



Converting Office Space to Residential Housing

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Since the COVID-19 pandemic began, telework has increased on average—[estimates vary](#), but several sources [show a significant increase](#)—leaving some office space unused or underutilized. According to the [National Association of Realtors](#), the vacancy rate for offices increased by 3% between 2019 and 2022. At the same time, residential [housing supply](#) has been constrained, leading some to suggest converting unused office space to residential units. This Insight discusses some of the key debates surrounding the idea of office conversions as well as policy considerations in this area.

Converting Offices to Residential Units

Much of the potential usefulness and feasibility of converting office spaces to residential spaces is dependent upon the physical characteristics of a building itself and the economic and housing characteristics of the surrounding area. More generally, however, there are several potential advantages and challenges to such a conversion.

Some [potential advantages](#) include:

- **Land use restrictions.** Restrictions on where new property can be built can limit new housing, whereas converting existing commercial real estate to residential may avoid some of these restrictions.
- **Timeline and cost.** Depending on how well-suited a building is to conversion, it may be quicker and cheaper to convert it to residential use than demolish it and start a project from scratch.
- **Environmental impact.** Conversions may often require fewer material inputs than new construction projects and could add more [“green” features](#).
- **Revitalization.** “Downtown” areas [may struggle](#) economically with a decline in commuters. Conversion of office space to residential space may help downtown economies become less reliant on commuters. Lowered property values in general may also [lower local government revenues](#), and conversions may slow or stop such a decline.

Some potential challenges include:

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- **Zoning and building codes.** Changing [zoning](#) from commercial to residential may be a difficult and lengthy process. Conversions may also require that other divergences between residential and commercial building codes be addressed, adding cost.
- **Suitability.** Owing to differences in the characteristics of office and residential spaces, conversions may not be cost-effective or viable in many [cases](#). For example, access to windows in all bedrooms or the inclusion of additional kitchens and bathrooms may be logistically challenging given some office layouts or existing plumbing. Additionally, buildings are typically required to be empty—not just underutilized—for a conversion to take place.
- **Profitability.** Given conversion costs and current rental income [values](#) of commercial units versus expected value of residential units, it may not always be [profitable](#) for developers to take on conversion projects.
- **Demand.** Potential residents may have a preference to live in more established residential areas that have [amenities](#) that business centers may lack, such as grocery stores. This preference may be stronger in cases where individuals can work remotely at least part of the time, lowering the convenience of living near work.

Policy Considerations

Many of the considerations surrounding conversions are local in nature. To the extent that state, local, or federal governments want to incentivize conversions, policymakers may want to consider the differing local economic, commercial, and housing market conditions. From an economic perspective, federal policy intervention may not be efficient if the benefits of conversions are fully realized locally.

Housing Supply and Affordability

Several factors may affect the potential impact of office-to-residential conversions on housing supply. First, how many units can be added by conversions alone, and what other options are available to meet housing demand? Conversions are [not likely to add enough units to solve](#) housing supply issues, but depending on the availability and feasibility of conversions in a given location, they could be an effective tool.

Second, some locations may not have an overall housing supply problem so much as an *affordable* housing supply problem. Given the potential costs of conversion, not all conversions are likely to result in housing at the desired price point. Increasing overall supply may have some effect on average prices, but depending on how many new units are produced, this effect could be marginal.

The Future of Telework

It is uncertain how many workers will telework in the future and how often. While norms surrounding remote and hybrid work have shifted notably in the past few years owing to the COVID-19 pandemic, the extent to which remote work will shift the commercial real estate landscape is not certain. While rates of office utilization are lower than prior to the pandemic, according to some estimates, they have, on average, [trended upward](#) in most major cities since the beginning of the pandemic. And many argue it is likely that supply and demand for office space will return to balance in the longer term regardless of telework trends.

Trends in labor markets may also play a role here, with tighter labor markets—ones in which workers are scarcer relative to the demand for them—potentially resulting in more telework. For the past couple of years, the overall labor market has been characterized by [fewer unemployed workers than available jobs](#),

likely giving workers a greater ability to demand flexibilities such as telework. However, the labor market is [cooling](#). If and how this will affect the amount of telework moving forward is uncertain.

Federal Government Initiatives

State and local governments have enacted [policies](#), both historically and recently, to incentivize conversions, including through tax incentives, grants, and exemptions. Housing and land use policies tend to be regulated at the state or local level, but federal policy can still play a secondary role. Some [federal programs](#) could potentially be used for the purpose of conversions. A few recent examples of federal initiatives focused specifically on conversions include:

- The [Biden Administration Housing Supply Action Plan](#) promotes “commercial-to-residential conversion opportunities, particularly for affordable and zero emissions housing” through efforts such as an interagency working group to advance federal funding opportunities that support conversions.
- The [U.S. Department of Housing and Urban Development](#) issued a notice of funding opportunity to research conversions, which will award up to \$860,000 to study conversions and their challenges, identify metrics for evaluation of outcomes, and develop a guide for local leaders and practitioners.
- H.R. 419, the Revitalizing Downtowns Act, was introduced in January 2023. This bill proposes tax credits for qualified conversions.

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