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Cities and States Take Lead in Subsidizing Office Conversions

As the historic housing shortage worsens, and office building vacancies continue to plague cities, converting office space to residential apartments and condominiums ("Office Conversion") becomes an increasingly attractive alternative for developers seeking to create housing in urban cores across the country. While the federal government has moved slowly to address the national housing crisis, state and local governments have launched efforts to mitigate their own housing crises by funding city and state Office Conversion programs. On December 10, 2024, the City of Louisville announced the creation of the Downtown Louisville Building Conversion Program ("Louisville Program"), which aims to subsidize the conversion of existing downtown office space for commercial or residential purposes.

The Louisville Program will provide financial assistance to adaptive reuse projects in the city's Central Business District, with a preference for projects wholly or substantially renovating buildings. Particular preference will also be given to projects with affordable housing components. While the city has promoted Office Conversions in the past, the Louisville Program marks the first state-funded city program offering financing to overcome development barriers for Office Conversions. Kentucky's General Assembly allocated $100 million in fiscal year 2025-26 for downtown revival efforts in Louisville, $22 million of which has been reserved for a Community Care Campus.

Projects applying for funds from the Louisville Program must meet certain requirements to qualify. Specifically, construction must be able to start within 18 months and finish within 36 months from the date of project approval. Since the Louisville Program aims to incentivize developments that may not otherwise be feasible, applicants must demonstrate that, but for the Louisville Program funds, the project would not move forward.

Reenergizing downtown spaces and renewing pre-Covid foot traffic has been more difficult for some cities than others, and Louisville has struggled to return to pre-Covid levels of downtown activity. The Louisville Downtown Partnership, a nonprofit organization dedicated to promoting redevelopment and economic growth in downtown Louisville, included Office Conversions as a key component of its 10-year development plan. The city has already signed agreements with developers to renovate several blighted, city-owned properties prior to this program taking effect, and both city officials and local business leaders view subsidizing future Office Conversions as a necessary effort to reinvigorate the Central Business District.

In addition to Louisville, other cities and states across the U.S. have taken varied approaches to incentivize or subsidize Office Conversions. Washington, D.C.'s Office-To-Anything Program, for instance, offers tax freezes for redeveloped downtown properties. Seattle passed a law loosening design standards and requirements for Office Conversions that create affordable housing units, and Ohio's Transformational Mixed-Use Development Program has spurred more than $2 billion in community investments following its passage in 2020 by providing a 10% tax credit for all documented development costs.

Applications for funds from the Louisville Program must be submitted by February 10, 2025. While full development plans are not needed at the time of application, applicants must provide details regarding the scope of the project, sources of funding with a demonstrable financing gap that can be cured with Louisville Program funds, and economic impact studies, among other items. The Louisville Program has limited funds and is not guaranteed to subsidize any specific projects.

Frost Brown Todd counsels investors, developers and other key stakeholders on housing transactions in states across the country. We stay at the forefront of all legislative efforts affecting the industry, and we are ready to assist clients with navigating the changing legislative environment. For more information, please contact the authors of this article or any attorney on Frost Brown Todd's Multifamily Housing Industry team.

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