July 13, 2023

Wu Outlines Plan to Offer Tax Breaks For Residential Conversions of Office Buildings

On July 10, Boston Mayor Michelle Wu announced a citywide pilot program to incentivize developers to convert office buildings to residential apartment buildings as part of the administration's ongoing efforts to revitalize downtown Boston and solve the housing issues that abound in the city. The program, expected to begin accepting applications this fall, will offer incentives and tax breaks as a way to support lenders, property owners, the state and other interested properties in taking on the otherwise expensive endeavor of converting underutilized office space into residential communities.

The new program, a combined action with the Boston Planning and Development Agency (BPDA) and the City of Boston Finance Cabinet, will reset the property tax rate of any eligible building from commercial, which currently is taxed at a rate of $24.68 per $1,000 of assessed value, to residential, at a tax rate of $10.74 per $1,000 of assessed value. The properties will then become eligible for an additional discount on the residential tax rate for 29 years, which can amount to a maximum discount of up to 75 percent of the going rate. The terms of each deal will be made in triparty agreement with the city of Boston, the BPDA and the developer, and they will vary on a project-by-project basis.

Wu made it a central part of her platform to rejuvenate the financial area of downtown Boston, which took a massive hit as a result of the COVID-19 pandemic. With the explosion of work-from-home employment, commercial office vacancies have hit approximately 20 percent, leaving thousands of square feet of unused office space in the heart of Boston. In addition to combatting the increase in commercial office vacancies, this program provides the opportunity for Wu's administration to answer the call for more housing in the Boston area, another major objective for Wu during her time in office.

The commercial-to-residential pilot program will be available for only a limited time, with the administration expected to stop taking applications in June 2024. To be considered eligible, the buildings must comply with the proposed inclusionary zoning standards and the new Stretch Code's energy-efficiency standards. Projects will be required to begin construction by 2025 and will be subject to the payment of forgone taxes, and the city will collect 2 percent of proceeds from any future sales of the property.

If you have any questions about the program, please do not hesitate to reach out to us at Day Pitney LLP.

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