June 28, 2024

Dear Representative:

The undersigned organizations write in strong support of the *Revitalizing Downtowns and Main Streets Act* that Representatives Mike Carey and Jimmy Gomez are preparing to introduce. We encourage you to cosponsor and help advance this bipartisan measure that aims to modernize U.S. real estate, create new and affordable housing, and strengthen local communities through a market-based tax incentive for converting older commercial properties to residential use.

The *Revitalizing Downtowns and Main Streets Act* would create jobs and reduce housing costs by encouraging the private sector to convert vacant and underutilized commercial properties to housing. By establishing a temporary tax credit for commercial-to-residential property conversions, the bill will spur the development of affordable housing, save energy, and reduce the number of outdated office and other commercial buildings that are weighing heavily on the wellbeing of real estate markets and local tax bases.

Real estate needs have changed in the post-pandemic economy. Hybrid and remote work arrangements have reduced overall demand for office space and made some buildings obsolete. High vacancy rates and reduced foot traffic are hurting small businesses and restaurants that depend on vibrant downtowns and city centers. Similarly, in suburban and rural communities, empty strip centers, malls, and big box stores can languish for years before they are eventually demolished or put to a new use.

In their current state, these underutilized commercial properties create challenges for local economies, the labor force, and the financial system, including the balance sheets of regional banks and other lenders. The declining values of languishing properties put strains on localities that rely on property taxes for 75 percent of their tax revenue, as well the pension funds, charities, and educational endowments that have invested $900 billion in commercial real estate. Nonpartisan research by organizations such as the Pew Charitable Trust, McKinsey, and others has demonstrated how these trends threaten commercial real estate property values and local tax bases that finance public education, law enforcement, infrastructure and other needs.

At the same time, the United States has a severe shortage of housing that is decades in the making. The nation needs 4.3 million more apartments by 2035 to overcome years of underbuilding and meet future demand, and we are nowhere near achieving the rates of housing production needed. Moreover, the median age of our existing stock of rental housing has grown from 34 to 44 years in just two decades. The Federal Reserve Bank of Philadelphia estimates that it would cost $51.5 billion to address the physical deficiencies of existing rental housing. More housing supply is needed to avoid large future rent increases. Since 2001, rent increases have consistently outpaced income gains. Today, a quarter of American renter households spend more than 50 percent of their income on housing expenses.

Repurposing vacant and underutilized commercial buildings for housing helps to address a number of these challenges faced by our nation's cities and suburbs. Unfortunately, a combination of factors frequently prevents the repurposing of older commercial buildings to housing. The conversion of a building is typically more complex than projects that start with a blank slate and follow a typical ground-up, development path. Property acquisition, permitting, development review, toxic contamination, property age and code conformance, and a "not in my backyard" (NIMBY) sentiment, are all obstacles that frequently arise and must be overcome. On a very practical level, the structural elements of an existing structure—columns, beams, floor layouts and size, ceiling height, etc.—often pose hurdles that add cost and extra delays to an otherwise desirable repurposing of a building. Unexpected and sometimes expensive issues can arise related to wiring, water pipes, materials and many other variables. All of these factors create additional risks that complicate the financing of a property conversion and raise the cost of capital for property owners and developers.

The *Revitalizing Downtowns and Main Streets Act* represents an important part of the solution to these enormous challenges. The bill would create a new and temporary 20 percent tax credit for qualified property conversion expenditures. The credit is modeled on the historic rehabilitation credit. Total credit authority would be limited to $15 billion and state housing finance agencies would distribute the credit based on allocation plans that take into account factors such as financial feasibility and the extent to which the conversion will create affordable housing and support economic revitalization and small businesses in the surrounding area. Larger credits would be available for projects in rural areas, low-income census tracts, and economically distressed areas. The credit would expire at the end of 2027.

Property conversions are a cost-effective means to develop new housing supply, create jobs, and generate critical sources of local property tax revenue. Extending the useful life of a building through a conversion reduces demands to consume construction materials, avoids industrial energy consumption, and lowers net greenhouse gas emissions and pollution. The tax credit would complement state and local initiatives adopted across the country that aim to incentivize and remove barriers to property conversions. It would facilitate project financing and allow conversions currently sidelined to move forward.

Conversion projects can occur in a variety of settings, from central business districts and suburban office parks to rural communities and industrial facilities. The repurposing of existing structures will help reinvigorate communities and reignite economic growth where it is most needed. We applaud the leadership of Representatives Carey and Gomez on this issue and urge you to cosponsor and support their bipartisan legislation.

Sincerely,

The Real Estate Roundtable
American Hotel and Lodging Association
American Land Title Association
American Resort Development Association
American Seniors Housing Association
CCIM Institute
ICSC
Institute of Real Estate Management
Latino Hotel Association
Mortgage Bankers Association
NAIOP, the Commercial Real Estate Development Association
Nareit
National Apartment Association
National Association of Home Builders
NATIONAL ASSOCIATION OF REALTORS®
National Multifamily Housing Council
National Rental Home Council