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

2020
- PLAN: Downtown identification of office-to-resi conversions

July 10, 2023
- Mayor Wu & BPDA announcement of program launch

October 10, 2023
- Application launch on program website
- 4 applications submitted so far

January 19, 2023
- HR&A study downtown conversions feasibility

October 12, 2023
- BPDA Board adoption of demonstration plan area for 121B PILOT

October 30, 2023
- First application submission received
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 ≈ 21% (vs. residential vacancy ≈ 4%) and projecting to rise to 30%
- Average Boston office occupancy ≈ 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](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
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