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Proposed Federal Legislation Aims to Address Underutilized Commercial Real Estate

Earlier this summer, bipartisan legislation was introduced in the U.S. House of Representatives aimed at spurring the redevelopment of existing underutilized or vacant commercial properties and converting them for residential use. The Revitalizing Downtowns and Main Streets Act would establish a new temporary 20% tax credit for expenses related to the conversion of an eligible property. Furthermore, in certain situations, there is an ability to stack the newly proposed tax credit with existing historic tax credits and other incentives offered by municipalities and states. Additional incentives apply to rural and economically distressed areas, and there is a provision designating that 20% of the units in an eligible property must be set aside for affording housing. The bill is sponsored by Mike Carey (R-OH) and Jimmy Gomez (D-CA). A companion bill in the U.S. Senate is being led by Senator Debbie Stabenow (D-MI).

The legislation would provide \$15 billion in conversion tax credits, \$12 billion of which are allocated to states based on their population, with \$3 billion set aside for conversions in economically distressed areas. States will allocate the credits on a competitive basis and are required to develop credit allocation plans that consider financial feasibility, amount of affordable housing provided, and other factors to promote economic revitalization.

No fewer than 17 trade and industry groups have voiced support for the proposed legislation, including NAIOP, the Commercial Real Estate Development Association; Nareit; Mortgage Bankers Association; and The Real Estate Roundtable.

The legislation is responding to the historic macroeconomic changes that have reshaped the commercial real estate market since the onset of the Covid 19

pandemic. According to Moody's, a ratings agency, the national office vacancy rate had risen 280 basis points over its pre-pandemic levels by the end of last year. Furthermore, vacancies continue to rise. The first quarter of 2024 witnessed a 19.8% vacancy rate, which broke a previous record high set during the previous quarter. Meanwhile, 85% of Americans cite the scarcity of affordable housing in their communities as a problem, according to a Pew Research poll conducted at the end of 2021.

Similar legislation had been floated in the recent past. In 2021, a bicameral Democratic Party-led effort failed to gain traction. That proposed legislation held many of the same provisions as this newest effort, including the 20% tax credit and affordable housing requirements.

What this means to you

The Husch Blackwell Real Estate team will be following this proposed legislation closely, given its potential to spur conversion projects. Up to 75% of municipal revenues derive from property tax; therefore, the legislation could go a long way towards stemming the deterioration of the fiscal conditions of U.S. cities and the associated impacts on quality-of-life issues in metropolitan areas.

Contact us

If you have questions regarding this legislation or how it may intersect with existing or proposed state and local incentives, contact MaryBeth Heydt or your Husch Blackwell attorney.