Return to the Workplace

Issue

During the public health emergency created by the rapid spread of the COVID-19 virus, governmental authorities ordered widespread closures of places where people gather, including office buildings.

These shutdowns were appropriate at the time, and the commercial real estate industry worked diligently to create safe work environments that would accelerate the reopening of economic activity.

In his State of the Union speech in February 2022, President Biden stated:

- It's time for Americans to get back to work and fill our great downtowns again with people. People working from home can feel safe and begin to return to their offices. We're doing that here in the federal government. The vast majority of federal workers will once again work in person.

Unfortunately, agency actions did not immediately live up to the President's words. Federal agencies continued to promote remote working arrangements as a recruitment, retention, and cost-saving tool.

In February 2023, the House of Representatives passed the SHOW Up Act (H.R. 139) directing federal agencies to reinstate their pre-pandemic telework policies and ensuring that any future remote working plans receive careful and deliberate consideration.

In April 2023, the White House Office of Management and Budget informed federal agencies that they have 30 days to develop plans to "substantially increase" their employees' in-person work at headquarters. In the same month, the White House Office of Personnel Management announced in a government-wide memo that it was ending its "maximum telework" directive for federal agencies, which it adopted during the pandemic.

The guidance was an important step forward supported by The Real Estate Roundtable. Federal agencies must follow through, in good faith, on the White House directive.

President Trump has indicated he intends to enforce a strict, return-to-office mandate for federal workers.

The Roundtable's Position

- The federal government employs over 1.3 million civilians in 2,200 communities across the country and is a market leader that influences leasing costs and property values. Actions it takes as a tenant have profound impacts on local markets and associated property tax revenue, surrounding small businesses and their workers, and more.
- Federal agencies' actions to promote permanent remote working are out of step with the direction of private sector employers, who are increasingly recognizing the importance of bringing employees back to the workplace.
- Instead of aggressively promoting work-from-home arrangements for federal workers, as it did during the pandemic, the federal government should help facilitate a smooth, market-based transition to the new era.

Housing, Infrastructure, and Cities

Return to the Workplace

- The work-from-home trend has created negative pressure on commercial real estate property values and reduced local tax revenues. Between 2021 and 2022, the decline in office building property assessments reduced property tax revenue in Washington, DC, by $140 million. A report by the New York City Comptroller in December 2023 concluded that remote work could contribute to a potential decline in property tax revenue as great as $2.1 billion over the next three years. In October 2024, Moody's downgraded San Francisco's credit rating, citing the impact of hybrid work, declining office employment, and depressed downtown rents.
- Restaurants, small businesses, and their employees are another casualty of policies that discourage a return to the workplace. Workers are spending less time and money in central business districts, with devastating consequences for the businesses—coffee shops, gyms, barber shops, restaurants, etc.—that rely on their patronage.
- Leading academic research has identified a dozen cities where the reduction in local spending as a result of remote work exceeds $2,000 annually per teleworking employee.
- Research released by the Labor Department found that "the increase in remote work had significant effects on local employment…[s]pecifically, a 10% decrease in foot traffic in a Census tract led to a 2.8% decline in employment for accommodation and food services and a 2 percent decline in retail trade employment."

Property Conversions and Housing Tax Incentives

Issue

The United States faces a severe shortage of affordable housing. Current production has just not kept up with demand. At the same time, certain other commercial real estate assets like office buildings are under significant stress due to pandemic-related issues, including employers' greater reliance on remote work arrangements. The Roundtable is encouraging lawmakers to help revitalize cities, boost local tax bases, and address housing challenges by enacting a tax incentive and federal loan support for converting older, under-utilized buildings to housing. The Roundtable also supports a meaningful expansion of the low-income housing tax credit.

Bipartisan legislation introduced in the last Congress by Representatives Mike Carey (R-OH) and Jimmy Gomez (D-CA), the *Revitalizing Downtowns and Main Streets Act* (H.R. 9002), would create a new tax credit to reduce the costs associated with converting older office buildings to housing or other uses. The legislation is supported by a broad coalition of pro-housing and real estate-related organizations.

Low-income housing tax credit: Since its inception in 1986, the low-income housing tax credit (LIHTC) has financed the development of nearly 3.5 million affordable rental homes that house over eight million low-income households. The administration's budget and legislation passed by the House Ways and Means Committee in the first year of the Biden administration would make major new investments ($29-32 billion) in expanding and improving LIHTC.

The *Tax Relief for American Families and Workers Act* (H.R. 7024), passed by the House in early 2024 and supported by The Roundtable, would expand LIHTC. The bill would temporarily increase credit allocations to States and lower the amount of private activity bond financing that an affordable housing project must receive in order to receive credits outside of the capped state allocation process.

Furthermore, at The Roundtable's urging, the prior administration surveyed existing agency programs that might offer low-interest loans to help support housing conversion projects. The "Guidebook to Available Federal Resources" curates programs from the Departments of Transportation, Housing, Energy and the EPA that can be used to assist adaptive reuse projects—but agency rules and guidelines are necessary to streamline underwriting procedures so proceeds can be issued to borrowers in about six months after an application for financing is submitted.

The Trump administration's position on the expansion and improvement of the low-income housing tax credit is not yet clear.

The Roundtable's Position

- Congress should help expand and grow the supply of affordable and workforce housing by investing greater resources in time-tested tax incentives like the low-income housing tax credit and adopting creative new approaches that support the conversion of underutilized, existing buildings to housing.

