The Real Estate Roundtable

Property Conversions and Housing Tax Incentives

Housing, Infrastructure, and Cities

Summary

The U.S. faces a severe shortage of affordable housing as production has failed to keep pace with demand. At the same time, certain other commercial real estate assets like office buildings are under significant stress due to structural shifts in workplace demand. **RER 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, underutilized buildings to housing. RER also supports a meaningful expansion of the Low-Income Housing Tax Credit (LIHTC).

Key Takeaways

- Congress should help expand and grow the supply of affordable and workforce housing by investing greater resources in time-tested tax incentives like the LIHTC and adopting creative new approaches that support the conversion of underutilized, existing buildings to housing.
- Property conversions are a cost-effective way to increase housing supply, create jobs, and generate critical sources of local property tax revenue.
- The 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.

Recommendations

Implement Property Conversion Incentives: Congress should pass the *Revitalizing Downtowns and Main Streets Act of 2025* (H.R. 2410) to incentivize property conversions, increase the housing supply, and revitalize downtowns.

- The bill would create a 20 percent tax credit for commercial-to-residential conversions with a significant set-aside for affordable rental units.
- Federal loan programs should be streamlined to support conversion projects.
- 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.

Correct the Tax Treatment of Redevelopment Costs: Congress should modify the tax treatment of demolished buildings and demolition costs.

- The remaining tax basis of a demolished building should be immediately deductible as a loss. These changes would lead property owners to replace vacant and underperforming properties with new housing and mixed-use developments while spurring the redevelopment and revitalization of cities and neighborhoods.

Expand the LIHTC: Congress should further expand LIHTC, and RER continues to support elements of the *Affordable Housing Credit Improvements (AHCI) Act* (S. 1136, H.R. 2573 in the last Congress) that were not included in the OB3 Act.

- The *AHCI* would create and preserve more than 2 million affordable homes, support 3 million jobs, and generate $119 billion in sustainable tax revenue.
- The One Big Beautiful Bill Act (OB3 Act) included a permanent 12 percent increase in the amount of LIHTC allocations to states and permanently lowered the requirement for private activity bond financing for LIHTC projects from 50 percent to 25 percent.