

Downtown Conversion Program

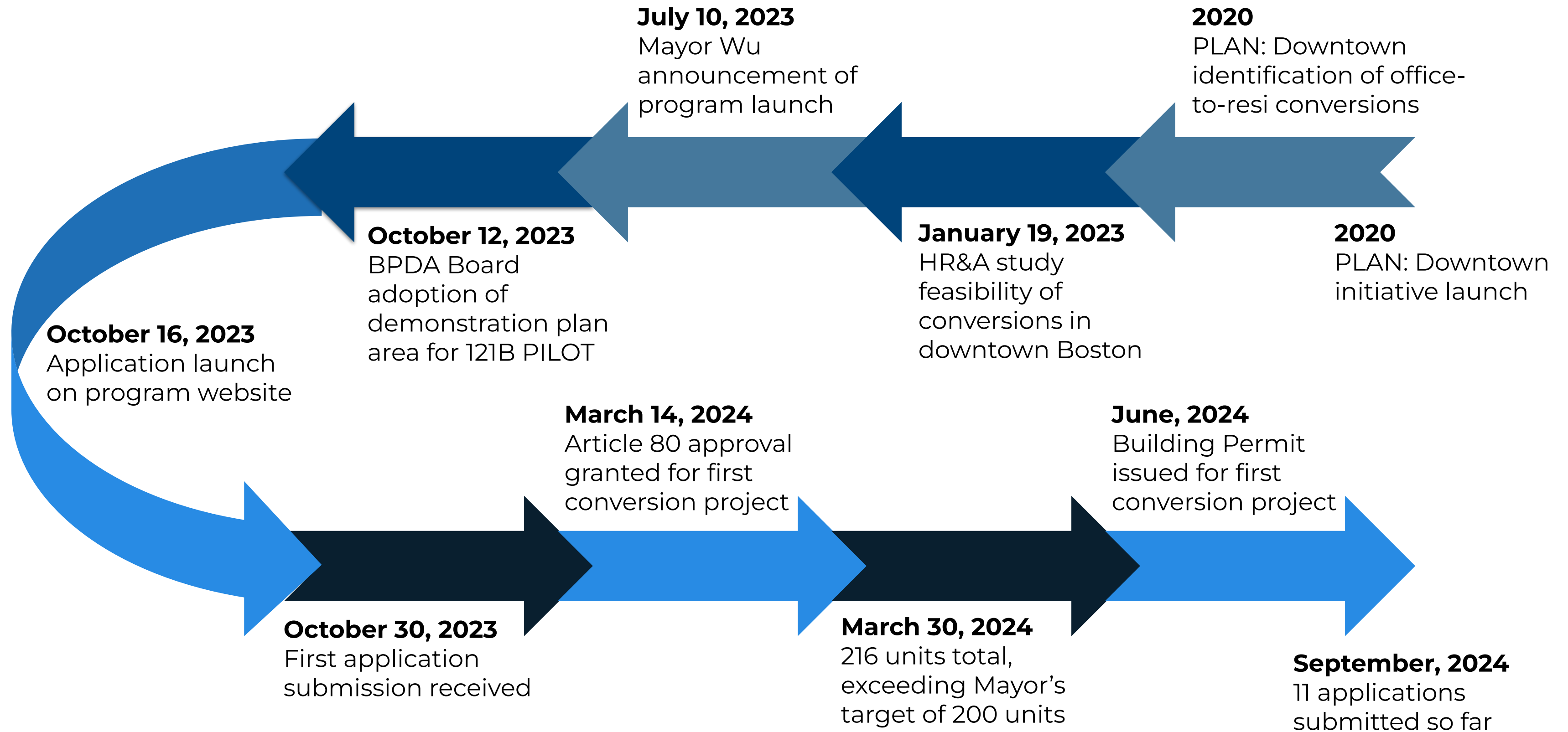
Office-to-Residential Adaptive Reuse



Planning Department

CITY of **BOSTON**

Timeline of Downtown Conversion Program



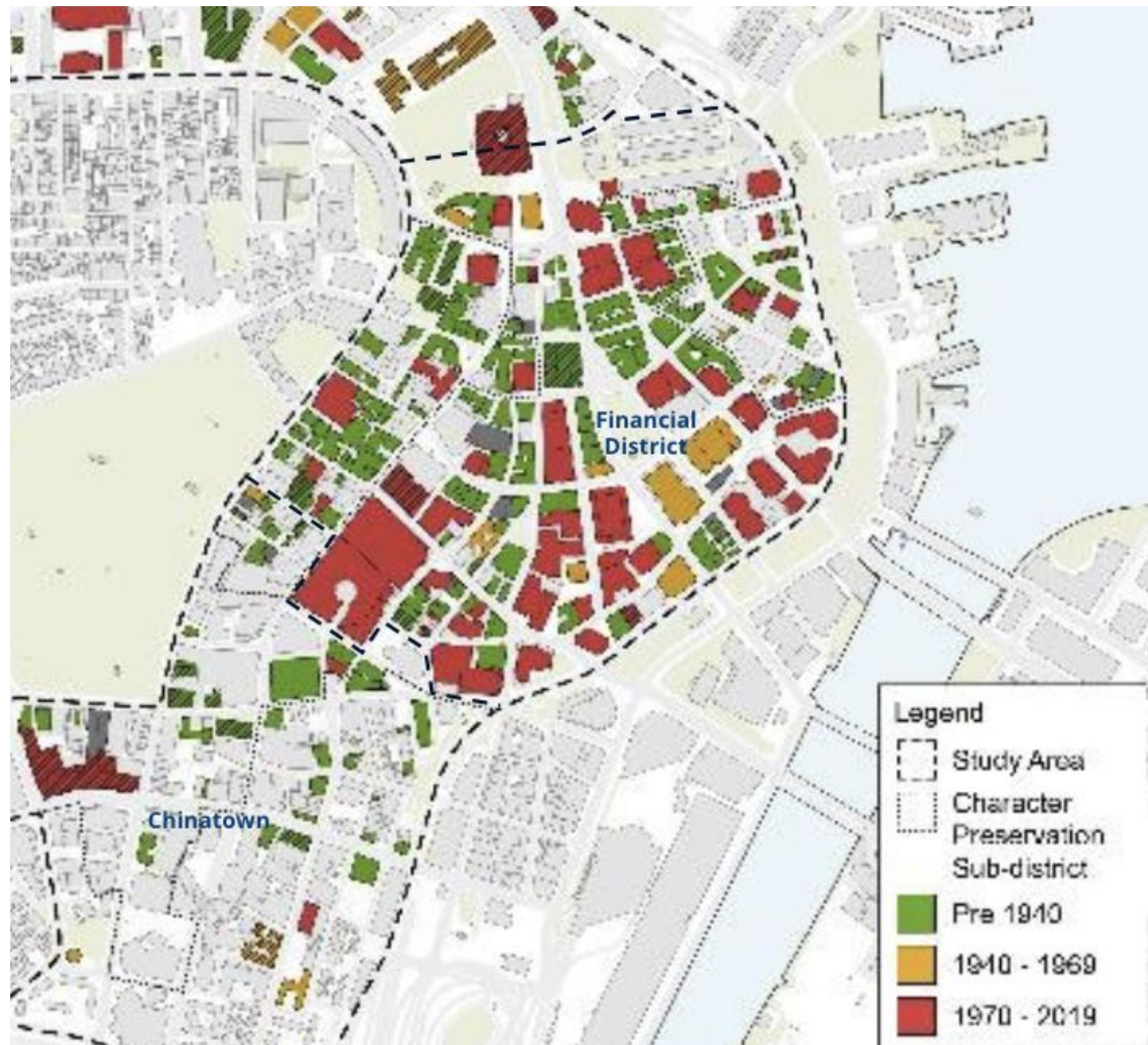
Why Convert Office to Residential

“ 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



Why Convert Office to Residential Now



“ Boston Context ”

- Boston downtown office vacancy \approx 20% (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. well-maintained 100 yr old 11 story property 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 Program: 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 December 2025**
- **Full permit within 1 year of applying**
- 17% units @ 60% AMI + 3% for voucher holders
- Comply with new “Stretch Code” green energy standards (*as required*)
- Adaptive reuse only
- **2% Transaction charge for 5 years**