Property Conversions and Housing Tax Incentives

- A quarter of American renter households spend more than 50% of their income on housing expenses. More than 10 million low-income households spend more than half of their monthly income on rent, according to Harvard's Joint Center for Housing Studies.
- The conversion of underutilized and often vacant buildings offers a tremendous opportunity to improve the built environment and lift a surrounding locality. Property conversions are a cost-effective means to develop new housing supply, create jobs, and generate critical sources of local property tax revenue.
- 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 can save energy while reinvigorating communities and reigniting economic growth where it is most needed.
- The inherent risks and elevated costs associated with property conversions, combined with the numerous social and economic benefits of conversions that flow to the broader community, justify proactive government policies that incentivize owners to adapt existing properties to new uses.
- LIHTC is an efficient, market-based housing solution that relies on the private sector to finance, build, and operate affordable housing by creating a federal incentive for new construction and redevelopment.
- Under the successful LIHTC program, states can award housing credits based on their own affordable housing priorities. They can target credits to housing units dedicated to certain populations such as seniors or veterans, or to specific regions most in need of affordable housing.
- The Tax Cuts and Jobs Act of 2017 indirectly diminished the value of low-income housing credits because the corporate tax cut reduced the underlying tax liability of many tax credit purchasers, thereby decreasing demand for the credits in the marketplace.
- Congress should significantly expand LIHTC, along the lines of the *Affordable Housing Credit Improvements Act* (S.1136, H.R. 2573 in the last Congress). The bill would create and preserve more than two million affordable homes, support three million jobs, and generate $119 billion in sustainable tax revenue.
- Congress should also enact a meaningful tax incentive for commercial-to-resident property conversions along the lines of the *Revitalizing Downtowns and Main Streets Act* (H.R. 9002 in the last Congress). The bill would create a 20% tax credit for the costs associated with converting older commercial buildings to housing, provided the housing includes a significant set-aside for affordable rental units.
- Aside from legislative strategy, the new administration should build on the progress made in the last administration, based on Roundtable input and listening sessions, **to streamline federal agency loan programs to provide financial support** for CRE conversions. In particular, the administration should gear Department of Transportation loans for transit-oriented development (RRIF and TIFIA) to better enable commercial-to-residential building conversions.
- The single-family rental (SFR) market also holds great promise to increase the nation's housing supplies. Studies show that provides opportunities for upward social and economic mobility to households that are unable to buy homes but can rent in neighborhoods with better school districts. The Roundtable organized a "listening session" in June 2024 with our members and housing policy experts at the White House to discuss the virtues of the SFR market as a key component to help address the nation's housing crisis and will continue these advocacy efforts in 2025.

Property Conversions and Housing Tax Incentives

Additional Resources

- RER Letter to White House Council of Economic Advisers, providing recommendations to improve low-interest federal loan programs (RRIF and TIFIA) to assist property conversions (April 15, 2024)
- Roundtable Weekly, "Reports Show Single-Family Rentals Increase Housing Availability, Drive Educational Advancement" (June 7, 2024)

Bridging the Housing Gap and GSE Reform

Issue

There is a chronic shortage of housing in the U.S. that is driving up housing prices and making it more difficult for lower-income individuals to find safe, affordable housing. Housing production in the U.S. is not keeping pace with expanding housing needs. The underbuilding gap in the U.S. now totals more than 5.5 million housing units. The impact of this growing problem of an under-supply of affordable housing is far-reaching and undermines economic growth—particularly in urban areas.

In addition, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac—the primary funding sources for housing in the U.S.—have been in conservatorship for 17 years. Debate over reforms continues, but no active legislative proposals are currently under consideration. The first Trump administration pushed hard for reform and, in the end, never got anywhere. The Biden team never tried. A second Trump administration and a new Congress in 2025 once again raise the prospect of renewed efforts to remove Fannie Mae and Freddie Mac (the GSEs) from their federal government conservatorship.

Most of the new housing units in recent years have been single-family homes. Through the end of 2023, production of new single-family homes reached more than 1 million annually in 2022 and 2023 for the first time since the housing bubble burst in 2007. Apartment construction is also at historic levels, with 438,500 units built last year, the highest level since 1987. The number of apartments under construction at the end of the year, about 981,000, was an all-time high since the survey began in 1969.

So, with no change in current housing policy, we can expect annual production of approximately 1,515,000 units, including an estimated 1 million single-family units, some 440,000 multifamily units, and approximately 75,000 manufactured homes. How do we bridge the gap?

The Roundtable's Position

- Safe, decent, and affordable housing is critical to the well-being of America's families, communities, and businesses. The COVID-19 pandemic has intensified the nation's persistent housing crisis, prompting The Roundtable to mobilize with our national real estate organization partners and jointly advocate for policies that will help to increase housing supplies, grow jobs, and modernize our nation's critical infrastructure.
- Having a robust housing finance system is critical to expanding America's housing infrastructure to help meet the nation's longstanding goal of ensuring decent and affordable housing for all. Current efforts have failed to keep pace with the growing need for affordable housing.
- GSE reform must appropriately balance taxpayer protections and establish an efficient marketplace with a strong, efficient, and sustained financing environment for homeownership, rental housing, and sustained mortgage liquidity.
- As the gap between the number of lower-income renters and the supply of affordable units continues to grow, it is critical for the GSEs to provide support for mortgages to aid low- and moderate-income families—for homeownership and rental housing—as well as underserved areas.
- As American households increasingly turn to the rental market for their housing, a strong housing finance system should support not only homeowners but also aid the expansion of affordable rental housing.

Bridging the Housing Gap and GSE Reform

- Finally, and most importantly, it is important for the industry to focus on sparking a national transformation in housing policy, from the ground up. Through the development of a "battle plan" to unleash a wave of new housing construction, the industry can position itself as the solution to the housing crisis, rather than the problem.
- Rumors abound that the new Trump administration will try again to advance GSE reform. If they do, the Roundtable will be engaged, as we have in every prior effort. Sensible GSE reform still makes a lot of sense, but the devil is in the details.