



1

Fall 2022: Seems bad!

**Remote Work Is Costing
Manhattan More Than
\$12 Billion a Year**

*Public Transit Officials Fear Virus
Could Send Systems Into 'Death
Spiral'*

**65% of Bay Area residents say fear of
crime keeps them from visiting big city
downtowns**

**The 'office apocalypse' is
upon us**

**Some cities confront it head on: 'Downtown ... is not coming
back'**

*How a 'Golden Era for Large Cities'
Might Be Turning Into an 'Urban
Doom Loop'*

**Why Americans Are Leaving
Downtowns in Droves**

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Fix it with one weird trick?

*What Would It Take to Turn More
Offices Into Housing?*

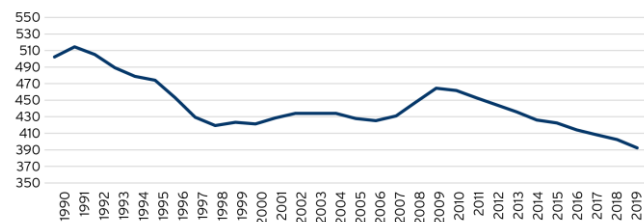
Converting Offices To Residences
Can Help Fight The Housing
Shortage

Office-to-Resi Conversions Might Save
Downtowns and Help Alleviate Housing
Shortage



Office work has been evolving for a long time

Figure 3. Median office square feet per worker
Top 10 US metropolitan areas



Source: Brookings analysis of CoStar data.

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Two parallel problems with (partially) overlapping solutions

High office vacancy

- Declining valuations/CRE property taxes
- Need to convert obsolete product
- Gin up new demand:
 - Legalize and promote more uses (inc. housing)
 - Cut red tape for new businesses

Low office utilization

- Declining sales taxes and transit fare revenue?
- Loss of foot traffic to small businesses
- Loss of eyes on the street = safety concerns
- Needs holistic strategies:
 - Make getting downtown (whether commuting or otherwise) easier/cheaper/fun
 - Reallocate public right of way to safe and active uses
 - Placemaking downtown
 - Restructure governance and distribution of revenue to make sure all places have the support they need

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Fiscal implications for cities will vary *widely*

A paradox:

- Property tax classification that taxes either commercial use, vacancy, or both at higher rates creates a built-in financial incentive for residential conversion
- But also increases jurisdiction dependence on CRE tax revenue

Most major cities rely on residential property tax receipts more than commercial property tax



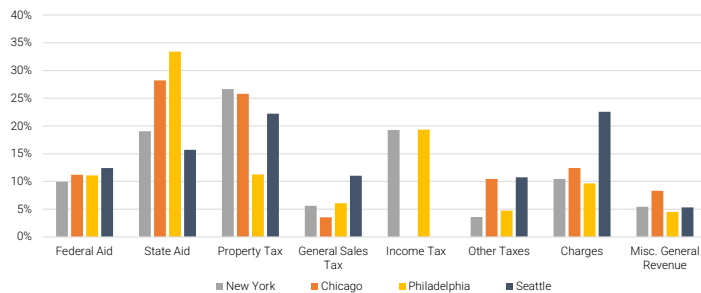
Source: Lincoln Land Institute Fiscally Standardized Cities FY2020 database and Brookings review of individual city/assessor finance reports and audits, FY2021 and FY2022

Brookings Metro

6

The goal for every city should be a diverse revenue structure that is hedged against swings in demand from any one sector

City revenue models vary



Source: Lincoln Institute of Land Policy FISC Database

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We know the product mix of downtowns must change

Figure 1. Downtowns are characterized by office space

Real estate inventory product mix of the largest 30 U.S. metro areas, 2019



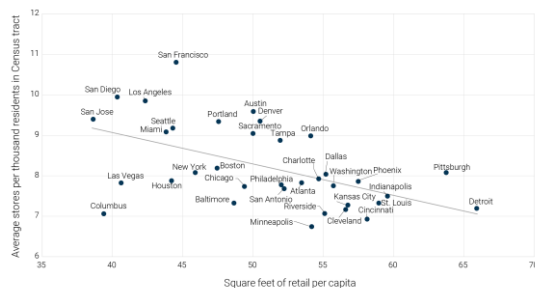
Source: Brookings analysis of CoStar data adapted from Loh and Leinberger, *Foot Traffic Ahead*, 2019.
Note: Analysis does not include hotels, industrial spaces, or owner-user space (for example, most museums and schools).

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The lesson from retail – it’s not just “too much” or “too little” but where

Figure 2. Regional retail density versus neighborhood retail



Source: Brookings analysis of CoStar and SafeGraph data (safegraph.com).

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Recommendations for adaptive reuse policy

- 1 Make it easier to build new housing on vacant and underutilized lots in downtowns and surrounding neighborhoods.
- 2 Niche tax incentives for conversions should be tied to historic character or carbon sequestration. Incentives tied to other public benefits such as affordable housing construction should also be available for new construction.
- 3 Only consider public funding for conversions in the form of forgone tax revenues, not direct subsidy, and make sure any subsidies are tied to public benefits.
- 4 Support opportunities for office conversions in all districts, not just downtown.
- 5 Make it easier to build new buildings and change existing ones.
- 6 Leverage downtowns' locational advantages for a range of other strategies to revitalize them.

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