Initial Progress of the Program



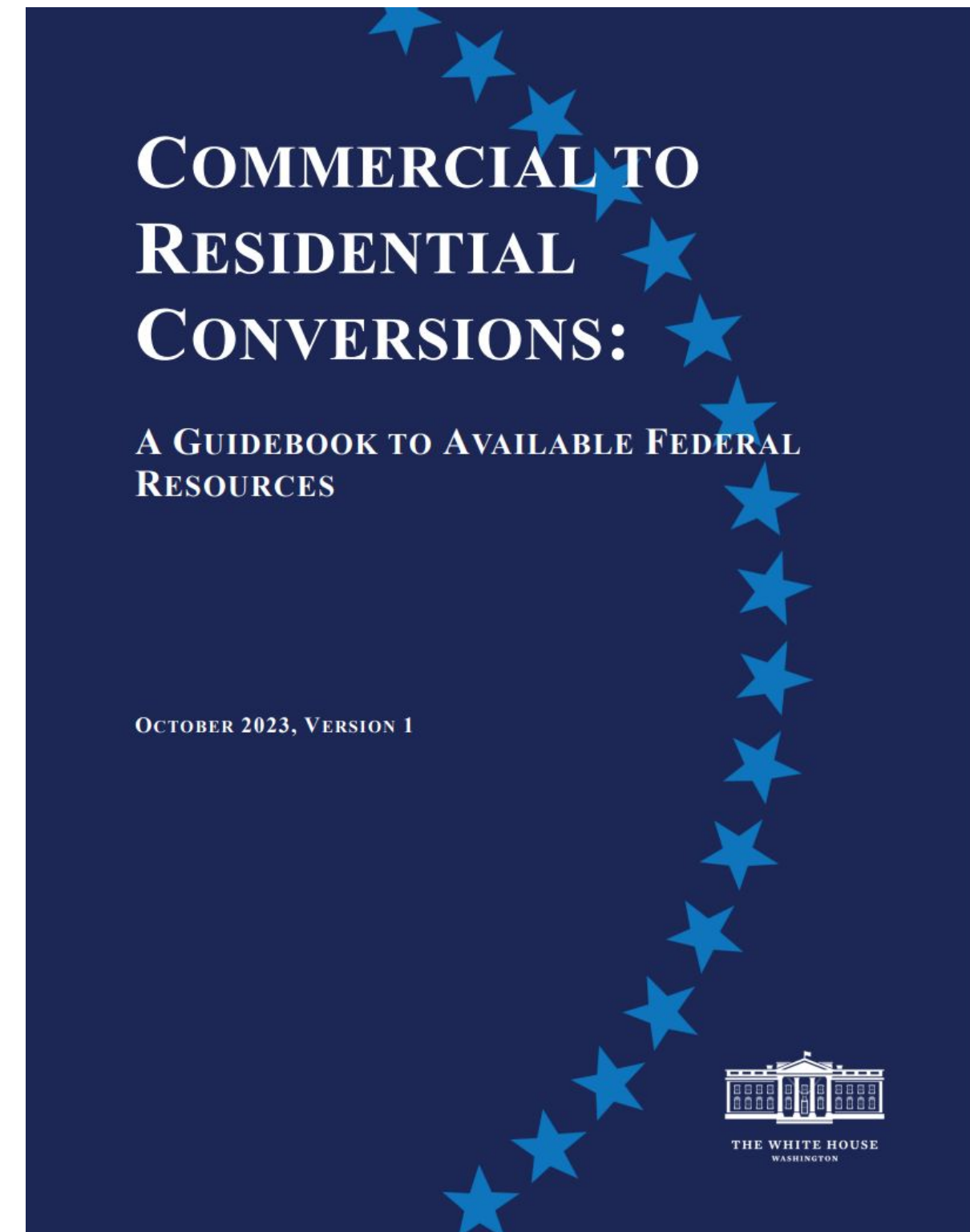
“ Received **11 applications** to create **507 units** of housing across **15 buildings**, converting **½ million sf of older office** space, exceeding initial goals ”

- Includes creating 102 affordable units on site (20%) consisting of 86 units at 60% AMI (17%) and 16 units for section 8 voucher holders (3%)
- A number of additional active candidates expressing interest: from office owners to potential acquirers
- Range of project sizes (e.g. from 15 unit / 6 stories up to 150 unit / 11 stories)

Federal & State Recognition of the Need

“ Federal & State Context ”

- **Additional Federal resources identified by the White House for conversions**
 - HUD 221(d)(4) construction & rehab loans
 - TIFIA & RRIF (transit-oriented development) low-interest loans
- **Potential State funding sources**
 - Proposed grants & tax credits in Gov. Healey's Housing Bond Bill
 - Other state funds to be made available for conversions



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

THANK YOU

We appreciate your time and hope you enjoyed this presentation.

HAVE QUESTIONS?

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OR VISIT:

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

