
- Efficiency factor



## Regulatory requirements

- Electrification standards
- Affordability requirements
- Green building standards

- Due to these unique costs and challenges, pro formas show tax abatement is an important first step to facilitate conversions to residential today
- However, many projects still show a significant financing gap

# Questions

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